SHEFFIELD CITY COUNCIL
Cabinet Report

Report of: **Executive Director, Resources**

Date: 18 September 2013

Subject: **Medium Term Financial Strategy - 2014/15 to 2018/19**

Author of Report: **Allan Rainford; 35108**

Summary:

Government have announced further cuts to core funding of 15% into 2015/16

This means a two year cut to the Council's settlement funding of 23%.

Since the austerity budget measures were introduced in 2010/11, the Council's funding (excluding Council Tax) will have reduced by more than 50% by 2015/16.

The purpose of the Report is to:

- Provide Members with details of the forecast financial position of the Council for the next 5 years; and
- Recommend the approach to budgeting and business planning that will be necessary to achieve a balanced budget position over the medium term.

Reasons for Recommendations:

To provide a strategic framework for the development of budget proposals and the business planning process for 2012/13 and beyond.

Recommendations:

That Members:

- Note the forecast position for the next 5 years
- Agree the approach to business planning targets

- Give consideration to reviewing the Council Tax Support Scheme for 2014/15 with decisions based on an assessment of the impact of the reductions made in 2013/14 and the other welfare reforms that have/are being introduced.

- Agree that as part of the business planning process, any increases in specific grant are to be held corporately to assist in balancing the overall budget.

Category of Report: OPEN/~~CLOSED~~

Statutory and Council Policy Checklist

Financial implications
YES/~~NO~~ Cleared by: Eugene Walker
Legal implications
~~YES~~/NO Cleared by:
Equality of Opportunity implications
~~YES~~/NO Cleared by:
Tackling Health Inequalities implications
~~YES~~/NO
Human rights implications
~~YES~~/NO :
Environmental and Sustainability implications
~~YES~~/NO
Economic impact
~~YES~~/NO
Community safety implications
~~YES~~/NO
Human resources implications
~~YES~~/NO
Property implications
~~YES~~/NO
Area(s) affected
Relevant Scrutiny Board if decision called in
Overview and Scrutiny Management Committee
Is the item a matter which is reserved for approval by the City Council? NO
Press release
~~YES~~/NO

MEDIUM TERM FINANCIAL STRATEGY: 2014/15 TO 2018/19

EXECUTIVE SUMMARY

Funding

Government have announced further cuts to core funding of 15% into 2015/16

This means a two year cut to the Council's settlement funding of 23%.

Since the austerity budget measures were introduced in 2010/11, the Council's funding (excluding Council Tax) will have reduced by more than 50% by 2015/16.

- Based on documents recently issued by the Department for Communities and Local Government (DCLG), there will be further reductions in Revenue Support Grant (RSG) for Sheffield in 2014/15 and 2015/16. The total reductions will amount to £36m and £45m in 2014/15 and 2015/16 respectively.

- The Council Tax referendum trigger point is to be set at 2%. Council Tax Freeze Grant will be offered at 1%. The forecast assumes an increase in Council Tax revenue of 1% per year.

- Business Rate income continues to be difficult to accurately assess given the potential for volatility due to economic conditions. The City Council is already £3m below the baseline set by Government. It is expected that the business rate multiplier will increase for inflation. The current rate of inflation is around 2.8%. It is assumed that the business rates multiplier will increase by this % in 2014/15 and by 2% per annum thereafter. Some adjustments in the level of appeals provisions have been allowed for in the Forecast: a reduction in the provision of about £3m per annum for the next 3 years has been assumed.

- The 2013 Spending Review announced an additional £2 billion nationally that is to be pooled jointly with the NHS to support adult social care. This is to support greater integration. The funding will not come directly to the Council but will go to the CCG. The forecast does not include any funding via this route.

- With on-going reductions in the education element of RSG, reductions in Education Services Grant and with most funding going to Academies, there is very little funding for Local Education Authority activities.

- Funds are to be directed to Local Enterprise Partnerships from the amounts currently available to fund RSG. Up to £400m has been taken nationally from RSG to fund the Heseltine Report growth initiatives. An issue for the Council will be how this can be accessed and used to support Council objectives.

Expenditure variations

- There is currently an actuarial review being conducted of the South Yorkshire Local Government Pension Fund. Whilst this has not been completed, the indications are that the Council faces significant additional costs. For the time being the Forecast includes an additional £5m in 2014/15 rising to £7m by 2016/17.

- At the present time the Forecast assumes that staff increments will be re-introduced from April 2014 at a cost of £5m. This decision will be reviewed alongside the Pay and Grading Strategy.

- Annual increases in the costs of PFI contract and the loss of the goodwill on the existing repairs and maintenance contract together add over £3m in 2014/15 rising to £10m by 2018/19.

- The Forecast does not include any additional costs that may face the Council as a result of the 2013/14 forecast overspend and the underlying reasons behind this. Clearly any difficulty in managing the position in adult social care may add to the medium term financial position.

Overall position

- The forecast position for Sheffield is a revenue resource gap of £37m in 2014/15 rising to £108m by 2018/19. The forecast gap would reduce depending on policy decisions relating to Staff increments, the Council Tax Support Scheme and the potential for using any increases in specific grant.

- The figures below do not include those pressures which are expected to be absorbed by portfolios. Such pressures include rising energy costs, inflation, drop out of specific grants and also the rising demand for services. Over the last three years these pressures are estimated to have been in the region of £60m which has clearly added to the challenge of balancing budgets and will continue to do so.

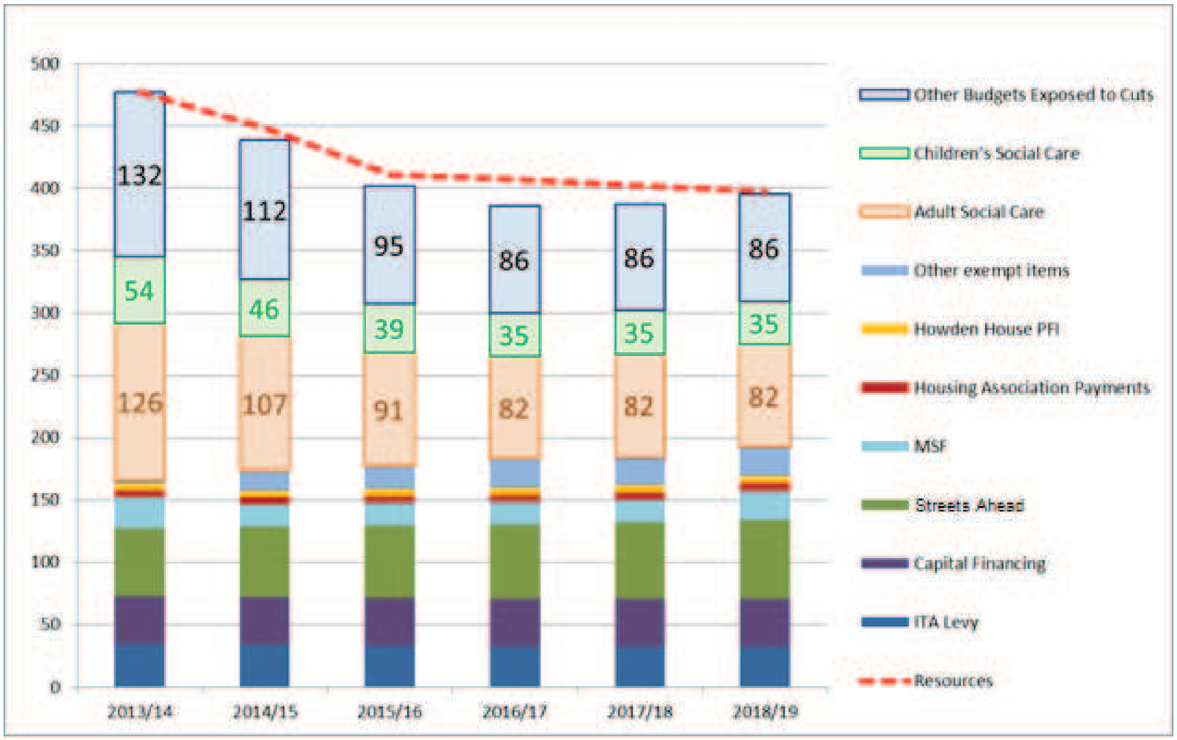
	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
Base position b/forward	0.0	36.6	77.1	86.4	93.8
Reductions in Government funding	35.8	44.5	12.1	9.5	8.5
Reduction in business rate appeals provision	-3.0	-3.0	-3.0	0.0	0.0
Increase in business rate income	-3.0	-2.6	-2.6	-2.6	-2.6
Increase in council tax income	-1.6	-1.6	-1.6	-1.6	-1.6
Expenditure increases	15.9	3.8	5.5	2.1	2.0
Expenditure reductions	-7.5	-0.6	-1.1	0.0	5.5
Total forecast Gap	36.6	77.1	86.4	93.8	105.6

Business Planning

- To balance the budget over a 3 year period will involve savings equivalent to 15%, 15% and 10% over the period. This will involve all Portfolio/Service budgets through the outcome approach, including social care.

- The current forecast overspend in adult social care means that delivering savings in 2014/15 in this service will be a challenge. If the adult social care service is unable to deliver any savings in 2014/15 this will put significant pressure on other services to find additional savings, potentially putting the required level up to 25%. A phased approach to 15% savings will be needed in ASC to manage this risk.

If all service budgets including adult social care deliver savings of 15%, 15% and 10% in 2013/14, 2014/15 and 2015/16 respectively, expenditure forecasts will stay below anticipated available resources:



However, if adult social care is assumed to make no savings over those three years, the impact on the other service budgets is severe: by 2018/19 the resources for “other services” will be approximately one third of the level in 2013/14.

MEDIUM TERM FINANCIAL STRATEGY: 2014/15 TO 2018/19

Purpose of the Report

1. The purpose of the Report is to:

   - provide Members with details of the forecast financial position of the Council for the next 5 years; and
   - to recommend the approach to budgeting and business planning that will be necessary to achieve a balanced budget position over the medium term.

Recommendations

2. It is recommended that

   - The forecast position for the next 5 years is noted
   - The approach to business planning targets is agreed
   - Consideration be given to reviewing the Council Tax Support Scheme for 2014/15 with decisions based on an assessment of the impact of the reductions made in 2013/14 and the other welfare reforms that have/are being introduced.
   - As part of the business planning process, any increases in specific grant are to be held corporately to assist in balancing the overall budget.

Background

3. The last report on the Medium Term Financial Strategy (MTFS) was considered by Cabinet on 17 October 2012. The MTFS has been updated to reflect the budget decisions of March 2013 Council and the impact of recent Government funding announcements. The latter include the Chancellors March 2013 Budget Statement, the June Spending Review and a DCLG Consultation paper issued in July 2013.

4. This updated MTFS sets out the broad issues that will impact on the Council's financial position for 2014/15, outlines some of the decisions facing the Council over the medium term and sets out the planning parameters for the next 5 years. In the future the Council's financial position will be significantly determined by the level of business rate income and council tax income: each of these may be subject to considerable volatility and will require close monitoring in the future. Based on the latest Government announcement, the funding position is especially difficult from April 2015 and will require a focus on accessing funding from NHS and other public sector bodies.

Reductions in local government funding

5. The October 2010 Spending Review (SR10) set out Government Departmental spending totals to 2014/15. This included planned reductions in local government spending of 28% over the four year period covered by SR10. The 2012 Autumn Statement extended the period of austerity to 2017/18 and introduced further reductions in local government spending of 2% for 2014/15.

6. The Chancellors March 2013 Budget Statement introduced additional reductions in Government Department spending of 1% in both 2013/14 and 2014/15. The budget Statement also updated the fiscal assumptions to 2017/18 and set targets for spending reductions "at the same rate as over the Spending Review 2010 period".

7. The 2013 Spending Review (SR13) was announced on 26 June and sets out Government Department budget totals for the 2014/15 and 2015/16 financial years with comparisons between the two. This was followed by a Consultation Paper on 25 July which set out the changes to the 204/15 Settlement as a result of the March 2013 Budget and the control total for Revenue Support Grant (RSG) for 2015/16 including the methodology for calculating RSG.

8. The proposals set out in the July 2013 Paper are out for consultation until October 2013. Although the detailed position for individual local authorities for 2014/15 and 2015/16 will not be known until December 2013, the DCLG have provided exemplifications which show what the allocations to authorities will look like if the Consultation Paper proposals are implemented. In the absence of the actual Finance Settlement these exemplifications provided the best indication of the likely funding for each authority.

Changes to the 2014/15 Local Government Finance Settlement

9. The 1% reductions in local government spending, as set out in the March 2013 budget, are to be applied entirely to RSG resulting in an overall reduction of 1.78%. In previous years, the method of funding local government would have included both RSG and Redistributed Business Rates. With the introduction of the locally retained share, the Government is making the full £219m reduction from RSG.

10. The further changes to 2014/15, as outlined in the Consultation paper, relate to the Government holding back resources to finance the business rates safety net. The safety net was introduced to protect any authority which sees its business rates income drop by more than 7.5% below the baseline funding level. The Government believes that the £25m held back in 2013/14 will not be sufficient and proposes holding back a total of £118m in 2014/15. This will represent a further 1% of RSG.

Expenditure totals for Local Government for 2015/16

11. In SR13 the DCLG Local Government budget is shown as falling from £25.6 billion in 2014/15 to £23.5 billion in 2015/16: this is an 8.2% reduction in cash terms but is presented as a real term reduction of 10%. A memorandum item shows Local Government spending falling by 2.3% in real terms, from £54.8 billion in 2014/15 to £54.5 billion in 2015/16. This latter measure of "resources available for council services" includes central government grants to local authorities (including Revenue Support Grant) plus forecasts of Council Tax income and local share of business rates income.

12. There is not sufficient detail available to validate this reduction but it seems likely that the Government have assumed a 2% growth in Council Tax income and also assumed that local authorities will achieve their business rates baseline targets which include an element of growth. There may also be other items included such as new homes bonus funding and joint social care funding.

13. The latter relates to the creation of a £3.8 billion pooled budget for health and social services to work more closely together. There is £200m for local authorities from the NHS in 2014/15 to ensure change can start immediately through investment in new systems and ways of working. There is also £200m for the Troubled Families programme involving changes in the way that local authorities, health, education and criminal justice services work.

14. The July Consultation Paper shows that the 10% DCLG reduction will need to be applied to the national RSG total rather than to the totality of local government funding, because of the retained 50% of business rates, the local share. The total reduction of £3.2 billion represents a 24.2% reduction in RSG compared to the previous year. In addition, the Government will be holding back resources for New Homes Bonus and for the Safety Net arrangements. Once these amounts - totalling over £1 billion - are removed, the overall reduction in RSG is 27.6% with reductions varying according to type of local authority, with some authorities facing a reduction of up to 34%.

15. Whilst the proposals set out in the Consultation Paper are subject to consultation and therefore may change, the majority of the RSG reduction is attributable to the £3 billion reduction in RSG which is not being consulted on. Any changes following the consultation will therefore have an effect at the margins.

Council Tax Freeze Grant and referendum limits

16. Council Tax Freeze Grant (CTFG) will be available in 2014/15 and 2015/16. The value of the grant will be equivalent to a 1% increase but calculated on the Council Tax Base before the deduction for Council Tax Support. This means it will be a

slightly higher figure: for Sheffield it would mean a potential grant of £2m rather than £1.6m as at present.

17. SR13 contains the statement that funding will be provided in the 2015/16 settlement for those authorities “who have kept council tax down since 2011/12”. However following the introduction of business rates retention from April 2013, those grants that were rolled up into Revenue Support Grant (RSG) – including the CTFG for 2011/12 – were split between RSG and Business Rates Baseline for both 2013/14 and 2014/15. This means that to generate the level of funding equivalent to the CTFG for 2011/12, the Council would need to achieve the level of the Business Rates Baseline target set by the Government.

18. SR13 indicated that the CTFG for 2013/14 will be rolled into RSG from April 2014 and be incorporated within the Council Tax Freeze element of RSG for both 2014/15 and 2015/16. It is not clear whether the CTFG for 2014/15 and 2015/16 will be paid as a specific grant rather than being “rolled up” into the formula funding methodology.

19. The Council Tax referendum limits are to be set at 2% for 2014/15 and 2015/16. This is a higher level that the 1% “trigger point” for 2013/14 and therefore provides an incentive for authorities to go for a 2% tax increase. It appears likely that the Government’s estimate of local authority resources has assumed a 2% increase in Council Tax. As yet there is no confirmation that the referendum regulations will be changed to exclude levies from the calculation, but the promised new regulations are still expected before budget setting in February 2014.

Education Services Grant (ESF)

20. The headline reduction in ESF is £200m out of a total grant of £1 billion: i.e. a 20% reduction. With about 80% currently going to local government the concern is that the reduction could be much greater, perhaps about 25% for individual local authorities. A Department for Education consultation is planned for the autumn.

21. There will also be consultation on the introduction of a fair national funding formula for schools from April 2015. This is meant to fix the differences in funding between schools in different local authorities with some assessment made of pupil needs including deprivation.

Single Local Growth Fund and New Homes Bonus

22. SR13 includes the creation of a £2 billion per annum Single Local Growth Fund (SLGF) to be in operation from April 2015 in response to the recommendations outlined within the Heseltine Review for encouraging growth. Access to this funding is to be devolved to Local Enterprise Partnerships (LEP’s) through a “single pot” and will require LEP’s and local authorities to work together on economic development priorities, including housing, across the LEP area.

23. The single pot has been funded in part from New Homes Bonus (NHB) with £400m each year being top-sliced. The Government has said that it will consult on the mechanism for requiring that a proportion of the NHB funding is pooled by local authorities as part of the SLGF. The July Consultation Paper does not contain any further information other than "a consultation will be published shortly".

Forecast funding position for Sheffield

24. The actual levels of funding from Government to local authorities for 2014/15 and 2015/16 will not be known until the Local Government Finance Settlement is announced in December 2013. However the July 2013 exemplifications from the DCLG provide the best indication of the likely funding settlements and the impact of the changes in distribution methodology.

<u>Settlement Funding Assessment</u>

25. As part of the Local Government Finance Settlement for 2013/14, the Government issued a Provisional Finance Settlement for 2014/15. For Sheffield, the Settlement Funding Assessment (previously known as the Start Up Funding Assessment) was reported as reducing by approximately £29m (or 10%) compared to 2013/14: from £316.6m to £287.5m.

26. The 2014/15 SUFA reduction includes a £33m (17%) reduction in RSG. The funding for the Council Tax Support Scheme (of £36million in 2013/14) has been subsumed within other elements of the RSG formula and is no longer separately identifiable. The arrangements for transitional funding that existed in 2013/14 have also ended. It will ultimately be a policy decision for the Council as to whether these reductions should be managed through a revised Council Tax Support Scheme or through further service reductions in 2014/15.

27. The reduction in SUFA assumes an increase in the City Council's share of business rate income of £3m (or 3%) which may not be attainable and the rationale for this increase is not clear. It appears to be a combination of inflation (which would be achievable) and growth (which would probably not be achievable). The City Council would have to develop its own estimate of likely business rate income as part of the 2014/15 budget process.

28. The exemplifications issued by DCLG in July 2013, indicate that RSG will fall by £36m (or 20%) in 2014/15 to £153.7m. This is the combined effect of the Chancellors March 2013 reductions and the July 2013 Consultation Paper reductions. The business rates baseline figure is broadly unchanged from the Provisional Settlement.

	Settlement 2013/14 £000	Provisional 2014/15 £000	Exemplification for 2014/15 £000	Reduction in 2014/15 compared £000
Baseline Business Rates				
- Local Share	98,672	101,698		
- Top Up Grant	27,800	28,653		
Total Business Rates Baseline	126,472	130,351	130,596	4,124
Revenue Support Grant (RSG)	190,105	157,143	153,784	-36,321
Settlement Funding Assessment	316,577	287,494	284,380	-32,197

29. For 2015/16, the DCLG exemplifications indicate that RSG will fall by a further £45m compared to the previous year. The reduction in Settlement Funding Assessment is about £41m, net of growth in retained business rates and an assumed increase in Top Up Grant.

	Exemplification 2014/15 £000	Exemplification 2015/16 £000	Variation £000
Baseline Funding Level	130,596	134,260	3,664
Revenue Support Grant (RSG)	153,784	108,784	-45,000
Settlement Funding Assessment	284,380	243,050	-41,336

30. In the years beyond March 2016, it has been assumed that reductions in RSG will be about 10% per annum. This has been based on recent Government announcements which suggest that reductions along the line of recent years will continue for the foreseeable future.

Council Tax Freeze Grant and Specific Grants

31. Council Tax Freeze Grant (CTFG) for 2011/12 amounting to £5m was meant to continue for 3 years and "fall out" in 2014/15. It was "rolled up" into the Formula Grant allocation for 2012/13 and no longer paid as a specific grant. However, with the introduction of the business rates retention scheme, the CTFG for 2011/12 is included in the Provisional SUFA for 2014/15 but is split between RSG and Business Rates Baseline. SR13 has confirmed that it will continue to 2015/16 but local authorities will only receive that proportion included in Baseline by achieving their target business rates figure.

32. The December 2013 figure for SUFA of £287.4m for 2014/15 includes £37m of funding that was previously provided as specific grants but which is now split between RSG and Business Rates Baseline as follows:

	RSG £000	Baseline £000	TOTAL £000
Council Tax Freeze Grant for 2011/12	2,894	2,025	4,919
Early Intervention Funding	9,324	7,319	16,643
Homeless Prevention Funding	304	213	517
Lead Local Flood Authority Funding	79	55	134
Learning Disability & Health Reform Funding	8,899	5,976	14,875
TOTAL	21,500	15,588	37,088

33. SR13 has confirmed that the CTFG for 2013/14 will continue to March 2016 and will be rolled into RSG. The July Consultation Paper indicates that this will be protected in cash terms and therefore suggests that it will not be added into Baseline Funding. For the purposes of this forecast it is assumed that it will fall out in 2016/17. This means a reduction in funding of £1.6m from April 2016.

34. With the rolling up of former specific grants into the SUFA, the remaining number of specific grants is much reduced. The level of specific grants amounted to approximately £57m in 2013/14. The position regarding the level of specific grants that the Council can expect to receive in future years is unclear. Some grants for 2013/14 were announced late in the budget process and may provide some potential mitigation against the issues facing the Council in 2014/15.

	2013/14 £000	2014/15 £000	Variation £000
Council Tax Freeze Grant for 2013/14	1,642	1,642	0
Education Services Grant (ESG)	6,820	??	??
NHS funding for Social Care	9,683	10,145	462
CTB Admin Support Grant	4,143	??	??
Public Health Grant	29,665	30,748	1,083
Business Rates Relief Grant	2,300	2,300	0
Adoption Reform Grant	1,535	??	??
Free Entitlement for 2 Year Olds (from DSG)	5,400	??	??
Successful Families	2,358	925	-1,433
Local reform & Community Voices Grant	474	488	14
Community Right to Bid	8	8	0
Community Right to Challenge	9	9	0
	64,037	46,265	126

35. For the purposes of this forecast, reductions in specific grant have not been included. The precise levels of some of the grant will not be known until nearer the start of the relevant financial year: e.g. the level of Education Services Grant (ESG) will depend on the number of pupils although with a number of schools expected to become academies, there will be a reduction in the level of ESG for the City Council. If reductions do occur these would need to be reflected in the spending plans of the Portfolios affected: i.e. as part of the strategy for the management of "pressures".

36. Where there are expected increases in specific grant, an issue will be how these play into the business planning process. It is proposed that where we expect there to be additional funding, this is kept corporately to help manage the overall position rather than offset the target reductions in the relevant Portfolio. In terms of Public Health a decision will be required as to whether the increase is funding new activities or being used in substitution for areas of activity that would otherwise be cut through the business planning process.

Overall funding for City Council from Government

37. The overall level of funding reductions are forecast to amount to £36m in 2014/15 rising to £110m by 2018/19. These are set out in the table below:

	2014/15	2015/16	2016/17	2017/18	2018/19
	£m	£m	£m	£m	£m
Reductions in RSG - 2014/15	35.8	35.8	35.8	35.8	35.8
Reductions in RSG - 2015/16		44.5	44.5	44.5	44.5
Reductions in RSG - 2016/17 (10%)			10.5	10.5	10.5
Reductions in RSG - 2017/18 (10%)				9.5	9.5
Reductions in RSG - 2018/19 (10%)					8.5
Fall out of Freeze Grant -2013/14			1.6	1.6	1.6
TOTAL	35.8	80.3	92.4	101.9	110.4

Business Rate Income

38. With the introduction of the new funding arrangements from April 2013 a significant proportion of the Council's income will come from the 49% of retained business rate income. The financial position of the Council will now be substantially dependent on its ability to raise and collect the expected level of business rates.

39. The figure for SUFA includes £98.6m for business rates income in 2013/14 and £101.7m for 2014/15, based on the Government's estimates. For 2013/14 the

Governments figure was £3.4m above the Council's own estimate and has required a budgeted contribution of £2.2m from the Business Rate Income Reserve to make up some of the difference.

40. In arriving at a reasonable estimate of retained business rate income in 2014/15 and beyond, a range of issues will need to be considered and precise figures determined in the light of experience gained about the working of the business rates scheme in 2013/14 and knowledge about the economic climate and regeneration proposals.

- Growth in the business rate base. As at September 2012 it was estimated that the number of business premises in Sheffield that are liable for business rates is 17,356 with an aggregate rateable value of £531.455m. Based on the current rating multiplier of 46.2p this produces a gross business rate estimated income (the "Gross Rate Yield") of £245.5m for 2013/14. This was the starting point for establishing an estimate and constitutes the potential level of income before any further adjustments. The impact of regeneration initiatives and fluctuations in the local economy will need to be factored in for 2014/15 and future years.

- Business Rate Reliefs: there are a number of reliefs against business rates liability including small business rates relief, charitable relief, deductions for empty properties and partly occupied premises. For 2013/14 these are estimated at approximately £33m but the figure for 2014/15 will need to be estimated as part of the budget process.

- Losses and costs of collection: this includes an estimate of the bad and doubtful debts in 2013/14, the potential legal and other recovery costs. Using the assumptions set out in Government guidance about this, the estimated figure for 2013/14 is £3.3m.

- Losses due to appeals. Business Ratepayers can seek an alteration to the rateable value of a property by appealing to the Valuation Office Agency (VOA). However because of the large volume of appeals decisions by the VOA can take several years. Based on data provided by VOA in September 2012 the number of Sheffield outstanding appeals include 317 in respect of the 2005 rating list and 1,510 in respect of the 2010 rating list.

  The added complication regarding appeals concerns the change in the way that these are accounted for. The DCLG have always accounted for losses on appeals on a cash basis (within the year in which the payments have been made) whereas the new arrangements require local authorities to account for them on an accruals basis. As 2013/14 is the first year of the new schemes operation, there is a significant "hit" as the accrual basis figure is higher than the cash basis figure. For Sheffield this amounted to approximately £15m for 2013/14 but will reduce in 2014/15 as adjustments are made to the provision based on our most up to date assessment of the accumulated potential loss and the likelihood of new appeals each year.

41. The current year's budget includes a budget for business rates income of £95.3m: this is £3.4m less than the Government have assumed in SUFA. The business rate multiplier is uplifted each year by the retail price index. With inflation forecasts of around 2% for 2014 and 2015 (based on the Office for Budget Responsibility forecasts) this would mean that the retained proportion of business rates business rate income would increase by about £2.6m per annum before any variations in the business rate base due to economic growth/retraction. However the net position would depend on the deductions referred to above.

42. For the purpose of the Forecast, an additional £3m of business rates income per annum has been assumed in 2014/15 and £2.6m per annum thereafter, although the precise position will depend on the overall net appropriations. The table below shows what the gross position is for the next two years and the issues that would need to be considered when constructing the actual budget for each year.

Collection Fund - Business Rates Estimates		2013/14 £000	2014/15 £000	2015/16 £000
Gross Business Rates income yield		245,533	250,444	255,453
LESS	Estimated Reliefs	-32,984	??	??
	Losses and Cost of Collection	-3,331	??	??
	Losses on Appeals	-14,800	??	??
Net Estimated Business rates		194,418	250,444	255,453
Appropriation of net business rates				
	Sheffield City Council (49%)	95,265	??	??
	SY Fire Authority (1%)	1,944	??	??
	Government (50%)	97,209	??	??
Total Appropriations		194,418	0	0

43. The provision for appeals is likely to reduce in 2014/15 and perhaps in later years also. Following an assessment at the end of the 2012/13 financial year, updated for the position in the current year, it seems likely that the provision required for losses can be reduced by approximately £3m per annum from April 2014 for the next 3 years: i.e. an overall reduction of £9m. These reductions have been included in the forecast.

44. Leaving aside the position on adjustments on reliefs, appeals and cost of collection, if the Council were to be successful in terms of economic regeneration and bring new commercial or retail developments to the City, the Council would benefit from 49% of the additional business rate income. The Council is working with Creative Sheffield to assess the impact on business rates of economic initiatives in the City.

45. To provide a broad indication of the composition of the City's business rate base, the number of properties registered on the business rate system, as at May 2013, have been analysed according to their category. Retail premises currently represent about 36% of the business rate base with manufacturing only 11%. Any modelling of the growth in the base would need information about floor area and the relative size of premises that are being developed or proposed. As a broad indication, a 1% growth in the retail sector would, based on current values, result in an additional £0.4m to the City Council, being its 49% share of the additional revenue.

	No of Properties	Rateable Value £000	%
Retail	5051	190154	36
Offices	2916	92613	18
Manufacturing	2434	60248	11
Public Sector	624	55647	11
Other	6331	128439	24
TOTAL	17356	527101	100

46. Adjustments to the provision on business rates appeals (of £3m in first 3 years) have been included in the forecasts together with an estimate of the annual uplift in the multiplier (of £3m per annum). Given the uncertainties around how business rate income will be affected by movements in the local economy, no further adjustments have been made to the forecasts.

Council Tax income

47. The overall level of budgeted Council Tax income for 2013/14 was largely determined by the size of the council tax base, which was set at 128,050.05 Band D equivalent properties. This had reduced significantly from the level for 2012/13 mostly as a result of the introduction of the Council Tax Support Scheme (CTSS). The operation of this scheme will need to be monitored during the year and an assessment made of the impact it is having on the overall level of Council Tax collected and on the Council's ability to raise additional amounts in the future.

48. The other issues that will need to be assessed for 2014/15 and beyond include:

- What variations in "benefit" caseload will occur in 2013/14 and what assumptions will need to be made about the estimated caseload for future years. The introduction of CTSS has transferred the risk to local authorities of increases in caseload with no adjustment to the level of funding from Government. A 1% caseload increase was included in the assumptions for 2013/14 and this will need to be re-assessed each year.
- To what extent the Council Tax base will grow as a result of additional properties being constructed or brought into use, particularly as a result of the new homes bonus.
- Any changes in behaviour that may occur following the removal of some of the discounts and exemptions: for example, if households switch from empty properties to student properties to avoid paying council tax.
- The impact of CTSS on the collection tax collection rate. The budgeted level of income for 2013/14 assumes a collection rate of 96.5% (down from 97.5% the previous year).

49. Reductions in the council tax base have an impact on the ability of the Council to generate additional income from increases in council tax. Based on the tax base for 2013/14, each 1% increase in the council tax generates approximately £1.6m of additional income.

50. A review of the Council Tax base – the total number of properties from which Council Tax can be collected – will be conducted as part of the budget process. An aspect of this will be determining to what extent the measures that have been taken by the Council to increase the number of homes in the City have impacted on the tax base.

51. Following the SR13 announcement that the trigger point for local referendums will be a 2% rise in Council Tax, there is a financial incentive for local authorities to not freeze Council Tax but to budget for a rise of up to 2%. It will be for Council to decide the policy regarding future Council Tax increases but for the purposes of this report, it is assumed that the Council will approve an annual council tax increase of 1% from April 2014, generating an additional £1.6m per annum based on the current tax base.

Forecast revenue expenditure

52. The Council set a net revenue budget for 2013/14 of £477.426m. There will be a number of items of additional expenditure that are likely to be incurred in future financial years and there will be other issues, about which there will currently be uncertainty, but which may also subsequently involve expenditure for the Council. A key issue for the Medium Term Financial Strategy will be the approach to including additional budget provision during a period in which resources are

constrained. Compared to the amounts budgeted for in 2013/14, there are a number of potential additions to annual expenditure from April 2014:

- Pensions Deficit: An actuarial review of the South Yorkshire Pension Fund is current underway and will determine the employers contribution rates from April 2014. There is an on-going issue regarding the contributions to the Pensions Fund to meet an annual deficit, being the difference between the funds estimated assets and its estimated liabilities. Before a full actuarial review is completed, the indications are that the deficit contribution made by the City Council will need to increase by £4m per annum in 2014/15 together with an annual increase in employers pension contributions of about £1m per annum. The Director of Finance will be seeking to explore alternative options, to increasing the contribution rate, with the actuary before any final decisions are made later this year. Nevertheless there is a risk that further additional costs will be incurred from April 2014.

- Employers' national insurance contributions: the introduction of the new state pension from April 2016 will mean the abolition of the "contracted out" rate of employer's contribution. On the basis of the existing payroll size, the Council faces additional costs of approximately £2.4m from April 2016.

- Use of Reserves: the Council approved contributions from reserves of £1.8m in 2013/14 to support the business rates shortfall when compared to the SUFA. This reserve will not exist in 2014/15 and beyond and therefore an adjustment is required to the budget.

- Infrastructure Investment (New Retail Quarter): proposals relating to the development of the new retail quarter are to be presented to Members in the future. There is likely to be some capital expenditure in respect of NRQ infrastructure e.g. public realm. These charges to the revenue account are assumed to rise from £0.4m in 2014/15 to about £1m thereafter.

- Streets Ahead: the Council investment in Streets Ahead will result in the required amount increasing by approximately £1.8m per annum from April 2014, as planned. This includes the full debt charges associated with borrowing £100m to finance the acquisition of assets.

- Improved sundry debt collection: as performance in respect of sundry debt collection improves, the practice of taking income to a corporate budget is being phased out. The improvement in debt collection is now reflected in Portfolio budgets. It is proposed to reduce the corporate budgeted income by £0.2m in both 2014/15 and 2015/16.

- Howden House PFI costs: the annual increase in costs will amount to approximately £0.2m.

- Goodwill from existing repairs & maintenance contract: With the conclusion of the existing contract due to take place in March 2014, there will be a loss of goodwill amounting to £1.5m from April 2014. The new contract will relate to the Housing Revenue Account and therefore it will be difficult for the output of any tendering process to result in payments to the "general fund" revenue account.

- Staff increments: the current increment freeze expires in March 2014. Future years costs would vary as staffing levels change but potentially reinstating increments from April 2014 would add a maximum of £5m. At the present time, the forecast includes these costs until the position regarding the development of an alternative pay strategy becomes clearer.

- Impact of 2013/14 overspends: the budget monitoring position for 2013/14 suggests that the Council is finding it difficult to keep expenditure within the agreed level of resource. There are particular problems in Adult Social Care. It is not known at this time whether these difficulties will have an on-going impact on the expenditure requirements of the Council beyond April 2014.

53. There are a number of potential budget reductions from April 2014 including the following:

- The Integrated Transport Authority (ITA) reduced the levy in 2013/14 and, based on their MTFS, are likely to be reducing this again over the next 3 years although this is subject to review. It is assumed that the ITA will have reduced the Sheffield proportion of the levy by up to £2m by 2016/17. If the Secretary of State honours his promise to change the referendum regulations, a reduction is not likely to impact on the referendum trigger but would still involve a reduction in council expenditure. At the present time, the regulations have not been changed and a reduction in the ITA levy would impact on the ability of the Council to increase the Council Tax.

- Funding for Sheffield City Trust (SCT) – Cabinet has recently approved proposals to restructure the funding for SCT. The forecast assumes a reduction of £7m from April 2014, as set out in the report to Cabinet on 19 June 2013.

54. There are a number of areas where there may be additional costs to the Council in future years but which are uncertain at the present time. The following have not been added into the 5 year forecast but remain as potential risks to the Council:

- Provisions for redundancy/severance costs: the Council will require an adequate provision for redundancy/severance costs. The current budget includes £9m for redundancy costs. Should further provisions be required in 2014/15 there is the potential to use part of an insurance provision to offset some costs but no further adjustments have been made to the budget provision for redundancy/severance costs over the period of the MTFS.

- Contingency for Adult Social Care costs: the 2013/14 budget includes a contingency of £3m for adult social care costs. Currently this is supporting pressures in adult social care (ASC). The Council will need to ensure that ASC takes action to keep expenditure within budget limits to ensure that further additions to the Council budget are not required. .

- Capital financing costs: additional borrowing will be required to support the on-going capital programme and the revenue budget for debt charges must be sufficient to meet the full year costs of such borrowing. Movements in financing costs have enabled new borrowing to be accommodated within the current budget and no further additions to the cost of principal/interest are included in the 5 year forecast.

55. In terms of Portfolio cost / demand pressures, these amounted to approximately £17m in 2013/14 and were offset by savings of an equivalent figure. It is proposed that the approach to be taken regarding pressures will be the same as that adopted previously: i.e. that Services/Portfolios will be required to manage their pressures from within existing resources and where necessary will be required to identify offsetting savings.

56. The level of pressures for 2013/14 included a provision for staff pay awards of 1% amounting to approximately £2m. The Chancellors Budget Statement in March 2013 confirmed that a 1% pay cap for public sector pay will continue to 2015/16.

57. The issues set out above are those that will have a direct effect on the financial position of the Council. There are wider social changes particularly in respect of the provision of benefits and financial support to households that may interact with those that impact directly on the Council in ways which are not yet clear and which increase the level of risk. These could lead to an increase in the levels of debt owed to the Council over the medium term due to the combined impact on households of the introduction of the following measures:

- The bedroom tax, increasing the rental for households for which smaller accommodation is not available in the short or medium term

- The removal of legal aid for advice on benefits, debt, divorce, employment and housing, with a likely increase in self advocacy in courts and potential delays in the processing of cases

- The abolition of Council Tax benefit and its replacement by CTSS may result in changes in claimant behaviour particularly where individuals previously paid little or no Council Tax

- Payments of Housing Benefit directly to individuals rather than to landlords will give choice to tenants as to where to apply their benefits, which may lead to increased levels of arrears and evictions

58. The policy of the Council has been to differentiate between those individuals who are unable to pay and those who are unwilling to pay, when undertaking debt recovery and this will continue to be the case. However, the impact of changes in areas of public support to households across the city may have unforeseen, indirect, financial implications for the Council.

Overall Position

59. Bringing together the picture relating to forecast resources and forecast expenditure, there is a forecast revenue gap of £37m in 2014/15 rising to £107m by 2018/19. This is the cumulative position and would reduce by the value of savings identified in year one which is 2014/15. Details of the build-up of the forecast are set out in Appendix One and summarised in the table below:

	2014/15 £m	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**
Base position b/forward	0.0	36.6	77.1	86.4	93.8
Reductions in Government funding	35.8	44.5	12.1	9.5	8.5
Reduction in business rate appeals provision	-3.0	-3.0	-3.0	0.0	0.0
Increase in business rate income	-3.0	-2.6	-2.6	-2.6	-2.6
Increase in council tax income	-1.6	-1.6	-1.6	-1.6	-1.6
Expenditure increases	15.9	3.8	5.5	2.1	2.0
Expenditure reductions	-7.5	-0.6	-1.1	0.0	5.5
Total forecast Gap	36.6	77.1	86.4	93.8	105.6

Council Tax Support Scheme (CTSS)

60. The new CTSS was introduced in April 2013 following the abolition of the Council Tax Benefit scheme and the financial arrangements that involved the Government meeting the costs of benefit payments. The CTSS for 2013/14 was designed to meet the new funding arrangements and reflect a reduction of approximately £5m by capping benefits at 77%.

61. In announcing a Provisional Local Government Finance Settlement for 2014/15 with a reduction in RSG of approximately £33m, the details provided indicate that

funding for CTSS has been subsumed within the overall formula and that no specific amounts are identifiable. The Council may wish to consider making further changes to the CTSS for future years so as to more closely reflect the overall funding position. For the purposes of this forecast, no further changes to CTSS have been included.

Approach to balancing the budget

62. The Council requires sufficient savings proposals to meet a forecast shortfall of £37m in 2014/15 plus sufficient savings to meet the value of Portfolio cost/demand pressures. Over the first three years of the forecast period, the value of savings proposals required will amount to approximately £86m plus pressures.

63. There are some elements of the Council budget where it is particularly difficult to make reductions, where expenditure is not directly controlled by the Council and/or where the expenditure is largely fixed in nature. This does not mean that these budget elements will not be reviewed and that budgets will be ring fenced in some way. There will be a separate process for exploring the scope for achieving reductions in these budgets which will be outside of the business planning process. The elements that fall into this category include:

- Benefit payments
- ITA and Environment Agency Levies
- Pension costs of former employees
- Private Finance Initiative for Howden House
- Streets Ahead Contract
- Capital Financing costs
- Housing Association payments

64. After adjusting for the items referred to above, to achieve the level of savings required over the next three years will involve reductions in service budgets of approximately 15% in 2014/15, 15% in 2015/16 and 10% in 2016/17: a total reduction of 40% across the three years. These reductions would be in all service budgets and would not provide for any degree of relative protection for those services that might be considered a priority.

65. The approach to balancing the budget will be to build on the strategic outcome model that the Council has adopted in the past year and which has assisted in developing strategic proposals that have achieved a greater alignment of priorities and resources. This will involve taking a three year view and is intended to result in the identification of detailed savings proposals for 2014/15 with outline proposals for the following two financial years.

66. Strategic Outcomes are an important statement of how the Council achieves its priorities and give important direction and prioritisation for the authority. However, they are also critical to shaping the decision making process for the budget. They should help the Council to articulate what it is seeking to achieve, what the objectives are within this, and to help it to make decisions about how to prioritise activity in support of these objectives, with a focus on impact. In particular, strategic outcomes – if implemented effectively – should assist the Council to make better decisions as they will focus on the key things that it is trying to achieve. This will clearly flow through into decision making about the budget.

67. In terms of developing the model used last year and building on that approach, there will be a focus on bringing greater consistency, with more structure around some of the outcomes. However, outcomes also operate within their own context and that therefore there needs to be some flexibility as to how this is done. Officers will be seeking to set minimum expectations for each outcome with EMT putting in place arrangements to check that these minimum expectations are in place.

68. To facilitate the alignment of resources with priorities and the identification of savings proposals, budgets will be allocated to outcomes and plans will be developed to keep within financial limits. Those financial limits will reflect the levels of savings required across the next three financial years. It is proposed that reductions of 40% over the three years will be built into the financial limits analysed across the three years as follows:

- For 2014/15 reduction of 15%
- For 2015/16 reduction of 15%
- For 2016/17 reduction of 10%

69. A cumulative reduction of 40% over the three years is slightly more than the reduction of 32% that is required to achieve a balanced position. However the reality of the position facing the Council is that there is considerable uncertainty surrounding the precise level of resources that will be available in future years and a number of variables that could add considerably to the expenditure base of the Council beyond that currently forecast. Furthermore, if savings targets were set precisely at the level that would be required to balance, this places the Council in a position where it would have to deliver all of the required savings with little margin for variability or potential rejection of proposals. This adds further potential risk to the budget process.

70. It is important to note that this approach will involve broad planning totals that will assist in the identification and development of savings proposals. The final decisions regarding the allocation of resources will be made by Members. Having

a set of broad planning targets that represent a higher level of reduction than is needed, provides headroom against some of the targets not being met and a bulwark against some of the risks that have been identified.

APPENDIX 1

	2014/15	2015/16	2016/17	2017/18	2018/19
	£m	£m	£m	£m	£m
Grant reductions:					
Reductions in RSG - 2014/15	35.8	35.8	35.8	35.8	35.8
Reductions in RSG - 2015/16		44.5	44.5	44.5	44.5
Reductions in RSG - 2016/17 (10%)			10.5	10.5	10.5
Reductions in RSG - 2017/18 (10%)				9.5	9.5
Reductions in RSG - 2018/19 (10%)					8.5
Fall out of Freeze Grant - 2013/14			1.6	1.6	1.6
Business rate income:					
Increase in Business rate income (appeals adjustment)	-3.0	-6.0	-9.0	-9.0	-9.0
Inflation on business rate multiplier	-3.0	-5.6	-8.2	-10.8	-13.4
Council Tax income:					
Council Tax income (1% increase per annum)	-1.6	-3.2	-4.8	-6.4	-8.0
CUT IN RESOURCES	28.2	65.5	70.4	75.7	80.0
Expenditure increases:					
Pensions deficit	5.0	6.0	7.0	7.0	7.0
Employers NI Contributions			2.4	2.4	2.4
Removal of contribution from reserves	1.8	1.8	1.8	1.8	1.8
Infrastructure investment in NRQ / St Pauls Place	0.4	1.0	1.0	1.0	1.0
Streets Ahead	1.8	3.6	5.5	7.4	9.3
Sundry Debt saving	0.2	0.5	0.5	0.5	0.5
Howden House PFI	0.2	0.3	0.5	0.7	0.8
Kier	1.5	1.5	1.5	1.5	1.5
Staff increments	5.0	5.0	5.0	5.0	5.0
Impact of 2013/14 overspends	?	?	?	?	?
Expenditure reductions:					
ITA	-0.5	-1.1	-2.2	-2.2	-2.2
Reduction in MSF debt	-7.0	-7.0	-7.0	-7.0	-1.5
Potential additional items:					
Redundancy/severance costs	0.0	0.0	0.0	0.0	0.0
Contingency for Adult Social Care costs	0.0	0.0	0.0	0.0	0.0
Capital Financing costs	0.0	0.0	0.0	0.0	0.0
ADDITIONAL PRESSURES	8.4	11.6	16.0	18.1	25.6
TOTAL	**36.6**	**77.1**	**86.4**	**93.8**	**105.6**

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