



Report to Policy Committee

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Report of: *Ryan Keyworth*
Report to: *Strategy & Resources*
Date of Decision: *12 October 2022*
Subject: *2023/24 Budget Progress and Budget Proposals*

| | | | | | |
|---|-----|---|----|---|--|
| Has an Equality Impact Assessment (EIA) been undertaken? | Yes | | No | X | |
| Has appropriate consultation taken place? | Yes | | No | X | |
| Has a Climate Impact Assessment (CIA) been undertaken? | Yes | | No | X | |
| Does the report contain confidential or exempt information? | Yes | Y | No | | |

If YES, give details as to whether the exemption applies to the full report / part of the report and/or appendices and complete below: -

Appendix 1 and Appendix 2 are not for publication because they contain exempt information under paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended)

Purpose of Report:

This report outlines the progress to date from each Policy Committee in delivering a balanced budget for 2023/24 and to note the budget proposals for the Strategy & resources committee

Recommendations:

The Committee is recommended to:

1. Thank the Policy Committees and their Officers for the work done so far on the 2023/24 budget process
2. Note the contents of Appendix 1 (confidential) which sets out the actions put forward by each Committee in response to the Strategy and Resources Committee's request of 5 July for a list of options that would achieve a balanced budget position for each Committee.
3. Note, as this Committee's initial response to the Strategy and Resources Committee's request of 5 July, the set of budget proposals set out in Appendix 2 (confidential) of this report,

4. Note that Officers will now work with Members to consult with relevant stakeholders (including with partners, trades unions and in respect of equalities and climate change) on the proposals in this report so as to inform final budget proposals.
5. Note that Officers will work to develop any necessary detailed implementation plans for the proposals in this report so that the proposals, if ultimately approved, can be implemented as planned before or during the 2023/24 financial year.
6. Approves the contingent use of a further £5m of reserves as set out in section 1.3.3 of this report.
7. Ask to receive a final report in December that will set out the final budget for the Council and for this Committee.

Background Papers:

Policy Committee Budget Reports:

[Adult Health & Social Care](#)

[Education, Children & Families](#)

[Housing General fund](#)

[Medium Term Financial Analysis](#)

[Transport, Regen & Climate](#)

[Economic Dev't & Skills](#)

[Waste & Streetscene](#)

[Communities Parks & Leisure](#)

[Housing Revenue Account](#)

| Lead Officer to complete: - | | |
|---|---|---|
| 1 | I have consulted the relevant departments in respect of any relevant implications indicated on the Statutory and Council Policy Checklist, and comments have been incorporated / additional forms completed / EIA completed, where required. | Finance: Ryan Keyworth |
| | | Legal: David Hollis |
| | | Equalities & Consultation: James Henderson |
| | | Climate: n/a |
| <i>Legal, financial/commercial and equalities implications must be included within the report and the name of the officer consulted must be included above.</i> | | |
| 2 | SLB member who approved submission: | <i>Ryan Keyworth</i> |
| 3 | Committee Chair consulted: | <i>Cllr Terry Fox</i> |
| 4 | I confirm that all necessary approval has been obtained in respect of the implications indicated on the Statutory and Council Policy Checklist and that the report has been approved for submission to the Committee by the SLB member indicated at 2. In addition, any additional forms have been completed and signed off as required at 1. | |
| | Lead Officer Name: <i>Ryan Keyworth</i> | Job Title: <i>Director of Finance and Commercial Services</i> |
| | Date: <i>6 October 2022</i> | |

1. PROPOSAL

1.1 This report outlines the progress made to date by the Policy Committees in delivering a balanced 2023/24 budget and to set out the budget pressures and mitigation plans for the Strategy & Resources Committee

1.2 Background

1.2.1 The Council is facing a challenging financial position. The Strategy and Resources Committee on 5th July highlighted that it is critical that all Committees stay within the budgets that have been allocated to them by Full Council.

We deliberately started the 2023/24 budget process earlier than usual, by around 3 months, to give additional time for the Council to address the significant financial challenges that it is facing.

Each Committee was asked to deliver a cash standstill budget for 2023/24, which requires them to find mitigations for any Service pressures over and above the 2022/23 budget. The purpose of this is to allow the Council to achieve a balanced position for 2023/24 by the time the Strategy and Resources meets on 12 October 2022.

A second phase of the budget process was planned that would allow Members to make policy / priority-based changes to the initial balanced position.

1.3 2023/24 Budget Position September 2023 – General Fund

1.3.1 Current Position

| At this stage of the year, there has been some excellent progress by Policy Committees in finding mitigating savings, but there is still a gap of £19.6m. | General Fund Revenue Budget (£m) | Pressure | Savings Proposed | Savings Noted by Committee | Mitigations to find | Not supported by Committee |
|---|----------------------------------|-------------|------------------|----------------------------|---------------------|----------------------------|
| | Adult Health & Social Care | | 25.0 | | -25.0 | 0.0 |
| Education, Children & Families | | 12.4 | | -6.9 | 5.5 | 0.0 |
| Housing General Fund | | 0.7 | | -0.5 | 0.2 | 0.0 |
| Transport, Regen & Climate | | 3.4 | | -0.8 | 2.6 | -2.7 |
| Economic Dev't & Skills | | 0.6 | | -0.5 | 0.1 | -0.2 |
| Waste & Street Scene | | 11.5 | | -0.9 | 10.6 | -6.2 |
| Communities Parks & Leisure | | 2.3 | | -2.3 | 0.0 | 0.0 |
| Strategy & Resources (Corporate) | | 16.7 | -16.7 | | 0.0 | 0.0 |
| Strategy & Resources (Committee) | | 7.8 | -7.2 | | 0.6 | 0.0 |
| Total | | 80.4 | -23.9 | -36.9 | 19.6 | -9.1 |

The appendix 1 (confidential) of this report sets out the proposals considered by each Committee in more detail.

Not all Policy Committees have balanced their budgets pressures

Transport Regeneration and Climate Change – a saving included in the 2022/23 budget relating to the Clean Air Zone is now unlikely to be realised and alternatives have not been agreed.

Education, Children and Families – Further savings options may be available to bridge the remaining gap, but there is a risk that a gap will remain.

Waste and Streetscene – the Committee has not agreed savings that offset the significant inflation pressures on the Veolia and Streets Ahead contracts and it is unlikely that this will be possible.

1.3.2 MTFA Assumptions

The MTFA assumptions still appear valid, even in the current financial climate.

We have assumed this generates an additional £16.7m of income from taxation and grants

The MTFA report to S&R committee on the [5th July](#) set out a number of assumptions about the likelihood of funding increase via Council Tax, Business Rates, Govt Grants etc and these still hold good in the current climate and are consistent with other core cities. The main assumptions were

- Core Council Tax increases of 2% each year
- Adult Social Care Precept increases of 1% each year.
- the Council's current level of reserves provides a limited amount of time for action to be taken strategically in response to the financial position
- Policy committees deliver balanced budget proposals
- The Adult Social Care Fair Cost of Care exercise will be covered by Govt funding – approx. £6m grant anticipated, and that the Care Cap will be cost neutral to the Council via govt funding.

The increase in funding has been assumed to offset the reserves used to balance the 2022/23 budget.

1.3.3 Reserves Position

The Council does not have a level of reserves to mitigate the gap in current proposals

As part of the 2022/23 budget, the Council earmarked £70m of reserves to support the Council's financial position and allow time for the Council to return to a sustainable financial position. The £70m was identified following a review of the Council's risk-based reserves which showed that some of the reserves we had been holding were no longer needed and could be released.

As at Month 5 2022/23, the use of this £70m has been as follows:

£m

| | |
|-----------------------------------|-----------|
| 2021/22 Overspend | 20 |
| Setting a balanced 2022/23 budget | 15 |
| 2022/23 overspend | 21 |
| Total used | 56 |
| Total remaining | 14 |

As set out as part of the 2022/23 budget process, using more than the £70m of reserves identified would reduce the Council's ability to cover the financial impact of a range of risks that it faces in the normal course of operations. This covers a range of risks from flooding, to critical infrastructure failure and a range of other issues.

Current energy costs pose a significant risk to the Council as they do to our citizens As highlighted in section 1.7 below, government support for high energy costs for businesses and the public sector ends on 31 March with no certainty that any support will continue beyond this time. A return to open market prices for the Council would result in significant additional costs of £8m above the level assumed in our medium term financial plans.

Some contingent earmarking of additional reserves is appropriate to avoid making further cuts at this stage that may not ultimately be necessary. It is proposed that a further £5m of reserves is earmarked against the risk that Government support ends on 31 March and the Council is required to pay open market prices for energy from 1 April 2023.
It is proposed that a further £3m, funded by savings generated by the prepayment of pension costs is added to this contingency, making a total of £8m – enough to cover the difference between current MTFA assumptions on energy price inflation and our current best estimate of what energy would cost us on the open market from 1 April 2023.

We cannot afford to repeat 2022/23 level of support from Reserves As set out above, £14m of the original £70m remains available for use.
It is likely that some or all of this will be needed to fund the one-off costs of implementing the significant programmes of change that will be needed to deliver the savings that will ultimately be needed to deliver a balanced budget for 2023/24.

Reserves are regularly reviewed and a formal policy will be brought forward for approval We keep our level of reserves under review to ensure their adequacy. That means increasing reserves where necessary and making reserves available where they are no longer needed.
Officers will be bringing forward a formal Reserves Policy to a future meeting of the Finance Sub Committee for approval so that everyone is clear on our approach to reserves. This

will be done ahead of the 1 March 2023 Full Council meeting.

1.4 2023/24 Budget Position September 2023 – Housing Revenue Account

The Housing Revenue Account (HRA) has also got significant financial pressures and the Housing Committee has considered mitigation proposals and these pressures will impact on the ability of the HRA Business Plan to remain affordable over the next 30/40 years.

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| There is a HRA budgetary pressure of £21m in 23/24 | Early projections indicate that significant savings of around £21m are required in 2023/24. The level of these savings required may increase dependent on the results of the current rent setting consultation. |
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| | |
|---|---|
| The final level of savings required with depend on the Govt rent setting policy. | The Government launched a consultation on a temporary amendment to the Rent Standard for 2023/24 on 31 st August 2022. This new Direction, if approved, would require the Regulator to amend its Rent Standard so that the current CPI+1% limit on annual rent increases would be subject to a ceiling from 1 April 2023 to 31 March 2024. |
|---|---|

The draft direction is based on setting the ceiling at 5%. This would act as an upper limit on the maximum permitted annual rent increase a Registered Provider is allowed to implement. Registered Providers would be permitted to increase rents by 5% or CPI+1%, whichever is the lower. However, within this consultation, the government are seeking views on 3%, 5% and 7% as ceiling options.

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|---|---|
| A detailed budget report has been discussed by the Housing Committee | The detailed report sets out the savings that would be required to balance the HRA budget for next year, including options that would depend on the outcome of the current rent consultation. |
|---|---|

As with other Policy Committees, that report is summarised in appendix 1 (confidential) to this report.

Members are asked to note that the Housing Committee report to Full Council will need to be on the agenda for the 1 February Full Council meeting to ensure that changes to rent levels can be made for 1 April 2023.

1.5 2023/24 Budget Position September 2023 – Strategy and Resources Committee

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|--|---|
| In addition to the overall position, this Committee has its own budget to balance | This Committee responsibilities include: <ul style="list-style-type: none">• Resources & Policy, Performance and Communications portfolios• Facilities Management• Property |
|--|---|

- Local Area Committees
- Cross cutting central costs such as borrowing costs

The S&R Committee pressures consist of Corporate Pressures and Specific Committee Pressures.

The Corporate Pressures have been balanced...

The pressures can be split into 2 areas detailed in the table below. The biggest element being the need to replace the use of reserves to balance the 2022/23 budget. The strategic reviews commissioned in-year to meet this are now part of individual Committee proposals.

1. Corporate Pressures

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|---|---------------|
| Reverse 2022/23 Use of Reserves | £14.5m |
| Direct Schools Grant contribution | £1.0m |
| Decline in Business Rates | £0.5m |
| Major Sports Facilities Debt cost profile | £0.5m |
| Increase Council Tax Hardship Fund | £0.2m |
| Total | £16.7m |

Offset by:

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|---|--------|
| MTFS Assumptions - Council Tax, Govt grant etc. | £16.7m |
|---|--------|

...but there remains a small gap on the Specific Committee pressures of £0.6m

2. Specific Committee Pressures

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|---|--------------|
| Increased Energy Costs | £1.3m |
| Support for Local Area Committees | £0.5m |
| Support for Committee System | £0.4m |
| Increased Members Allowances | £0.2m |
| Pay Award | £3.0m |
| Additional Staffing Pressures | £0.8m |
| ICT pressures | £0.6m |
| Howden House Unitary Charge | £0.5m |
| Electric Works income and repairs pressures | £0.4m |
| Wood Lane Loss of Funding | £0.1m |
| Total | £7.8m |

Offset by (*more detail in confidential appendix*):

| | |
|---|--------------|
| Corporate efficiencies from central budgets | £2.4m |
| Portfolio savings proposals | £2.3m |
| Accommodation Strategy (1-year only) | £2.5m |
| Total | £7.2m |

Further work is required to identify the remaining £0.6m of savings required to balance.

Also, the £2.5m saving from the accommodation strategy may only be for 1 year as the revenue saving may be

required to support capital refurbishment and development expenditure from 2024 onwards.

1.6 Next Steps

We may need to take a cross-Council approach to complete the process of balancing the budget.

Even if we are able to implement all the proposals in this report, we are still around £19.6m below the required target.

With some exceptions, it is likely that cross Council proposals that go beyond individual Policy Committees will be required to complete the budget process.

Members and Officers will need to work together over the next few weeks to develop additional proposals to bridge the remaining gap.

As set out in section 1.3.3 above, we do not have the level of reserves available that is necessary to support this level of budget gap for another year.

1.7 Risks

Energy costs

The government's current position on Energy costs as they affect Local Authorities provides a significant level of uncertainty for Sheffield City Council and all other Local Authorities.

For Sheffield City Council, the effect of the current price cap is to hold energy costs until 31/03/2023 at similar levels to those which we were already able to achieve in the open market. This means that the current price cap is in line with our forecasts for the rest of this year.

The best open market prices we are able to achieve for 1 April 2023 onwards results in a doubling in the unit price of energy that we will face.

Excluding Schools but including the HRA, our Council energy cost (including HRA) going from £7m in 2021/22 to around £15m in 2022/23 and a forecast of £30m for 2023/24 unless markets change dramatically, or further government support is forthcoming.

The open-market price for 2023/24 adds another £8m to the current budget gap of £19.6m at current usage levels.

We need to both reduce usage and do everything we can to secure further support from the Government during 2023/24.

If the Government does not provide further support and we are unable to reduce consumption sufficiently, we will need to use the contingent reserves set out in section 1.3.3 above and/or make more savings to offset the resulting cost.

Inflation / Cost of Living

Current high levels of inflation are impacting almost everyone including the Council, our citizens, our city's business and third sector communities, the people who rely

on our services and the businesses and third sector organisations we work with to deliver those services.

It is impossible to know what the future holds and when we can expect inflation to settle at whatever new 'normal' level it ends up at.

It is likely that we will face increased demand for some services. It is also likely that some of our suppliers will find themselves in financial difficulty as a result of increases in costs that they cannot contain. Some additional costs may be driven by increases in the National Living Wage depending on any increase the government announces for 2023.

It is further likely that our citizens and wider business community will find themselves in financial difficulty that could affect Council Tax and Business Rates receipts.

Government Funding

At the time of writing (early October 2022), it is clear that the government's finances are facing significant strain as a result of a combination of spending increases to support individuals, businesses and the public sector through times of very high energy price inflation and reductions in taxation that were recently announced.

The full implications of spending and taxation announcements will not be known until 23 November when a [full OBR forecast](#) is published.

There is a risk that, as part of balancing its overall financial position, the government changes the funding allocations to Local Government. We will not know what the impact for Sheffield City Council is until, as is normal, the Local Government Finance Settlement is published in mid December. Given the planned 23 November publication of the government's Medium Term Fiscal Plan, it is possible that this announcement will be delayed further.

On the positive side for now, the government has confirmed that the long-planned review of the structure of Local Government funding (the Fair Funding Review) will not be implemented in this spending review period. This means the earliest possible implementation will be in 2025/26 and means that existing methods of allocation will continue for the time being at least.

1.8 Early Implementation

There is an opportunity to implement some budget items early

There is an opportunity for Policy Committees to approve the implementation of agreed budget options at their November meetings.

Early implementation decisions will have the effect of allowing Members and Officers to focus on the budget

options that require more work and will also increase the chances of full year delivery of any proposal for 2023/24.

The following framework will need to apply to early implementation

The following will need to be true for early implementation to be approved in at November Committee meetings.

1. All necessary pre-approval consultations (including trade unions, partners and other stakeholders) and impact analyses (including equalities and climate) being successfully and positively completed.
2. Does not require investment above existing budgets
3. Does not cut across other Committee responsibilities
4. Has clear political support

1.9 Timetable to Strategy and Resources on 5 December

The timetable to Strategy & Resources Committee on 5 December remains tight, but is critical if we are successfully to complete the process

Already in progress – consultations with stakeholders on the proposals already noted in the Policy Committee reports that were made to the September meetings.

Throughout October 2022 – further budget balancing options to be developed as set out in section 1.6 above.

Throughout November 2022 – Policy Committee meetings to:

1. agree their final budget recommendations to Strategy and Resources for the 5th December 2022 meeting
2. agree any actions for early implementation as set out earlier in section 1.8 of this report.

5th December 2022 – Strategy and Resources Committee meeting to agree final budget proposals that will be recommended to Full Council meetings on 1 February 2023 (Housing Revenue Account and Rent Setting) and 1 March 2023 (All other budgets and Council Tax setting).

2. HOW DOES THIS DECISION CONTRIBUTE?

This report sets out an early view of the progress made to date, by each committee, in their attempts to set a balanced budget for 2023/24. The recommendations in this report will also ensure that the Council takes remedial action to support those committees not yet presenting a balance position, and where required, identify priority-based reallocations of budgets between Policy Committees in order to deliver a balanced budget for 2023/24.

3. HAS THERE BEEN ANY CONSULTATION?

There has been no consultation on this report, however, it is expected that each Committees will consider and engage in the required consultation as they develop their budget proposals in due course.

4. RISK ANALYSIS AND IMPLICATIONS OF THE DECISION

4.1 Equality Implications

There are no direct equality implications arising from this report, because no decisions to implement any changes to existing Council operations are included in this report.

Individual Policy Committee reports that are asking for decisions to be made will require equality impact assessments to be completed and in some cases this work has already been completed or commenced.

As in previous years, final decisions on the Housing Revenue Account budget will be taken at Full Council on 1 February 2023 and final decisions on the General Fund Revenue budget will be taken at Full Council on 1 March 2023. A full set of equality impact assessments will be available before these meetings.

This year, there is the potential for Policy Committees to approve budget related decisions before these Full Council meetings in accordance with the criteria set out in this report. In these circumstances and in line with normal practice, full equality impact assessments will be required as part of the decision making process.

4.2 Financial and Commercial Implications

Each Committee is required to deliver a cash standstill budget for 2023/24, which requires them to find mitigations for any Service pressures over above 2022/23 budget. The purpose of this is to allow the Council to achieve a balanced position for 2023/24.

4.3 Legal Implications

Under section 25 of the Local Government Act 2003, the Chief Finance Officer of an authority is required to report on the following matters:

- the robustness of the estimates made for the purposes of determining its budget requirement for the forthcoming year; and
- the adequacy of the proposed financial reserves.

There is also a requirement for the authority to have regard to the report of the Chief Finance Officer when making decisions on its budget requirement and level of financial reserves.

By the law the Council must set and deliver a balanced budget, which is a financial plan based on sound assumptions which shows how income will equal spend over the short- and medium-term. This can take into account deliverable cost savings and/or local income growth strategies as well as useable reserves. However, a budget will not be balanced where it reduces reserves to unacceptably low levels and regard must be had to any report of the Chief Finance Officer on the required level of reserves

under section 25 of the Local Government Act 2003, which sets obligations of adequacy on controlled reserves.

4.4 Climate Implications

There are no direct climate implications arising from this report, because no decisions to implement any changes to existing Council operations are included in this report.

Individual Policy Committee reports that are asking for decisions to be made will require climate impact assessments to be completed and in some cases this work may already have been completed or commenced.

As in previous years, final decisions on the Housing Revenue Account budget will be taken at Full Council on 1 February 2023 and final decisions on the General Fund Revenue budget will be taken at Full Council on 1 March 2023. A full set of climate impact assessments will be available before these meetings.

This year, there is the potential for Policy Committees to approve budget related decisions before these Full Council meetings in accordance with the criteria set out in this report. In these circumstances and in line with normal practice, full climate impact assessments will be required as part of the decision making process.

4.5 Other Implications

No direct implication

5. ALTERNATIVE OPTIONS CONSIDERED

The Council is required by law to set a balance budget and therefore no other alternatives can be considered.

6. REASONS FOR DECISION

The Council is required by law to set a balanced budget each year. This report is pursuant to that objective and is in line with the process and timetable agreed by the Strategy and Resources Committee on 31 May 2022 and 5 July 2022.

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