Revenue Budget & Capital Programme Monitoring
As at 31st December 2020

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Purpose of the Report

1. This report describes the budget monitoring position on the City Council's Revenue Budget and Capital Programme as at Month 9.

Summary

2. The Council's revenue budget is currently forecast to be overspent by £1.8m. This is an improvement of £14.4m on the Month 6 forecast.

3. During this quarter ended 31st December there has been some extensive funding changes benefitting the Council by some £20.8m. The UK Government has confirmed £11.8m of additional general support, £3.7m to compensation for lost income, £2.4m of grants to support the Leisure sector, £0.5m to help with temporary accommodation for those without a home, and, the Council has received a £2.4m contribution from the local NHS Clinical Commissioning Group to meet the costs of enhanced care for patients discharged from hospitals.

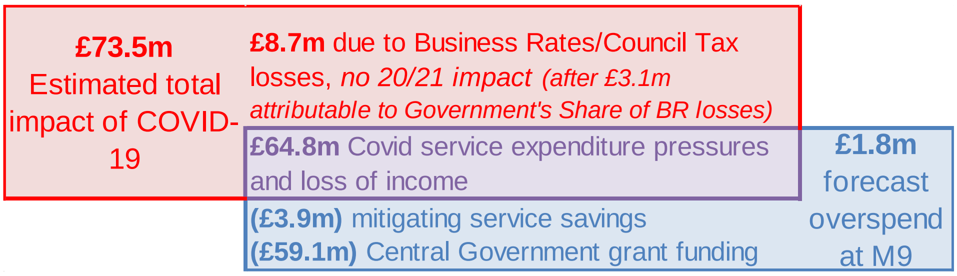
4. However, Covid cost pressures have continued to rise by £13.2m. Sheffield City Trust has received £1.6m direct support from the government and this reduces the net increase to £11.6. Some of the increase is due to better identification of costs previously classified as business as usual,

5. Outside of the response to the pandemic, action taken to reduce underlying cost and income pressures has reduced the forecast overspend by £5.2m to leave service pressures up by £6.3m

6. Most of the forecasted pressure on revenue budgets for this year is due to the impact of the coronavirus on Sheffield. The latest estimate of the overall financial cost of issues relating to the COVID-19 pandemic will be upwards of £73.5m, a net decrease of £7.7m on the Month 6 position due to a £14m reduction of the estimated impact on Council Tax and Business Rates losses mitigating the £6.3m rise in service pressures described above. This estimate has been revised every quarter since March and it will continue to change as the longer-term effects of the virus are better understood, and, the measures to restrict the spread of the virus change. The Month 9 estimate benefits from another three months of data during which there has been better than expected

business rate and Council Tax payment performance, helped also by lower than expected claims for Council Tax support as the national Furlough Scheme has been extended.

7. The Medium-Term Financial Analysis presented to Cabinet in October emphasised the additional uncertainty which the Covid-19 pandemic is creating for all types of organisations in their financial planning. The graphic below reconciles between the estimated gross pressure (also reported back to Ministry of Homes Communities and Local Government) and the impact on revenue budgets in 20/21.



Response to the position

8. Sheffield is not alone in facing additional financial pressures caused by the COVID pandemic, and councils nationwide are struggling to cope with the additional pressures. The Council is taking the following actions to manage the position and mitigate the financial pressures:

- Monitoring and controlling the immediate financial impacts of the crisis
- Reviewing the delivery of its current agreed savings programme to minimise the delays to implementation caused by COVID
- Reviewing emerging non COVID-related financial pressures to reduce or eliminate them where possible
- Learning lessons from the ways of working adopted during the pandemic, including actions that can be taken jointly with other key partners such as Sheffield CCG and Sheffield City Trust, to identify improvements that maintain service levels to the public whilst potentially reducing costs
- Re-working its Medium Term Financial Analysis, including identifying any reserves that can be judiciously released to temporarily support the financial position. The provision of further government support for 21/22 has allowed the Council to balance its Budget in 2021/22 but the latest assessment is that the Council has a budget gap in the medium term which is not sustainable. Ensuring ongoing viability will have to involve the prioritisation of resources, identification of additional savings, demand management controls and the effective and prudent utilisation of the Council's reserves. Consequently we will need further financial support from Central Government if the Council's

medium term financial position is to be sustainable. Without this Government support we will move in time to the position where we cannot set a sustainable budget

- Lobbying Central Government for further support to recognise the short and longer term impacts of the pandemic, and the role the Council can play in regenerating the economy

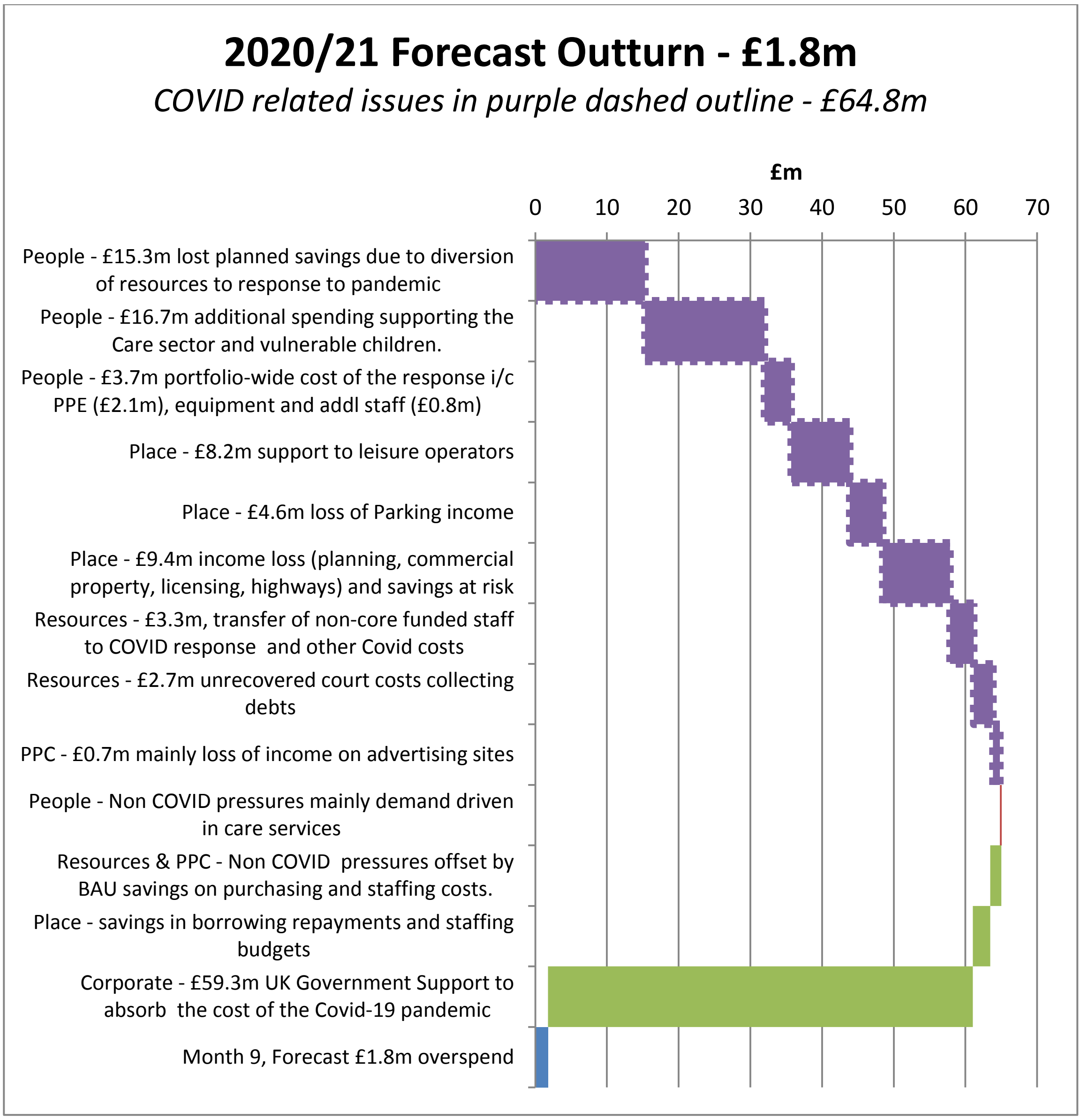
9. The Council does welcome the additional revenue funding announced so far by the Government to manage the financial pressures it and other local authorities face, though, as above, it must be emphasised that more financial support is needed to support the sector through the immediate crisis and the medium term.

10. Thus, the Council is planning to deliver, much quicker than previously achieved, the transformative changes that are needed to re-balance its financial position and protect services in the medium term. This process will be challenging however, and the Council is also keen to act as a catalyst to regenerate the economy of the city and the wider region. To fulfil fully this role, and to maintain a sustainable financial position in the medium term, the Council will need significant further Central Government funding.

11. In summary the Council is confident that, even though the emergence of new variants coupled with the traditional winter health pressures have pushed the country into a third Lockdown, it can manage the financial pressures emerging from the crisis this year.

Detailed position

12. The graph below summarises the main movements toward this forecast outturn from an initially balanced budget with comments on significant issues.



Position by Portfolio

13. The table below summarises the outturn position by portfolio at Month 9. Reasons for the variance to budget for the full year are given in the waterfall chart above.

Portfolio	Month 9 Forecast Outturn	Month 9 Full Year Budget	Month 9 Forecast Variance	Month 6 Forecast Variance	Change From Month 6 to Month 9
People	311,694	275,796	35,898	30,946	4,951
Place	185,394	165,636	19,757	24,512	(4,755)
Policy, Performance & Communications	3,265	3,116	149	283	(134)
Resources	34,072	28,828	5,244	5,229	15
Corporate	(532,630)	(473,377)	(59,254)	(44,768)	(14,486)
Grand Total	1,795	0	1,795	16,203	(14,407)

The main changes from Month 6 to Month 9 forecast are:

- People – increased demand pressures in both Children and Adult Social Care offset by contributions from the local NHS Commissioning Group
- Place – additional £4.8m of grant to fund the cost of supporting our leisure services providers plus grants for supporting the homeless during the pandemic. £2m of emerging staff savings from holding vacancies, offsetting pressures elsewhere.
- Resources and PPC - savings on council wide purchasing contracts plus staffing savings from vacancy management
- Corporate –receipt of central government funding to mitigate the impact of the Covid-19 pandemic

Dedicated Schools Grant (DSG)

14. At Month 9, the Council is forecasting a £0.9m overspend on DSG budgets. This position has not substantially changed from Month 6. The key reasons for this overspend are savings undeliverable due to COVID lockdown of £0.2m, £0.2m staffing pressure within MAST teams due to demand in children's services and £0.3m pressure caused by pay award in excess of budget assumptions.

Public Health

15. Public Health services are funded by Public Health Grant – any variances to budgeted expenditure will be managed by adjusting the drawdown of grant income to match, therefore Public Health variances will be nil in terms of net expenditure and invisible within the above reported position. The Public Health reserve will be utilised in case of any overspend at year end – there is forecast to be no General Fund impact this year. This table demonstrates the variances to budget before the application of grant income.

Public Health	Forecast Outturn	Month 9 Full Year Budget	Forecast Variance	Month 6 Forecast Variance	Change From Month 6 to Month 9
People	27,616	28,021	(405)	(249)	(156)
Place	2,873	2,884	(11)	(57)	46
Director of Public Health	1,833	1,921	(88)	(43)	(45)
Total	32,322	32,826	(504)	(349)	(155)

16. The key reason for this position is the overall reduction in staffing costs in Drug and Alcohol Coordination Teams and Public Health Staffing due to COVID-19 lockdown.

Housing Revenue Account

17. The HRA income and expenditure account provides a budgeted contribution towards funding the HRA capital investment programme of £23.1m. As at Month 9 the account is forecasting a £1.5m adverse variance from this budgeted position which is an improvement of £2.1m on the Month 6 position.

Housing Revenue Account (excl. Community Heating)					
	Forecast Outturn	Month 9 Full Year Budget	Forecast Variance	Month 6 Forecast Variance	Change From Month 6 to Month 9
Net Income - Dwellings	(141,930)	(142,801)	870	2,851	(1,980)
Other Income	(6,085)	(6,217)	131	(32)	164
Tenant Services incl. Repairs & Maintenance	89,385	88,843	542	804	(261)
Depreciation	23,935	23,935	(0)	0	(0)
Interest on borrowing	13,133	13,175	(41)	(41)	0
Contribution to Capital Programme	21,562	23,065	(1,503)	(3,581)	2,078
Total	(0)	0	(0)	(0)	0

18. The main reason for this variance is anticipated disruption to rental income due to bad debt following Lockdown. This position has improved by nearly £2m since the Month 6 forecast as the initial surge of arrears has stabilised.

19. There is also a variance on the community heating account of £59k, an improvement of £31k on the Month 6 position. The account is managed to balance over the near term.

Collection Fund

20. As at the end of September, the local share of the Collection Fund income stream is forecasting an overall in-year deficit of £8.7m, made up of a £5.6m deficit on Council Tax and a £3.1m deficit on Business Rates. This position is discussed in more detail

within **Appendix 1.** Due to Collection Fund accounting regulations, this deficit will not impact on 2020/21 and will be fed into the budget process for 2021/22 and beyond.

Capital Summary

21. The approved capital programme budget for 2020/21 at 31st December 2020 was £210.8m. The overall outturn of expenditure against this approved budget is forecast to be £138.3m, a variance of £72.5m which has increased by £17.6m from Month 6. The programme has been severely disrupted by a combination of the lockdown measures taken to stop the spread of the virus, and, operational problems in the construction activities. Further information on the Capital Programme is reported in **Appendix 2**.

Implications of this Report

Financial implications

22. The primary purpose of this report is to provide Members with information on the City Council's Budget Monitoring position for 2020/21. There is one recommendation to approve additional expenditure to support the upgrading of the Council's ICT infrastructure to make it fit for purpose especially in response to the pandemic where staff are continuing deliver services remotely from Council offices.

Equal opportunities implications

23. There are no specific equal opportunity implications arising from the recommendations in this report.

Legal implications

24. There are no specific legal implications arising from the recommendations in this report.

Property implications

25. There are no other property implications arising from the recommendations in this report this report.

Recommendations

26. Cabinet are asked to:

    (a) Note the updated information and management actions provided by this report and including the attached **Appendix 1** on the 2020/21 Collection Fund Account position.

    (b) In relation to the Capital Programme, note the forecast Outturn position described in **Appendix 2**.

(c) Approve the additional expenditure on the Tech 2020 project as detailed in Appendix 3

Reasons for Recommendations

27. To record formally changes to the Revenue Budget and the Capital Programme.

Alternative options considered

28. Several alternative courses of action are considered as part of the process undertaken by Officers before decisions are recommended to Members. The recommendations made to Members represent what Officers believe to be the best options available to the Council, in line with Council priorities, given the constraints on funding and the use to which funding is put within the Revenue Budget and the Capital Programme.

Appendix 1

Collection Fund Monitoring
As at 31st December 2020

Summary

1. In 2020/21 approximately £331.2m of SCC net expenditure was forecast to be financed directly through locally collected taxation. This taxation is initially collected by the Council and credited to the Collection Fund.

2. As at the end of December, the local share of the Collection Fund Income Stream is forecasting an overall in-year deficit of £8.7m made up of a £5.6m deficit on Council Tax and a £3.1m deficit on locally retained Business Rates. Due to Collection Fund accounting regulations, this deficit will not impact on 2020/21 and will be fed into the budget process for 2021/22 and beyond.

3. The initial lockdown from March 2020, subsequent restrictions and related disruption of the city's economy will have a significant impact on both revenue streams both for 2020/21 and for future years. This is both from an increase in people on Council tax Support leading to less Council Tax receivable plus a reduction in the Business Rates payable across the city.

Income Stream (all figures £m)	**Budget 20/21**	**Forecast Year End Position**	**Variance**
Council Tax	(227.4)	(221.8)	5.6
Business Rates Locally Retained	(103.8)	(100.7)	3.1
Total	**(331.2)**	**(322.5)**	**8.7**

Council Tax

4. The forecast year end position for Council Tax is a deficit of £5.6m. This is primarily because of forecast increase in the number of CTS claimants of £2.2m and losses on collection including an increase in the bad debt provision totalling £4.4m. The Council's share of this income shortfall (85.6%) comes to £5.6m.

5. Sheffield City Council is currently subject to National Restrictions. At time of writing, the path out of these restrictions is uncertain as to how and when restrictions may be lifted. To the extent that these restrictions impact negatively on market conditions, the likely effects on Council Tax revenue will be higher revenue foregone due to Council Tax Support and increased bad debt.

6. However, there is now much less of the year remaining and the position, though uncertain, begins to become more stable. It is worth noting that the above deficit will not impact on this year's revenue position – the overall Collection Fund deficit will be recognised over the next 3 years and as such currently forms part of the future years' business planning.

Business Rates

7. The forecast year end position for Business Rates is an £6.3m deficit of which Sheffield’s share is £3.1m. The overall deficit is illustrated in greater detail below.

8. The enhanced Retail Relief for 2020/21 distorts the usual clarity of the below table – the ‘estimated reliefs’ line has a large variance, offset by additional grants below.

Collection Fund - Business Rates (all figures £m)	**Budget 20/21**	**Forecast Year End Position**	**Variance**
Gross Business Rates income yield	(274.9)	(273.9)	1.0
Estimated Reliefs	49.4	161.1	111.7
Losses on collection, appeals and increase/(decrease) to bad debt provision	11.4	17.6	6.2
Net Collectable Business Rates	**(214.1)**	**(95.3)**	**119.0**
Transitional Protection Payments due from Authority	3.3	2.4	(0.9)
Cost of Collection allowance	0.8	0.8	0.0
Additional S31 Grants for retail relief	-	(111.7)	(111.7)
Non Domestic Rating Income	**(210.0)**	**(203.8)**	**6.3**
Appropriation of net business rates:			
Sheffield City Council (49.2%)	(103.8)	(100.7)	3.1
SY Fire Authority (1%)	(2.1)	(2.0)	0.1
Central Government (49.4%)	(103.5)	(100.4)	3.1
Designated Areas (0.4%)	(0.6)	(0.6)	0.0
Total Appropriations	**(210.0)**	**(203.8)**	**6.3**

Non-Domestic Rating Income

9. The Gross Business Rates Income Yield remains relatively stable and is not expected to change materially before year end. The main driver of the deficit on Business Rates is an increase in anticipated losses on collection of £6.2m. This is entirely attributable to market conditions during the year, and the disruption wrought by the COVID pandemic.

10. The 20/21 Business Rates tax base was established prior to the announcement of 100% discount for retail hospitality and leisure businesses in the March Budget. Thus, the cost of these reliefs, and compensating grant income, is therefore not in the budget and appears above as a large variance – these do, however, net out and are of no overall impact. The combination of the reduced tax base and higher bad debt drives a significant in-year deficit on the Collection Fund.

Conclusion

11. The above position of a £8.7m deficit rests on a number of assumptions – mainly that the city’s economy remains relatively stable for the remaining months, and that retail and hospitality businesses are in the main able to continue trading over the year. Any eventual deficit at year end does not affect the 2020/21 General Fund outturn, because of the specific regulations by which the Collection Fund is accounted for.

12. Any deficit will influence into the General Fund budget in future years, so the effects of the likely year-end deficit will be felt over the medium term. Due to the size of the Collection Fund, a small percentage variation in income or expenditure over the coming months will have a significant impact on the forecast outturn. Monthly monitoring of the Collection Fund position is conducted to ensure that we are fully aware of any changes and the potential budget impacts.

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