Report to Policy Committee

Author/Lead Officer of Report: Philip Gregory, Director of Finance and Commercial Services

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Report of:	*Philip Gregory Director of Finance & Commercial Services*
Report to:	*Strategy and Resources Policy Committee*
Date of Decision:	*7 September 2023*
Subject:	*Medium-Term Financial Analysis (MTFA), Committee Budget Savings Targets & 2023/24 Q1 Budget Monitoring Position*

Type of Equality Impact Assessment (EIA) undertaken	Initial	x	Full	
Insert EIA reference number and attach EIA	2312			
Has appropriate consultation/engagement taken place?	Yes	-	No	-
Budget consultation to take place from Autum 2023				
Has a Climate Impact Assessment (CIA) been undertaken?	Yes	-	No	-
Climate Impacts Assessments will be considered as part of the Budget Implementation Plans (BIPS)				

Does the report contain confidential or exempt information?	Yes		No	X

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

*"The (**report/appendix**) is not for publication because it contains exempt information under Paragraph (**insert relevant paragraph number**) of Schedule 12A of the Local Government Act 1972 (as amended)."*

Purpose of Report:

The report sets out the medium-term financial position for the Council and proposes how individual policy committee budget targets for 2024/25 are set.

This report also sets out the 2023/24 Q1 budget monitoring position for the general fund and the Strategy and Resources committee budget position.

Recommendations: **The Committee is recommended to:** 1. Endorse, as a planning assumption, core Council Tax increases of 2.99% for 2024/25 and 2% each year after and the Adult Social Care Precept increases of 2% for 2024/25 and 1% each year after. 2. Note, that while the Council has taken action to remove reliance on reserves to balance the budget, the current level of reserves provides a limited amount of time for action to be taken strategically in response to the financial position. 3. Note, firm action is being taken over the period of the MTFA to contain pressures and deliver significant savings and/or mitigations through continued delivery of BIPS and organisational development and transformation. Failure to do so will see the Council's financial position become unsustainable. 4. Request, an updated MTFA will be presented in November 2023 to S&R committee following identification of savings by Committees and refinement of pressures in the coming months. 5. Approve the 2024/25 budget targets as set out in this report reflecting the MTFA. 6. Requests that reports are presented to Policy Committees for approval at meetings in November that set out how they will balance their budgets for 2024/25. 7. Note that a consolidated report based on the individual Policy Committee reports and decisions of the Policy Committees will be brought to the 13 December meeting of this Committee. 8. Note the updated information and management actions provided by this report on the 2023/24 Q1 Revenue Budget

Background Papers:
2023/24 Revenue Budget

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: *Philip Gregory, Director of Finance and Commercial Services*
		Legal: *Sarah Bennett, Assistant Director, Legal Services*
		Equalities & Consultation: *Adele Robinson, Equalities and Engagement Manager, Policy, and Performance.*
		Climate: n/a

	Legal, financial/commercial and equalities implications must be included within the report and the name of the officer consulted must be included above.	
2	**SLB member who approved submission:**	*Phillip Gregory, Director of Finance and Commercial Services*
3	**Committee Chair consulted:**	*Tom Hunt, Chair of Strategy and Resources Committee*
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: *Philip Gregory*	**Job Title:** *Director of Finance and Commercial Services*
	Date: *29 August 2023*	

1. **PROPOSAL**

1.1. This report provides an overview of the Medium-Term Financial Analysis (MTFA), the planning assumptions underpinning the analysis, the assumed budget gap and recommended savings targets for 2024/25.

The MTFA is informed by:

- the level of Government funding based on factors such as population and deprivation,
- The Council's ability to raise income via items such as local taxation and sales fees and charges,
- emerging cost pressures faced by services,
- the amount of available reserves.

1.2. The report also provides an update on the current outturn position for Sheffield City Council's revenue budget for 2023/24 at quarter 1.

As with all Local Authorities, the Council faces significant demand and inflationary pressures with 3 particular areas of immediate concern:

1. Demand pressures in Adult Social Care
2. Rising costs in children's placements and home to school transport costs
3. Homelessness – the national issue caused by Government policy on Housing Benefit reimbursement.

2. **Medium Term Financial Analysis 2024/25 to 2027/28**

2.1. The purpose of the Medium-Term Financial Analysis ("MTFA") is to provide Members with an early view of the forecast financial position of the Council for the next 4 years, and to set the financial constraints within which the budgeting and business planning process will need to work to achieve a balanced budget position over the medium term.

2.2. The last MTFA covering the period 2023/24 to 2026/27 was presented to Strategy and Resources Committee in July 2022. This update provides a full refresh of that report, rolling forward the period covered to 2024/25 to 2027/28. This roll forward includes Directorates updating their estimates of pressures and the impact of the 2023/24 financial position. At this stage, the figures only include a limited number of savings / mitigations and known anticipated additional grant income. Future work to identify additional mitigations /savings will be undertaken in the coming months.

2.3. Background context to this analysis is the £18m forecast overspend for 2023/24, covered at paragraphs 7.1 to 8.6.3 below, which also sets out the required actions to Policy Committees to ensure a balanced budget is set for next year. This current in-year forecast overspend must be urgently managed to avoid the risk that the Council has to look to its available Budget Contingency Reserve (£30m) to balance at year-end. Maintenance of a prudent level of contingency reserves is critical to ensure stability and sustainability for 2024/25 onwards.

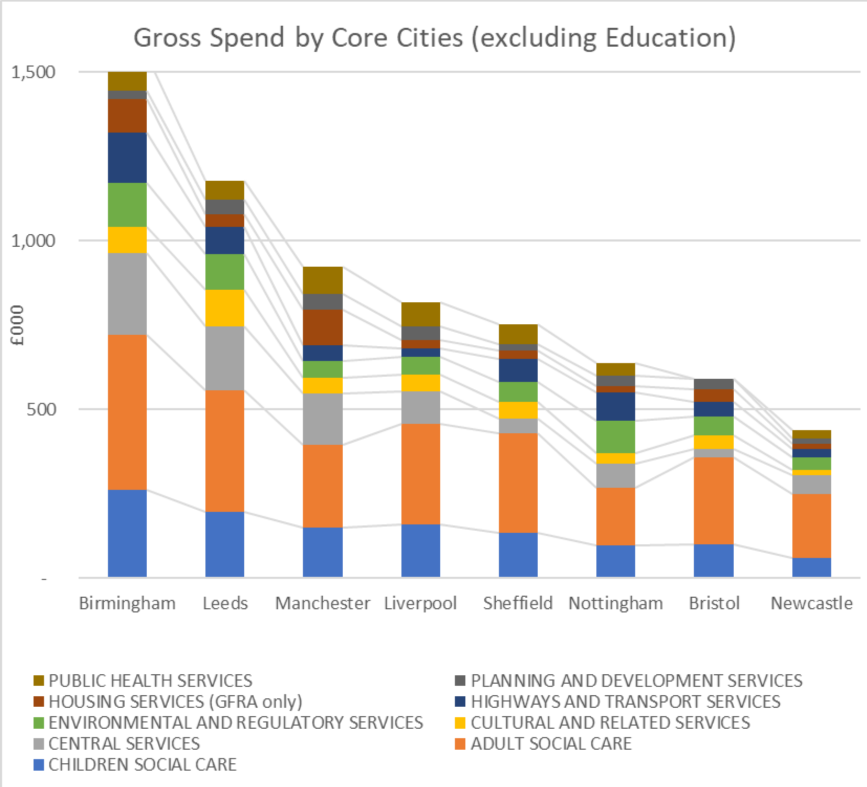
3. MTFA Background

3.1. **Sheffield is not the only Core City struggling with financial sustainability.** Due to the magnitude of the 4- year budget gap Sheffield faces, we reviewed the medium-term forecasts for similar councils, these being the Core Cities. Our research highlighted the latest MTFA's for these councils reported budget gaps between £10m and £35m per annum. Our current forecast is an average of £15m per annum.

3.2. **Funding cuts to high need Local authorities during the decade of austerity make it harder to react to inflationary budget pressures.** All Core Cities therefore appear to be struggling with financial sustainability and having to deliver significant savings. This is likely due to the arbitrary Central Government (CG) funding cuts throughout the decade of austerity, which were disproportionately targeted towards high need authorities such as Core Cities. For example, the real terms spend power (the amount of funding a Council has to deliver services) reduction in Sheffield was 29% or £856 per resident, compared to the national average of 20% and £581 per resident. Continuing to lobby Government to equalise the impact of this reduction and implement the Fair Funding review to redistribute funding more equitably, must be a priority.

As part of this analysis, we also reviewed spend across the Core Cities to identify any trends or differences worth exploring.

3.3. **SCC's % of gross spend mainly in line with other Core Cities but does highlight a greater proportion spent on Social Care** The first graph below shows gross expenditure across the eight Core Cities. Total funding and gross spend are largely driven by population but also by variables such as deprivation factors in the funding formula. Sheffield has the fifth highest gross expenditure overall despite being the third largest by population, though Birmingham and Leeds are far and away the biggest.



3.4. **Deprivation as well as population size are key determinants of overall spend and spend on social care.**

One of the main reasons for this is deprivation, measured using the Index of Multiple Deprivation (IMD). The IMD combines information from seven domains to produce an overall relative measure of deprivation. Sheffield is the second least deprived Core City by these measures. Liverpool and Manchester top this list, and this is one of the main reasons their overall funding exceeds Sheffield's.

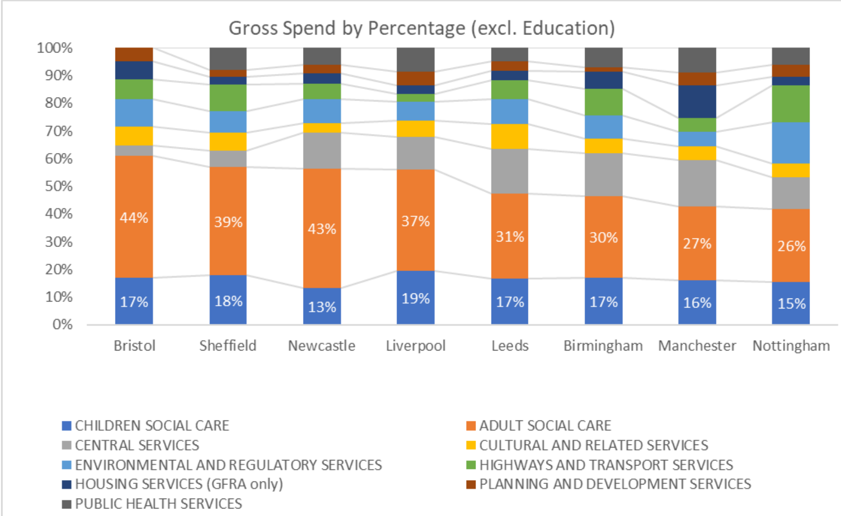
	Liverpool	Manchester	Birmingham	Nottingham	Newcastle	Leeds	Sheffield	Bristol
IMD Score	42.4	40.0	38.1	34.9	29.8	27.3	27.1	26.4

The pattern is repeated when looking at Core Cities that have the most areas which are in the most deprived 10% in the country.

	Liverpool	Manchester	Birmingham	Nottingham	Newcastle	Leeds	Sheffield	Bristol
IMD: % LSOAs most deprived decile	49%	43%	41%	31%	26%	24%	24%	16%

3.5. **The proportion of Sheffield's spend on Social Care is out of line with our relative deprivation.**

The graph below shows that SCC is broadly in line with the mean distribution of spend. SCC does however, spend 57% of its gross expenditure (excluding Education) on Social Care, which is above the average across the other Core Cities of 51%. This is despite the fact the lower relative deprivation in Sheffield could be expected to drive lower social care costs, particularly across children's services.



4. MTFA Detail

4.1. **Our mid case forecast is that the Council faces a budget gap of £61m by 2027/28**

Under the mid-case assumptions in Appendix 1, the budget gap grows to **£61m** by 2027/28.

The following sections provide the details behind the numbers included in this assessment for the medium-term financial outlook.

£m	**24/25**	**25/26**	**26/27**	**27/28**	**Total**
Central Government Funding (Inc RSG)	(18.3)	(0.9)	(8.9)	(1.0)	(29.1)
Business Rates & Council Tax Income	(25.3)	(16.3)	(14.8)	(15.1)	(71.5)
Corporate Expenditure variations	9.2	2.6	0.2	0.7	12.7
Social Care pressures*	46.4	27.0	24.9	25.4	123.8
Other service pressures*	26.1	10.1	8.1	8.0	52.3
Overall Budget Gap	**38.2**	**22.5**	**9.4**	**18.1**	**88.2**
Proposed Savings / Mitigations	(14.4)	(0.2)	0.0	0.0	(14.6)
Anticipated Sales Fees and Charges	(5.6)	(2.2)	(2.2)	(2.3)	(12.4)
Net Gap Still to Find	**18.1**	**20.2**	**7.2**	**15.8**	**61.2**

**** based on estimate of 26/27 pressures***

4.2. **Total available resources over the MTFA will be determined by 3 key factors.**

The starting point of the MTFA is to establish the overall financial envelope in which services must be delivered. The main factors affecting the amount of resources available to the Council are:

- the level of Government funding provided;
- its ability to raise income via items such as local taxation and sales fees and charges; and

- the amount of available reserves.

4.3. **Limited additional Government funding is assumed over the medium term. Approximately £29m**

In February 2023 the Department for Levelling Up, Housing and Communities (DLUHC) approved the 2023/24 settlement for Local Government. Included within the Settlement were some funding and taxation commitments for 2024/25. These included details of Council Tax thresholds and additional funding for social care.

Beyond 2024/25 the picture is less clear. However, there is a general acknowledgement that due to fiscal constraints, it is prudent to plan for very little, if any, increase in public sector spending in unprotected services such as Local Authorities over the remaining period of the MTFA.

4.4. **Fair Funding delays and transition arrangements means limited additional funding can be relied upon.**

If SCC were to receive any additional funding during the MTFA period, this would likely be a result of the implementation of the long-awaited Fair Funding review. The Fair Funding formula is the basis for the calculation of a Local Authority's (LA's) needs-based funding. This formula has not been updated since 2013 and is still using data from as long ago as 2011. A review of this formula would result in a reassessment of the financial needs of each Council and a redistribution of funding accordingly. In theory, as a high needs LA, SCC should gain from this reform.

However, the review is now unlikely to happen before 2026/27 and will require significant transitional arrangements, to protect those LA's who lose significantly from the new formula. For these reasons, plus a below average growth in population based on the 2021 Census data which will reduce SCC's share of funding, we are forecasting a modest increase of £8m in the medium term due to Fair Funding from April 2026.

4.5. **Local taxation is forecast to increase by £72m**

The majority of additional resources will come from local taxation over the next 4 years. A total increase of **£72m** for additional Business Rates and Council Tax is forecast over the medium term. Full details of the mid-case assumptions applied can be found in **appendix 1**.

4.6. **Only £13m of available reserves remain to support the medium-term planning.**

There are limited reserves available to support the medium term planning. During the 2022/23 to 2025/26 MTFA process, £70m of Reserves were identified to support budget pressures. However, if current in-year overspends are not brought under control only £13m will remain as per the table below.

Reserves Usage	£m
2021/22 Overspend	20
2022/23 Budget Balancing	14
2022/23 Overspend	5

2023/24 Current Overspend	18
Unallocated	***13***
Total	**70**

Based on current analysis this will be insufficient to enable a balanced budget to be set for 2024/25 without further mitigations and savings being found.

4.7. **Pressures forecast to increase by £189m over the next 4 years.**

Corporate expenditure variations and Directorate pressures are forecast to increase by **£189m** over the next 4 years. **£124m** of which is for Social Care costs.

Corporate pressures total **£14m** (over 4 years) and are largely the impact of having to absorb the pressure resulting from costs in relation to the Heart of the City 2 project, planned uplift to the Council Tax Hardship Fund to support those least able to cope with future increases, insufficient Housing Benefit Subsidy from the Department of Work and Pensions towards exempt accommodation costs and a £700k commitment for Local Area Committees (LACs) as part of the 23/24 budget amendments, with a request for permanent funding be reviewed for this activity going forward.

Non Social Care pressures of **£52m** are mainly the result of high inflation on RPI linked large contracts such as highways and waste, significant increase in relation to short stay accommodation to support homelessness prevention, plus forecast pay awards costs. The assumptions applied are set out in Appendices 1.

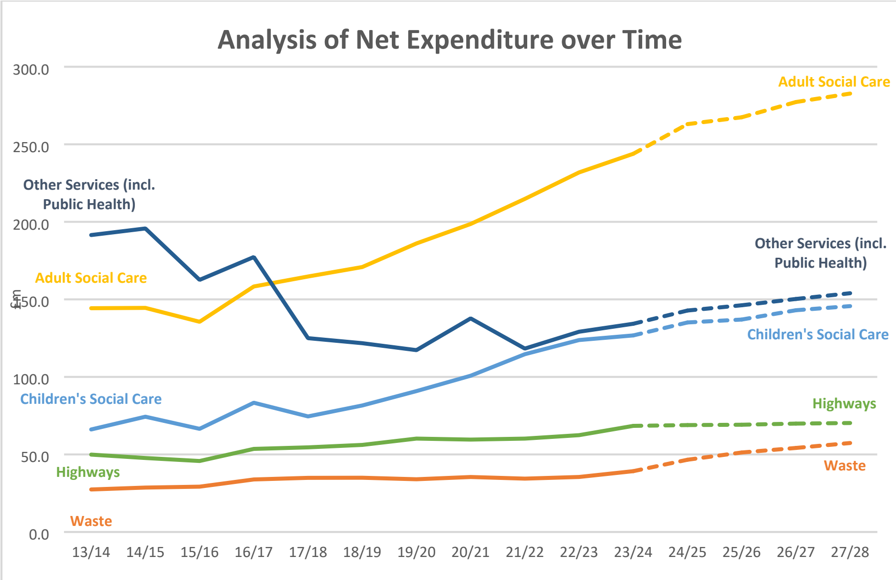
4.8. **Social Care costs are mainly driven by inflation, placement costs and home to school transport**

Social Care Pressures at **£124m** are the biggest cause for concern over the medium term and reflect the trend in recent years. As with the other areas of the Council, cost and pay inflation are the major drivers for social care pressures. Adults Social Care services are also forecasting increased pressures as a result of fee uplifts, growth and other demographic changes, plus increased transition costs between children's and adult's care. For Children's Social Care, additional placements cost resulting from rising demand for higher cost services and the need to recruit additional Social Workers, along with a significant increase in home to school transport costs are being anticipated.

4.9. **Limited resources remain outside of Social Care, so diverting additional**

Our social care costs are rising at an unsustainable rate putting the financial stability of the Council at risk. The rest of the Council cannot support this level of spend. Our flexibility elsewhere is limited because we have already transferred investment from other services to support social care as highlighted in the graph below:

funds over MTFA period is not feasible.



*Dotted lines indicate estimated net expenditure assuming each committee achieves their savings targets.

This disinvestment is not sustainable due to the remaining budgets outside Social Care being insufficient to offset the pressures anticipated within Social Care. A reduction in, or efficiencies within, Social Care spending are the only way the Council can continue to set a balanced budget in the medium term.

4.10. **Mitigations need to be identified by Committees and should include a review of income.**

The main mitigations identified against pressures and included within the MTFA assumptions, are taxation income and grants. Only a limited number of directorate mitigations totalling £4.9m are included at this stage. These and any further savings or mitigations proposed by Directorates will need to be agreed by Committees. Any 2024/25 savings will be used to offset the 'savings target by Committee' identified in this report and required to deliver a balanced budget for next year.

These mitigations should include a full review of increased income targets where applicable. Recovery of additional costs via fees and charges needs to be examined. An increase in applicable fees in line with forecast CPI inflation of 5.4% for September[1], could yield around £5.6m in 2024/25 and is discussed later in the report in relation to balancing next year's budget.

MTFA Summary

4.11. **The Mid case shows that significant action will be**

The mid case shows the need for the delivery of significant efficiencies across all Directorate's and Committees to avoid unsustainable short to medium-term pressure on the Council's finances.

[1] Inflation - Office for Budget Responsibility (obr.uk)

	needed to ensure financial sustainability (£61m gap)	This task will be made much easier if we are able to agree clear and long-term policy-led priorities, the forthcoming corporate plan is therefore a critical deliverable. Without firm action, it will be challenging to set a balanced budget for 2025/26 onwards.

Sensitivity Analysis

4.12.	**Best Case** **This gap lessens to approximately £21m under more optimistic assumptions**	In contrast, if the Council were able to secure some additional funding from Government, raise additional funding through local taxation, focus its spending on key priorities and constrain pressures, then its financial position becomes more sustainable. This scenario does assume £3m in 2026/27 of additional Central Government support compared to the Mid case. Full details of the assumption compared to the Mid-case are set out in Appendix 2.
4.13.	**Worst Case** **The gap grows to £149m by 27/28 under pessimistic assumptions**	The failure to constrain service delivery pressures, high inflation continuing into the medium term, a fall in local taxation revenues and the additional Social Care funding provided following delays to Care Charging reforms for 2023/24 and 2024/25 ceasing, would result in the budget gap worsening to £149m by 2027/28. It is vital Sheffield mitigates against any of these outcomes that are controllable, including lobbying Government for additional funding via the implementation of Fair Funding and greater clarity around the future of social care funding. This will support a reduced level of saving / service reductions required to set a balanced budget.

5. Early 2024/25 Budget Assessment

5.1. **Pressures facing the Council are broadly in line with previous years at circa £82m**

Based on an early review of the most significant budget pressures facing services for 2024/25, the total savings and / or additional income required to set a balanced budget will be in the region of £82m.

This review of pressures excludes any non-delivery of 2023/24 BIPS and is based on the continuation of currently agreed policy i.e. any pressures are a result of continuing business as usual activity and not changes to service delivery.

The level of pressures is greater than those reported in the July 2022 MTFA. It is also worth noting that the 2023/24 figures included a corporate pressure of £14.5m in relation to the decision to stop use of reserves to balance the 2022/23 budget, as recommended in the LGA Corporate Peer Review.

5.2. **Anticipated Income and Savings are greater than previous years at £58m**

A combination of factors including greater confidence in the funding mechanism from Government, early announcements of grant funding and confirmation of the 2024/25 Council Tax referendum limits, allows for improved income forecasting at this early stage of the process.

Summary of Income Increases and Savings Identified:

	Income / Savings £m
Council Tax Income	-10.8
Social Care Precept	-5.4
RSG	-2.4
Inflation on Business Rate Multiplier	-9.2
Social Care Funding	-15.9
Mitigations and Savings	-14.4
	-58.1

5.3. The 2024/25 Council Tax referendum limits were confirmed as part of the 2023/24 Local Government Finance Settlement (LGFS) and allow the Council to increase Council Tax by 2.99% on the Core element and 2% for the Adults Social Care Precept. The assumption in this report is that the full amounts will be taken, as per previous years, and will generate £10.8m and £5.4m respectively. These figures also assume a growth in the tax base. The corporate expenditure variations set out in the MTFA table above include a £0.2m per annum increase to the Council's Hardship Fund aimed at supporting those least able to afford the increase. Alongside this additional funding, the Council will also review its Council Tax

Support (CTS) scheme to ensure support is still targeted in an equitable way towards those who most need it.

5.4. Revenue Support Grant (RSG) and Business Rates Income will continue to rise in line with September CPI and will generate £2.4m and £9.2m respectively.

5.5. The LGFS also confirmed funding diverted from the delay to the care charging reforms to the Social Care grant will increase by circa £600m nationally for 2024/25. We anticipate SCC will receive approximately £6m of this funding. This will be added to the £9.9m Social Care Contingency to deliver £15.9m of budget support for 2024/25. There is some limited risk around the permanency of this funding which is accounted for within the MTFA.

5.6. In addition, £14.4m of savings have been identified to mitigate these pressures and are mainly in relation to core capital financing charges of £9.5m and Adults Health & Social Care investment and Recovery plans of £4.3m.

More details around the corporate assumptions can be found in **Appendix 1.**

5.7. **A Sales, Fees and Charges notional target could generate £5.6m towards the budget gap and would help to avoid subsidisation of income generating services.**

Another consideration at this stage could be the inclusion of a notional Sales, Fees and Charges (SFC) target in line with September CPI of 5.4%. The aim being to avoid possible subsidies for income generating services.

Early indications show approximately £5.6m could be generated via this approach with £4.5m falling to the Adult Health and Social Care Committee (AHSC) in relation to Older Peoples contribution to care and ICB contributions under the S75 agreement.

	Increase @ CPI 5.4% £m
ADULT HEALTH AND SOCIAL CARE	(4.5)
COMMUNITIES, PARKS AND LEISURE	(0.2)
EDUCATION, CHILDREN & FAMILIES	(0.2)
STRATEGY AND RESOURCES	(0.1)
TRANSPORT, REGEN & CLIMATE	(0.1)
WASTE AND STREET SCENE	(0.5)
Grand Total	**(5.6)**

As part of this review, it will be important to assess the equality impacts of any additional fee increases. Ensuring fee uplifts do not disproportionately affect groups already struggling with the cost-of-living crisis will be a priority, and where identified, the Council will seek to target support at those affected. However, it is vital that where possible and appropriate, sales, fees and charges are increased to generate much needed funds and to avoid taxpayer's subsidisation of the related services.

With the inclusion of a SFC target, the Budget gap currently stands at £18m. This figure is still subject to change but the comparable 2023/24 Budget Gap at this time last year, stood at approx. £43m.

5.8. **HRA Budget Gap for 2024/25 currently stands at £2.2m** The same assessment has been undertaken for the Housing Revenue Account (HRA) and results in a £2.2m Budget Gap for 2024/25. Details are set out in the table below and includes the assumption rent rises will be approximately 5% for 2024/25.

	2024/25 £m
Council House Repairs	4.7
Pay Award	3.5
Removal of One-off Property Sale Income	2.0
Total Pressure	**10.2**
Anticipated Rent Income @ 5%	(8.0)
HRA Budget Gap	**2.2**

6. Proposed Savings Targets

6.1. **General Fund Targets: Equitable application of funds resulting in a deliverable outcome for all Committees** It is proposed to allocate the additional funding available to result in budget targets that feel proportionate and deliverable by Committees. The table below sets out the proposed approach.

The longer term aspiration of developing the MTFA with a greater element of cross council priority led budgeting was also considered but this would require a level of service data and intelligence which is still in development and so this will be considered as part of future phases.

2024/25		**Remaining Income Allocations**									
Committee	**Original Pressures**	**Pay award Funded**	**ASC Precept**	**Social Care Grant**	**Significant RPIX contracts and Housing Benefits**	**Other Funding (split based on NRB)**	**Target to Find**	**Savings Identified**	**Sales, Fees and Charges Income**	**New Pressures**	**Adjusted Target To Find**
Adult Health & Social Care	27.0	(1.9)	(5.4)	(10.9)		(0.9)	7.8	(4.6)	(4.5)	2.7	1.5
Education, Children & Families	12.4	(2.7)		(5.0)		(0.7)	4.1	0.0	(0.2)	4.4	8.3
Housing General Fund	3.6	(0.4)			(2.5)	(0.0)	0.7	0.0	(0.0)	2.9	3.5
Transport, Regeneration & Climate	1.0	(0.4)				(0.2)	0.5	0.0	(0.1)	(0.1)	0.3
Economic Development & Skills	0.9	(0.2)				(0.1)	0.7	0.0	(0.0)	0.1	0.7
Waste & Street Scene	9.8	(0.6)			(6.4)	(0.4)	2.5	0.0	(0.5)	0.5	2.5
Communities Parks and Leisure	1.5	(1.2)				(0.2)	0.0	0.0	(0.2)	0.5	0.4
Strategy & Resources (Corporate)	9.9	0.0			(3.0)	0.0	6.9	(6.2)	0.0	0.0	0.7
Strategy & Resources (Committee)	4.7	(2.7)			(0.8)	(0.4)	0.8	(0.4)	(0.1)	(0.0)	0.3
Total	**70.8**	**(10.0)**	**(5.4)**	**(15.9)**	**(12.7)**	**(2.9)**	**23.9**	**(11.1)**	**(5.6)**	**11.0**	**18.1**

6.2. This proposal will cover the anticipated 2024/25 pay awards for all Committees.

As aforementioned, the Adult Social Care Precept is applied to the AHSC Committee. In addition, the AHSC receives 69% of the Social Care grant available, with Education, Children & Families committee receiving the rest. This allocation is based on their relative shares of the original social care pressures for 2024/25. This allocation is hoped to cover the majority of demand and cost inflation pressure for these committees.

£7.2m has been allocated towards contract inflation pressures which are out of the control of the relevant committee. Examples include the waste contract, highways and Microsoft licencing. £5.5m has also been set aside to cover the significant increase in Housing Benefit subsidy losses for Exempt Properties (S&R £3m) and £2.5m contribution to support the large increase in Homelessness accommodation costs around housing benefits support.

6.3. The remaining £2.9m is allocated based on the share of NRB.

The new pressures identified in the table and any subsequent additional pressure identified going forward, will simply increase the relevant Committee's savings target and will not affect the proposed distribution of funding.

A Four-Year View

6.4. **The application of the principles underpinning this approach results in significant budget targets for, but also substantial investment in, Social Care services over the medium term**

The table below sets out a four-year view of the budget targets by committee. The methodology followed is the same as above. This view could support discussions around longer-term business planning.

Committee	2024/25 Target to Find	2025/26 Target to Find	2026/27 Target to Find	2027/28 Target to Find	Total
Adult Health & Social Care	1.5	12.0	5.1	10.2	**28.7**
Education, Children & Families	8.3	6.8	2.1	5.2	**22.3**
Housing General Fund	3.5	0.0	0.0	0.0	**3.5**
Transport, Regeneration & Climate	0.3	0.7	0.0	0.4	**1.3**
Economic Development & Skills	0.7	0.1	0.0	0.0	**0.8**
Waste & Street Scene	2.5	0.1	0.0	0.0	**2.6**
Communities Parks and Leisure	0.4	0.1	0.0	0.0	**0.5**
Strategy & Resources (Corporate)	0.7	0.0	0.0	0.0	**0.7**
Strategy & Resources (Committee)	0.3	0.4	0.0	0.0	**0.6**
Total	**18.1**	**20.2**	**7.2**	**15.729**	**61.2**

Although the total remaining budget gaps for AH&SC and ECF Committees are challenging at £51.1m in total, it is worth noting the committees will see significant investment in their base budgets of £38.8m and £18.9m respectively, as demonstrated in the table below.

Committee	2023/24 NRB	2024/25 NRB	2025/26 NRB	2026/27 NRB	2027/28 NRB
Adult Health & Social Care	142.0	161.1	165.5	175.3	180.8
Education, Children & Families	115.7	124.1	125.9	131.9	134.6
Housing General Fund	5.3	8.2	8.4	8.6	8.8
Transport, Regeneration & Climate	25.4	25.9	26.1	26.8	27.2
Economic Development & Skills	8.2	8.5	8.6	8.8	8.9
Waste & Street Scene	64.4	71.8	76.4	79.4	82.6
Communities Parks and Leisure	35.5	36.9	37.9	38.8	39.7
Strategy & Resources (Corporate)	0.0	0.0	0.0	0.0	0.0
Strategy & Resources (Committee)	63.5	67.4	69.6	72.3	74.7
Total	**460.0**	**503.9**	**518.4**	**542.0**	**557.4**

7. **2023-24 Q1 Financial Position by Directorate**

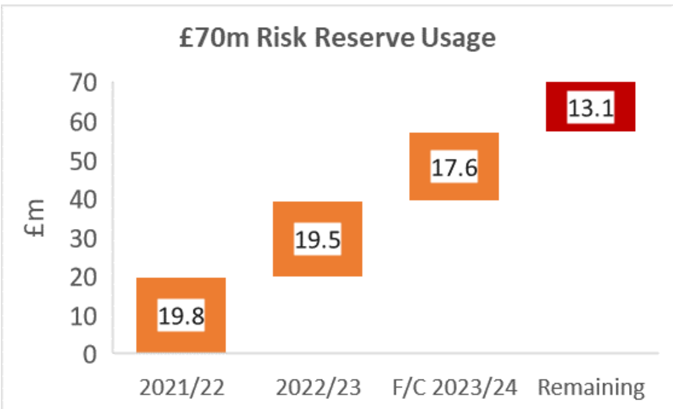
7.1. At the end of the first quarter of 2023-24, the Council's revenue budget shows a forecast overspend of £17.6m.

Full Year £m	Outturn	Budget	Variance
Neighbourhood Services	138.2	135.0	3.2
Adults	138.3	134.8	3.5
Children's	124.0	115.3	8.7
Strategic Support	52.4	47.7	4.7
City Futures	44.0	43.4	0.6
Public Health & Integrated Commissioning	10.7	10.9	(0.2)
Corporate	(490.1)	(487.1)	(3.0)
Total	**17.6**	**(0.0)**	**17.6**

7.2. This overspend is due to a combination of agreed Budget Improvement Plans ("BIPs") forecast to not fully deliver within the year. There are underlying cost and demand pressures faced by services that are partially offset by one-off items. These "one-offs" consist of grant income, draws from specific reserves or provisions and income from Central Government or external sources.

Full Year Variance £m	One-off	BIPs	Trend	Total Variance
Neighbourhood Services	(4.1)	2.5	4.8	3.2
Adults	(9.9)	3.9	9.5	3.5
Children's	(3.9)	3.7	8.9	8.7
Strategic Support	0.0	0.0	4.7	4.7
City Futures	0.0	0.4	0.2	0.6
Public Health & Integrated Commissioning	0.0	0.0	(0.2)	(0.2)
Corporate	0.0	0.0	(3.0)	(3.0)
Total	**(17.9)**	**10.6**	**25.0**	**17.6**

7.3. In 2021/22, the Council set aside £70m of reserves to manage the financial risks associated with delivering a balanced budget position. Overspends against budgets in 2021/22 and 2022/23 have meant we have drawn almost £40m from this reserve already leaving just over £30m to manage any future budget deficits. If we overspent by £17.6m as this current forecast outturn position suggests, just £13m would be left.



8. 2023-24 Q1 Financial Position by Committee

8.1. The major budget risk areas are in Education, Childrens & Families committee budgets, Adult Health & Social Care Housing and Strategy and Resources budgets.

Full Year £m	Outturn	Budget	Variance
Adult Health & Social Care	146.9	143.7	3.2
Education, Children & Families	124.7	115.8	8.9
Housing	10.2	7.0	3.2
Transport, Regeneration & Climate	39.6	40.0	(0.4)
Economic Development & Skills	9.5	9.4	0.1
Waste & Street Scene	63.5	64.2	(0.8)
Communities Parks and Leisure	41.7	41.3	0.3
Strategy & Resources	(418.4)	(421.5)	3.1
Total	**17.6**	**(0.0)**	**17.6**

8.2. In 22/23, the Council's forecast overspend improved by over £14m from the first quarter's forecasts to final outturn. This was mainly due to additional income received rather than underlying improvements in budgets and cost reductions. A big contributor to this was the Government's £500m discharge fund announced in November 2022, the sustainability of this income source and other mitigations seen last financial year is still unclear and cannot be relied upon.

Many underlying budget issues in social care services still remain and this is reflected in the current forecast position.

8.3. Most of the overspend is due to underlying cost and demand pressures in services. We estimate that £25m is embedded in the baseline costs but is somewhat mitigated by one-off income:

Full Year Variance £m	One-off	BIPs	Trend	Total Variance
Adult Health & Social Care	(9.9)	3.9	9.1	3.2
Education, Children & Families	(3.9)	3.7	9.1	8.9
Housing	(1.7)	0.2	4.7	3.2
Transport, Regeneration & Climate	0.0	0.1	(0.5)	(0.4)
Economic Development & Skills	0.0	0.0	0.1	0.1
Waste & Street Scene	(0.5)	0.2	(0.4)	(0.8)
Communities Parks and Leisure	0.0	0.2	0.2	0.3
Strategy & Resources	(1.8)	2.2	2.7	3.1
Total	**(17.9)**	**10.6**	**25.0**	**17.6**

8.4. Balancing the General Fund 2023/24 budget was possible because the Council identified £47.7m of savings:

General Fund Budget Improvement Plans (in £m)

Committee	Total Savings	Financial Savings Deliverable in Year	In Year Gap	Financial Savings Deliverable Next Year (Slippage)	Undeliverable Savings
Adult Health & Social Care	31.6	27.6	3.9	2.3	1.6
Communities, Parks & Leisure	2.0	1.9	0.2		0.2
Economic Development & Skills	0.5	0.5	0.0		0.0
Education, Children & Families	6.9	3.2	3.7	0.3	3.4
Housing	0.6	0.5	0.2		0.2
Strategy & Resources	4.1	1.9	2.2	2.2	0.1
Transport, Regen & Climate	0.8	0.7	0.1		0.1
Waste & Street Scene	1.1	0.9	0.2		0.2
Total	**47.7**	**37.1**	**10.6**	**4.8**	**5.7**

The current forecasts show £10.6m savings plans are undeliverable this year. This represents a delivery rate of 78% against target. In 22/23, less than 65% of savings targets were delivered. Whilst we are improving upon overall delivery performance, we are still falling short of targets meaning further draws could be required from our reserves to meet these overspends if they are not managed and mitigated. Delivering in year budgets must be a key focus for all services for the Council to retain financial stability.

8.5. Whilst inflation is beginning to fall, costs incurred will not just disappear from budgets overnight and are now embedded in our cost base. There is an increased demand for services alongside cost pressures in social care, home to school transport and homelessness services.

8.6. Key Committee Overspends

8.6.1. **Adult Health and Social Care are forecast to overspend by £3.2m**

The high cost of packages of care put in place during covid has increased our baseline costs and this carries into 23/24. A huge amount of work has been done as part of an investment plan to tackle the underlying issues. One off funding has mitigated the position this year leaving a £0.7m overspend in the purchasing budgets. Work continues on the package reviews to reduce the baseline costs for the future. Recovery work is underway including establishment of Task & Finish groups and the development of business cases around invest to saves including focus on enablement, day services, reviewing high cost 1 to 1 support and maximising income.

The main area of overspend in the service now sits in staffing budgets. Service improvements in the Short -Term Intervention Team (STIT) are underway to deliver a stable position.

8.6.2. **Education, Children and Families are forecast to overspend by £8.9m**

The key overspends in the service relate to placements with external residential placements a particular issue which are forecast to exceed the previous years costs by £4.8m. This sits alongside undelivered targets from the previous year of £2m. The average placement is £5,400 per week. However due to a limited number of places in the city, the most complex placements can cost a great deal more. Actions are being taken to ensure that the right costs for placements are being met by all elements including education and where possible health. High cost placements are also being reviewed.

The savings proposal for £1.6m to increase fostering placements this year is also forecast to not be delivered. Marketing is taking place but our number of foster carers remains static. Nationally this has been an issue since the pandemic as older foster carers decided to exit the market and there is not the like for like recruitment to new foster carers.

Further demand in home to school transport costs are forecast to create a £3m overspend against budgets this year. This has the potential to increase as well in October when we know exactly how many children require transportation to school. An overarching review of this area will commence in 2024.

8.6.3. **Homelessness support in temporary and exempt accommodation is forecast to cost the Council £8.4m**

The Government does not fully subsidise all housing benefit payments made by the Council even though it sets the rules that determine the amount the Council has to pay. In 2022/23, the Council incurred a loss of £5.9m as a result of the legislation relating to temporary homelessness and supported accommodation. The Council is essentially bridging the gap between the amount the accommodation costs to procure and the amount we are able to recover via housing benefits.

In 2023-24, this is forecast to cost the Council £4.9m for temporary accommodation and £3.5m for supported accommodation. The shortfalls are split between the Housing General Fund and Strategy and Resources budgets respectively.

8.7. The Budget Implementation Group

8.7.1. **A subgroup has been set up to drive improvements in Budget delivery**

A senior officer working group has been established to help drive delivery of the budget. The purpose of the Budget Improvement Group (BIG) is to improve the delivery of the Council's annual Revenue Budget (both General Fund and Housing Revenue Account) and in particular the delivery of the Budget Improvement Plans (BIPs). It will look to facilitate Council wide learning. The group is jointly chaired by the Director of Finance and Commercial Services and the Chief Operating Officer. The group has a nominated core member from each Directorate: Adults, Children’s, City Futures, Neighbourhoods and Strategic Support Services.

8.8. **Transformation Funding**

8.9. **We identified £4m to support transformation activity**

As part of the 2023-24, the Council identified a £4m fund that would be used to support programmes of change in the organisation, expedite the delivery of savings plans or support where delivery of savings has become “stuck”. The “BIG” group has provided advice, challenge, and recommendations for allocation of the transformation funding to the Council’s Performance and Delivery Board.

In August 2023, the Performance & Delivery board approved bids to support delivery of programmes in Adult Social Care, Housing, Children’s services, ICT, HR, and Organisational Strategy to build upon the Future Sheffield programme. These key projects will help stabilise the organisation and bring budgets back to a steady footing for the future. Each programme of work will be monitored and progress reported to the Council’s Performance & Delivery board to ensure activity remains on track. Overall performance will be reported to S&R Committee and Finance Committee as part of the in-year budget monitoring, with relevant Policy Committees overseeing progress on programmes in their areas.

9. 2023-24 Q1 Strategy & Resources Committee Financial Position

9.1. The Strategy and Resources Committee budget is forecast to overspend by £3.1m

Full Year £m	**Outturn**	**Budget**	**Variance**
Housing Benefit	3.7	0.2	3.5
Regeneration And Development (Property)	(3.9)	(4.9)	1.0
Organisational Strategy P & D	4.8	4.3	0.4
Human Resources	6.3	5.9	0.5
General Counsel	3.1	2.6	0.5
Operational Services (Customer Services; Facilities Management; Transport)	20.5	20.1	0.4
Policy & Democratic Engagement	6.1	5.7	0.3
Digital Innovation & ICT	15.2	15.2	(0.0)
Finance & Commercial Services	19.1	19.1	0.1
Central Costs	(5.1)	(4.9)	(0.2)
Public Health (Public Health Dph)	(0.1)	(0.1)	(0.0)
Other Central Costs - Capita	0.0	0.0	0.0
Corporate Transactions	(515.2)	(515.2)	0.0
Community Services (Local Area Committees)	2.9	2.9	(0.0)
Resources Management& Planning	0.3	0.3	(0.0)
Contract Rebates & Discounts	(1.0)	(0.7)	(0.3)
Consolidated Loans Fund	25.1	28.1	(3.0)
Total	**(418)**	**(421)**	**3.1**

9.2. **An increase in demand for Supported Accommodation & Housing Benefit Regulations have created a budget problem for the Council**

Exempt accommodation is defined in the Housing Benefit regulations as being accommodation provided by a Council, a Housing Association, a registered Charity, or a voluntary organisation where care or support or supervision is provided by the landlord or is provided on behalf of the landlord.

Where exempt accommodation is provided by a *Housing Association,* the subsidy rules mean that the Council receives 100% in subsidy in respect of the awards of Housing Benefit that are paid. Where exempt accommodation is provided by a *voluntary organisation or a registered charity* (but not by a Housing Association), the subsidy rules mean that the Council does not receive 100% in subsidy in respect of the awards of Housing Benefit that are paid.

The Housing Independence Service completed an exercise a few years ago with short term service providers who were not registered social landlords to encourage them to register themselves or partnered them with existing social landlords to act as the official landlord for the service they were providing. Completing a similar exercise with long-term providers and Adult Care commissioners will help relieve future pressures on Council budgets.

The subsidy shortfall cost the Council £3m for this type of accommodation in 22/23 and is forecast to cost in the region of £3.5m for 23/24 unless immediate action is taken to limit our exposure to the issue.

9.3. **Shortfalls in income from commercial property are forecast to create a £1m budget gap**

There is a shortfall against budgeted income for Electric Works of £305k due to low occupancy rate. The property lost key tenants in 2022/23 and more have left in this financial year leaving occupancy at 57% where the budget is for 85% occupancy to meet income targets.

The property team are falling short of their fee targets by £219k on property disposals and £128k on acquisitions. There is also a further £200k shortfall in other commercial estate income.

9.4. **Shortfalls in 2022/23 BIP delivery have left legacy issues for 2023/24**

Savings plans in 2022/23 required significant budget savings relating to operating model changes in the Council’s Strategic Support Services directorate. Some of the savings plans were not delivered in 22/23 and have slipped into this financial year. Affected services include Organisational Strategy Performance and Delivery (formally Business Change), Human Resources, General Council (Legal Services), Finance & Commercial Services, Policy, and Democratic Engagement.

The Future Sheffield programme will look to re-base budgets in some of these services over the coming months to ensure resourcing is financially sustainable in the directorate. Allocations from the transformation fund have been made to support this programme of work to right size services to ensure operational and financial resilience for the future

9.5. **Interest income from cash balances continues to remain strong**

High interest rates have had a positive impact for the Council for 2022/23 and further gains above budget have been made into 2023/24. At the Bank of England’s last Monetary Policy Committee meeting in August 2023, the interest rate increased by a further 0.25% to 5.25%.

The Council has strong cash balances and agile treasury management activity has enabled us to benefit from these favourable market investment rates. A forecast £3m improvement against expectations has been reflected in the Q1 forecast and goes some way towards mitigating some of the challenges faced in Strategy and Resources committee budgets.

HOW DOES THIS DECISION CONTRIBUTE?

10. This report sets out the current revenue forecast position for 2023-24 and an early view of the medium-term financial position to support Council wide strategic planning to ensure long term sustainability.

HAS THERE BEEN ANY CONSULTATION?

11. There has been no consultation on this report, however, it is expected that the budget process itself will involve significant consultation as the Policy Committees develop their budget proposals

12. **RISK ANALYSIS AND IMPLICATIONS OF THE DECISION**

Equality Implications

12.1. There are no direct equality implications arising from this report. It is expected that individual Committees will use equality impact analyses as a basis for the development of their budget proposals in due course.

Financial and Commercial Implications

12.2. The primary purpose of this report is to provide Members with information on the City Council's revenue budget position for 2023/24 and the medium term financial position.

Legal Implications

12.3. 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.

12.4. 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.

12.5. 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.

Climate Implications

12.6. There are no direct climate implications arising from this report. It is expected that individual Committees will consider climate implications as they develop their budget proposals in due course.

Other Implications

12.7. No direct implication

ALTERNATIVE OPTIONS CONSIDERED

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

6. **REASONS FOR RECOMMENDATIONS**

The recommendations in this report will formally record the changes to the revenue budget and ensure that the Council has a robust budget process for 2024/25 and that each Policy Committee undertakes any work required to balance their 2024/25 budget.

Appendix 1 – Underlying 4 -Year MTFA Assumptions

Key Assumptions / Scenario - Mid Case

	Income Variations
RSG and Fair Funding	In recent years RSG funding has risen in line with CPI which is currently running at around 7%, we have assumed this figure to be closer to 5.4% by September which will be the month used for 2024/25 funding. For the remaining years of the MTFA we are assuming increases will be capped at 2% in line with the inflation target and as a result of limited additional funding being available for Local Government. We are prudently assuming SCC is a small gainer from the long-awaited Fair Funding reforms when all elements are factored in. There is no certainty if or when these reforms will happen, with 2026/27 the earliest realistic date.
Social Care funding	SCC are expecting a minimum £6m increase in 2024/25 from the delayed social care reforms, as part of the £600m extra announced nationally in the 2023/24 Local Government Finance Settlement. This funding will be added to the £9.9m 2023/24 contingency funding to provide £15.9m of support for Social Care Activity in 2024/25. Our assumption is this funding will continue and will not be required for the Social Care Charging Reforms if ever implemented.
Business rates	We have assumed the Business Rates multiplier will be frozen with compensation paid to Local Authorities in line with CPI. This is estimated to be 5.4% for 2024/25. 3% for 2025/26 and 2% thereafter. Business ratepayers can seek an alteration to the rateable value of a property by appealing to the VOA. However, because of the large volume of appeals, decisions by the VOA can take several years. A prudent provision has been taken for the appeals and as such this should not impact on the MTFA. There are a number of reliefs against business rates liability, including small business rates relief, charitable relief, and deductions for empty properties and partly occupied premises. The total value of these reliefs and deductions was £76.5m for 2023/24.
Council tax	A planning assumption of a 2.99% for 2024/25 and 2% per annum rise thereafter in Core Council Tax. The 2.99% allowance for 2024/25 was announced as part of the 2023/24 LGFS. Social Care Precept is forecast to rise by 2% for 2024/25 and 1% per annum rise from 2025/25 to 2027/28, although the actual levels will be set by members each year. The 2% allowance for 2024/25 was announced as part of the 2023/24 LGFS. The tax base for Sheffield is forecast to continue growing and provides us with enough confidence to forecast an increase of 1,500 new Band D equivalent properties for 2024/25 onwards. We are assuming that the number of properties claiming discounts, reliefs and/or the Local Council Tax Support Schemes, will increase in the short term due to the cost of living crisis, but they will recover during the MTFA period. Any reductions in income as a result of the above schemes or due to

	properties falling into arrears, will be managed via the collection fund and associated reserves. Local Council Tax Support Scheme stays the same. The current CTSS in Sheffield which was introduced in 2013 requires council tax payers of working age to pay a minimum of 23% of their council tax bills. For financial planning purposes, it has been assumed that the scheme will not be altered in a way that will reduce income in the medium term. However, this will be an issue for Members to consider alongside the savings proposals for 2024/25 onwards.
Collection Fund surplus/ deficit	The Collection Fund is more unpredictable than ever as we come out of the Covid pandemic and into a cost of living crisis. However, any gains or losses are expected to be smoothed through the use of the Collection Fund reserve and so are not anticipated to affect the MTFS.
Specific grants	No additional specific grants are forecast.
Public Health	The public health grant will remain at 2023/24 levels for the period of MTFS.
Minimum assumed Sales, Fees and Charges	The MTFA assumes all eligible sales, fees and charges will increase by a minimum of CPI inflation over the period.

Expenditure Variations

Pay inflation	4% per annum for 2024/25 and 3% thereafter, to be funded via corporate income.
Pension Contributions	Due to healthy returns on investment over recent years and the fund now being in an overall surplus position, we anticipate no increases in contributions for the MTFA period.
Contract Inflation	The Council investment in significant contracts such as Waste, Streets Ahead, ICT and the care sector are forecast to rise in line with RPI inflation estimates. These are current assumed at 7% for 2024/25 costs, 4% for 2025/26 and 3% thereafter.
Council Tax Hardship Fund	Hardship Fund increases by £0.2m per annum.
Capital Financing Costs including Heart of the City	Over the MTFA period, the Capital Financing budget will fluctuate, reflecting significant developments in the Heart of the City project as phases are completed and disposed of. These costs are partly offset by the additional rental and business rates income the scheme is anticipated to generate. The forecast reflects the current plan to sell the blocks developed. If disposal is delayed and blocks are retained, financing costs will increase but should be offset by additional rental income.
Directorate pressure	Are the best estimates of the future costs in relation to demand for services, contract inflation cost pressures and national pay awards.
Savings / Mitigations	There is limited savings (£4.9m) included at this stage with additional savings for Committees to identify and agree before inclusion in the MTFA update later this year

Appendix 2 – Assumptions adjustments applied to the Best, Worst and Mid cases

Area	Mid Case	Best Case	Worst Case
Business Rates Income	Assume multiplier at September CPI of 5.4% 2024/25, then 3% in 2025/26 and then reduces to target 2%.	Same as the Mid Case but assumes a £0.5m increase in business rates growth	Assume multiplier capped at 3% 2024/25, then 3% in 2025/26 and then reduces to target 2%.
Council Tax Income	1500 new Band D properties per year. Assume a 2.99% rise in Council Tax bills for 2024/25 and 1.99% thereafter. Assume a 2% rise in Social Care Precept for 2024/25 and 1% thereafter.	1500 new Band D properties per year. A 2.99% rise in Council Tax bills for 2024/25 and 1.99% thereafter. Assume a 2% rise in Social Care Precept for all years.	1300 new Band D properties per year. Assume a 2.99% rise in Council Tax bills for 2024/25 and 1.99% thereafter. Assume a 2% rise in Social Care Precept for 2024/25 and 0% thereafter.
RSG / Fair Funding	RSG to increase by September CPI of 5.4% 2024/25, then reduces to target 2%. Fair Funding delayed till 26/27. Based on 2021 census data SCC could suffer approx. £9.8m loss. However, gains from other elements of Fair Funding should result in overall £8m increase.	RSG the same as the Mid Case. Fair Funding Review results in additional funding for SCC of £3m for 2026/27.	Assume RSG capped at 2% in 2024/25 and cash flat settlement thereafter. Fair Funding doesn't happen.
Social Care Funding	Assume £15.9m increase in 2024/25 from delayed Social Care Charging reforms, as announced in 2023/24 LGFS (£600m nationally extra for 2024/25).	Same as the Mid Case	Assumes reversal to Care Charging funding reforms from Oct 2025.
Heart of the City	£0.5m additional rental and NNDR income over the MTFA period.	Same as the Mid Case	£3.3m reduction in income as a result of delayed lettings on completed blocks prior to sale.

Contract Inflation	The Council investment in significant contracts such as Waste, Streets Ahead, ICT and the care sector are forecast to rise in line with RPI inflation estimates. These are current assumed at 7% for 2024/25 costs, 4% for 2025/26 and 3% thereafter.	RPI at 5% for 24/25, 3% for 25/26 and 2% for 26/27 & 27/28.	RPI at 8% for 24/25, 6% for 25/26 and 5% for 26/27 & 27/28.
Pay Award	Assumed at 4% for 2024/25 and 3% thereafter.	Assumed at 4% for 2024/25 and 3% for 2025/26 and 2% thereafter.	Assumed at 6% for 2024/25 and 4% thereafter.
Directorate Pressures (excluding contract inflation)	As forecast for each directorate	Major non-inflation pressures are the same as the Mid case	Major non-inflation pressures are forecast to increase by £10m above the Mid case assumptions

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