



Report to Policy Committee

Author/Lead Officer of Report: Tony Kirkham, Interim Director of Finance and Commercial Services

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Report of: *Tony Kirkham*
Report to: *Strategy & Resource Committee*
Date of Decision:
Subject: *Budget 23-24 Update & Delivery Options*

Has an Equality Impact Assessment (EIA) been undertaken?	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
If YES, what EIA reference number has it been given? (<i>Insert reference number</i>)				
Has appropriate consultation taken place?	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
Has a Climate Impact Assessment (CIA) been undertaken?	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
Does the report contain confidential or exempt information?	Yes	<input type="checkbox"/>	No	<input checked="" type="checkbox"/>
If YES, give details as to whether the exemption applies to the full report / part of the report and/or appendices and complete below: -				
<i>"The appendix is not for publication because it contains exempt information under Paragraphs 3 and 4 of Schedule 12A of the Local Government Act 1972 (as amended)."</i>				

Purpose of Report:

This report updates in the Strategy & Resources Committee on the progress of the 2023/24 budget process.

The appendix contains specific budget proposals that the Committee are asked to endorse

Recommendations:

The Committee is recommended to:

1. Note the update on the Council's 2023/24 budget position.
2. Endorse the budget proposals set out in Appendix and note that the formal budget report be brought to the Strategy & Resources Committee on the 24th of January 2023
3. To approve the commissioning strategy of external change capacity as set out in Appendix 2.

Background Papers:

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 <i>Tony Kirkham: Interim Director of Finance and Commercial Services</i>
		Legal: <i>David Hollis, Assistant Director, Legal and Governance</i>
		Equalities & Consultation: <i>James Henderson, Director of Policy, Performance and Communications</i>
		Climate: <i>n/a</i>
<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>Tony Kirkham</i>
3	Committee Chair consulted:	
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 EMT member indicated at 2. In addition, any additional forms have been completed and signed off as required at 1.	
	Lead Officer Name: <i>Tony Kirkham</i>	Job Title: <i>Interim Director of Finance and Commercial Services</i>
Date: 19/12/22		

1. PROPOSAL

1.1. This report further updates the S&R Policy Committee on the progress of the 2023/24 budget process.

1.2. **Following on from the 5th December S&R report, the planning assumptions and agreed proposals have improved by £22m**

General Fund (£m)	Pressure	Previously Endorse	New Approvals	Mitigations to find
Adult Health and Social Care	26.0	-21.9	-3.0	1.1
Education Children and Families	10.2	-5.5	-1.4	3.3
Housing	0.7	-0.4	-0.2	0.1
Transport Regeneration and Climate Change	3.4	-0.8	0.0	2.6
Economic Development and Skills	0.6	-0.5	0.0	0.1
Waste and Streetscene	11.2	-1.0	-0.1	10.1
Communities Parks and Leisure	2.3	-2.0	0.0	0.3
Strategy and Resources (Ctte)	7.7	-6.4	-0.2	1.1
Strategy and Resources (Corporate)	16.7	-16.7	-17.0	-17.0
Total	78.8	-55.2	-22.0	1.7

1.3. **More proposals have had cross party support and improved the position.**

Ongoing work has identified £5m further savings that have cross-party support, and these proposals are attached in a confidential report. (Confidential due consultation requirements)

1.4. **Following the Government budget announcement 17th November, the planning assumptions have improved.**

The Chancellor announced a number of potential changes

- Increasing the council tax threshold to 3% from 2% without the need for a referendum
- Increase the ASC precept to 2% from 1%
- Relief to business for business rates for which LA's will need compensation
- Specific grants for ASC which may come with additional burdens such as hospital discharge

The first 3 assumptions have the potential to improve the position by £17m, the majority of which will come from business rates compensation. It will be for the Strategy & Resources Committee to make a Council Tax recommendation to Full Council at its meeting on the 24th January once the provisional local government

finance settlement has been received from Government, expected on 21st December

1.5. **It's important that all the proposals are delivered as the Reserves position is not sufficient to fund non-delivery**

The in-year position for 22/23 is a forecast overspend of £18.7m which is mainly due to non- delivery of budget implementation plans.

This overspend is being covered by use of one-off reserves and from the planed use of reserves we can use the remaining a £16m to help us change our organisation to both deliver on our plans and operate at a lower ongoing cost.

1.6. **Housing Revenue Account (“HRA”):**

As reported on the 5th December, the maximum rent increase permitted by Government is 7%. It will ultimately be for the Strategy & Resources Committee to recommend a rent increase to Full Council.

Further savings of £2.5m have now been approved. The full detail of the HRA pressures and endorsed mitigations is included at Appendix 1

£m	Pressure	Previously Endorse	New Approvals	Mitigations to find
HRA	22.8	-19.9	-2.5	0.4

1.7. **The capacity to deliver this level of change will need external support.**

It is proposed to commission one or more external organisation to drive the delivery of change:

The high-level objectives of this are to:

- Deliver the 2023/24 budget in respect of the areas within scope
- Ensure that the objectives within the Council's One Year Delivery Plan are achieved
- Reshape the Council's internal organisation to support the Council's outcome-focused Strategic Goals and drive the four-year journey from 'stabilise' to 'flourish'
- Design the target operating model for 2026/27 and develop the corporate plan

The Terms of Reference are included at Appendix 2

1.8. **Ultimately, it's for S&R to recommend a budget to Council**

In the Council's constitution, it is for the Strategy and Resources Committee to recommend a balanced budget to Full Council.

This applies to both the Housing Revenue Account business plan and rent setting report to the 1 February

2023 full Council meeting and the rest of the budgets and Council Tax level report to the 1 March 2023 Full Council meeting.

Next Steps

- 1.9. **The S&R committee will recommend the General fund and HRA budgets to Full Council**
- The Strategy & Resource Committee will consider the completed budget position on the 24th January.
- There is still a gap of £1.7m for General Fund and £400k for the HRA. The final settlement detail may resolve the General Fund and further work is ongoing to identify proposals to close the gap.
- 1.10. **The timeline for the HRA final budget report is 1st February council and for the General Fund 1st March Council.**
- There will be no time to alter the Housing Committee's Housing Revenue Account business plan and budget after Christmas if the Housing Rent setting decision is to be made at the 1 February Council.
- There may be time leading up to Christmas to make minor changes to the General Fund budget leading up to 1 March Council, but not much.
- There will also be significant work to do on public consultation, equality and climate impacts and other stakeholder engagement in the time between Christmas and mid-February.

2. HOW DOES THIS DECISION CONTRIBUTE?

The recommendations in this report are central to the process of completing the Council's 2023/24 budget process in good time.

3. HAS THERE BEEN ANY CONSULTATION?

There has been no specific consultation on this report. An overall public consultation on the proposed approach to setting the budget will be carried out ahead of the final report to Members on 24 January. This will include engagement with statutory consultees in the voluntary and community sector and in the business sector. Specific consultation will take place on individual proposals as required.

4. RISK ANALYSIS AND IMPLICATIONS OF THE DECISION

4.1. Equality Implications

There are no direct equality implications arising from this report. However, the individual proposals will each have full Equality Impact Assessments undertaken to support our duties under the Equality Act 2010. Based on these we will undertake a full Equality Impact Assessment on the overall budget which will be presented to Members as part of the final report on the budget to be considered at the 24 January Strategy and Resources Committee. This will be informed by an assessment of any cumulative impacts of the various proposals on people who share protected characteristics.

4.2. Financial and Commercial Implications

There are no direct financial implications from this report. Each Committee is required to deliver a cash standstill budget for 2023/24, which requires them to find mitigations for any Services pressures over and above the 2022/23 budget. The 2023/24 budget process has been designed to achieve this and this report combined with other reports to this Committee set out the savings and other mitigations that are required to achieve a balanced budget.

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. Individual Committees are required to consider climate implications as they develop their budget proposals and a summary will be reported to Full Council.

4.5. Other Implications

No direct implication

5. **ALTERNATIVE OPTIONS CONSIDERED**

The Council is required to both set a balance budget and to ensure that in-year income and expenditure are balanced. No other alternatives were 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.

1. Housing Revenue Account 2023/24 Budget

- 1.1 Significant HRA savings are needed** The Housing Revenue Account faces significant budget pressures going into 2023/24, and these pressures will impact on the ability of the HRA Business Plan to remain affordable over the next 30/40 years.

2. Background

- 2.1 The Council's HRA is the financial account of the Council as landlord** The Council's HRA is the financial account of the Council as landlord. It is ring-fenced in law for income and expenditure in respect of council housing and housing land and certain activities in connection with the provision of council housing only. Other council services are funded through council tax and central government support which benefits all citizens of Sheffield regardless of tenure.

- 2.2 There is a HRA budgetary pressure of £22.8m in 23/24** The HRA Business Plan is facing significant budgetary pressures over at least the next 5 years. The overall impact of this is that the Council is unlikely to be able to fund all the plan's key priorities. Significant savings of around £22.8m are required in 2023/24. The level of these savings may be partly mitigated by any rent increase that the Council decide to make for 2023/24.

ID	Proposal Title	FY - 2324 £000s
202	Cost of non-insourced repairs	3,168
203	Community Safety Funding	200
222	Increase in gas and electric prices for Community Heating	1,100
246	Repairs Service Pressures	8,200
247	Housing Ombudsman costs	120
248	Housing Business Change Team	100
249	Increase SLA Parks & Countryside	300
250	Increase in Hardship Fund	300
251	23/24 Pay award (Housing & Neighbourhoods)	1,245
253	Rent loss from vacant properties	3,000
254	Increased disrepair claims	2,645
255	Additional staffing costs (OPIL)	55
256	Council Tax charges on vacant properties	1,000
257	Increase in utility costs - non residential	580
258	Additional IT costs	61
264	22/23 Pay award (Housing & Neighbourhoods)	765
	Total	22,839

- 2.3 The SIP has been reduced to 2,310 units as part of modelling** The Business Plan modelling that has been undertaken assumes that the Stock Increase Programme (SIP) is reduced to 2,310 units from the current figure of 3,100. This accounts for all developments currently in the 'pipeline', but not 'opportunity' sites. The cost to complete delivery of the 3,100-unit programme has increased to £558m. Reducing to the 2,310 units (1822 plus 488 prior years) brings the cost back to the approved budget of £354m.
- 2.4 Some protection for the Repairs Service has been built into the budget** The 22/23 budget for the Repairs and Maintenance Service was initially set at £40.2m. However, this has been increased through the year to account for backlog maintenance, pay and inflation. The expected outturn is currently £46.2m. The budget for 2023/24 assumes a continuation of the pressures identified in 2022/23 and adds a further £2.2m of inflationary and pay award pressures. The Repairs and Maintenance Service intend to manage the pay pressures through a review of overheads to generate savings of £1.5m (detailed below as a saving option). The final net budget for 2023/24 is therefore £46.9m – an overall increase of £0.7m on 2022/23 projected outturn.
- 2.5 Savings proposals totalling £22.4m have been identified** HRA savings proposals totalling £22.4m have been identified. These savings will have an impact on the services that the Housing and Neighbourhoods Service is able to provide to its customers. However, mitigations can be put in place to minimise those impacts whilst retaining a focus on the most vulnerable and in discharging our statutory duties. Significant service redesign will also be required in 23/24 to deliver all these savings during the year.

ID	Proposal Title	FY - 2324 £000s
95	End the HRA Community Fund	-50
162	Recharge repairs on transfer/end of tenancy	-300
163	Sell high value sundry properties	-2,000
204	Reduce HRA-funded Community Buildings	-200
164	Review of Repair & Maintenance overheads	-1,500
217	10% staff saving in City Wide Housing	-628
218	10% staff saving in N'hood Services	-1,250
219	10% staff saving in N'hood Intervention	-408
165	Not re-opening 4 closed access points	-150
201	Corporate charges standstill	-450
205	End the Garden Pledge scheme	-400
225	Increase rental income by 7% *	-10,616
227	Improvement in vacant rent loss	-1,790
260	Review of Communications SLA	-200
261	Community Safety Funding	-200
262	Improvements in disrepair management	-1,200
263	Increase in Community Heating charge	-1,100
	Total	-22,442

*Subject to Full Council approval

2.6	The Council's ability to increase rents is set by Government	The HRA receives most of its income through dwelling rents, with a much smaller percentage coming from garage and other non-dwelling rents. The Council's ability to set rents is constrained by the Regulator of Social Housing Rent Standard which is determined by a government direction under Section 197 of the Housing and Regeneration Act 2008. The government has announced a one-year 'cap' on social housing rents of 7% for 23/24. The Council must comply with the rent setting rules. If it fails to do so it may be made subject to regulatory action.
3.	How does this decision contribute?	
3.1	The proposals recognise the difficult financial situation	The proposals in this report are aimed at maximising financial resources to deliver housing outcomes to citizens in Sheffield considering developments in national policy, the current economic climate.
3.2	Housing Revenue Account services are part of the current One Year Plan	The services listed here have made a significant contribution to the delivery of <i>'High quality, safe homes for all our citizens'</i> as part of the Council's One-year Plan.
3.2	Services will reflect the Medium-Term Corporate Plan	The Council have developed a new set of strategic priorities for 2023/24 (Our Sheffield – administration priorities) with the intention for these priorities to form the basis of the new medium term Corporate Plan which is currently in development. As the new Corporate Plan emerges from these administration priorities, we will continue to ensure that our own priorities link and feed into to broader corporate priorities where relevant.
4.	Has there been any consultation?	
4.1	Consultation will be undertaken as proposals develop	Consultation on the outline proposals has taken place with the tenant Housing and Neighbourhoods Advisory Panel. The Panel has provided some initial thoughts on the proposals from a tenant perspective. There was a general understanding about the impact of the cost-of-living crisis on tenants and the impact on the Council's costs. Tenants felt that any reduction in services would be unwelcome, but there was an acceptance that services to vulnerable tenants had to be prioritised as part of the decision-making process. The Panel felt that it was important to consult more widely on the proposals following any decisions by the Committee. This consultation will be undertaken prior to any changes to services being actioned and as the Policy Committees develop their budget proposals

- 4.2 There may be some implications for staff** There is a formal process of consulting with staff and Trade Union representatives on any proposals where any changes to staffing structures are required. These outline proposals have already been shared with the Trade Unions to provide early sight of the potential direction of travel for achieving the required savings. Further consultation will be required with both staff and Trade Unions following this Committee dependent on the outcome.

5. Risk analysis and implications of the decision

- 5.1 Each individual proposal has had an initial Equality Impact Assessment** **Equality Implications**
 There are no direct equality implications arising from this report. However, an initial Equality Impact Assessment (EIA) has been completed for each of the savings' proposals set out in this report. Further equality impacts will be completed if required following this Committee and dependent on the outcome.

- 5.1 There are no direct financial implications arising from this report** **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 pressures and savings proposals to address this are set out in this paper.

- 5.3 No new legal issues arise other than those ordinarily governing the HRA** **Legal Implications**
 The duty to keep a Housing Revenue Account and prevent a debit balance on it and restrictions as to what may be credited or debited to the account ("the ringfence") are governed by Part VI of the Local Government and Housing Act 1989 (the 1989 Act). This formerly included provision for annual HRA subsidy paid by central Government to local housing authorities, as determined by the Secretary of State. HRA subsidy was abolished by the Localism Act 2011, which provided for the Secretary of State to determine the calculation of a settlement payment to or from each local housing authority. This settlement and its implications for the self-financing HRA continue to inform the Business Plan.
- The HRA provisions in the 1989 Act include the duty in January or February each year to formulate proposals relating to HRA income and expenditure.
- By section 24 of the Housing Act 1985 (the 1985 Act) the Council has a broad discretion in setting such reasonable rents and other charges as it may determine and must from time-to-time review rents and make such changes as circumstances may require. Such circumstances will of course include other statutory requirements such as those described in this report. The duty to review rents and make changes is itself subject to the requirements for notice of a variation set out in Section 103

of the 1985 Act. The notice must specify the variation and the date on which it takes effect which must be at least four weeks after the date of service. To implement the rent variation recommended in this report notice of the variation must be sent to all tenants within the first week of March at the latest.

In February 2019 the Government published a policy statement on rents for social housing from 1 April 2020 onwards and, pursuant to powers under section 197 of the Housing and Regeneration Act 2008, issued the Direction on the Rent Standard 2019. This required the Regulator of Social Housing to set a new rent standard, consistent with the Rent Policy Statement, with effect from 1 April 2020. The Direction applies to the Regulator in relation to the rents of all registered providers of social housing, including local authorities, and replaces a 2014 Direction which applied only to the rents of private registered providers. The requirement that the Council's rent increases be in accordance with government rent policy is not itself new but with effect from 1 April 2020 this is secured through a regulatory standard. The Council must comply with the rent setting rules. If it fails to do so it may be made subject to regulatory action.

5.4	There are no direct climate implications arising from this report	Climate Implications There are no direct climate implications arising from this report. Individual Committees are required to consider climate implications as they develop their budget proposals and a summary will be reported to Full Council.
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6. Alternative options considered

6.1	No other options were considered	The Council is required to both set a balanced HRA budget and to ensure that in-year income and expenditure are balanced. No other alternatives were considered.
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Future Sheffield: SCC change programme – Terms of Reference Proposal

Background

The Council has used an incremental approach to balancing its budget for many years. That has involved either Services, or more recently Committees, being asked to propose budget implementation plans to deliver a set cash limit driven by assumptions on taxation, government funding and external fees and charges.

After many years, this model has mostly run its course. Many services are being run on very thin resources, but very few services have been ceased, re-designed or transformed. The budget approach has not supported more strategic prioritisation with conscious investment in the work that delivers the overall priority outcomes of the Council.

On 30 August the Strategy and Resources committee approved a corporate delivery plan which set out 7 outcome-focused strategic goals and committed the Council to a four-year improvement journey (stabilise – embed – grow – flourish).

There is an opportunity as part of the 2023/24 budget process to both deliver the change required to balance the 2023/24 budget; to set the Council on an operationally and financially sustainable course for the medium to long term and to enhance the impact we have on the outcomes that matter for the city.

The change programme approach needs to avoid creating new and different 'frameworks', as such it should align to the four-year improvement journey. It needs to be flexible enough to recognise that different parts of the organisation are at different levels or maturity and challenge, without compromising our commitment to act as *One Team* across SCC.

Objectives and Scope

The high-level objectives of this programme are to:

- Deliver the 2023/24 budget in respect of the areas within scope
- Ensure that the objectives within the Council's One Year Delivery Plan are achieved
- Reshape the Council's internal organisation to support the Council's outcome-focused Strategic Goals and drive the four-year journey from 'stabilise' to 'flourish'
- Design the target operating model for 2026/27 and develop the corporate plan

Our initial thinking has identified two Programmes that will need to be delivered to achieve the objectives.

1. **2023/24 Delivery Programme** - linked to budget delivery and covering many of the Council's services to ensure that the changes required are delivered in a consistent and coherent way.
2. **2023/24 Design Programme** – developing the work that will need to be done over the subsequent few years to deliver the Council's longer term ambitions

The way we want to work

We will need to be open to working with one or more organisations to do the work we need to do. Although it will be possible for some of the work to be done by our own Council staff, we just don't have enough people with the right skills to do all the work that needs to be done. Recognising formal feedback has not yet been received from the recent LGA Peer Review, this observation was clearly set out in the peer team's early verbal feedback.

We will need to talk to potential partners about how we can do this. We will need to appoint one or more organisations to support us to deliver what will be a significant programme of change. It will be important to find a partner or partners who can work with us as part of a single integrated team.

Timescales and funding

This work will take some time – very likely more than one year. We will need to make sure that the savings needed to deliver the 2023/24 are prioritised in the early part of the work, but we equally need to make sure that the longer-term work does not get side-lined.

If current forecasts are replicated to the year-end, the Council will have around £16m of the original £70m of reserves the Council set aside to support financial sustainability. There is also a recurrent change budget held with the Strategy and Resources Committee's budget.

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