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*
Report to:	*Strategy and Resources Committee*
Date of Decision:	*24th July 2024*
Subject:	*Medium Term Financial Strategy*

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

Purpose of Report:

The setting of a robust and balanced Medium Term Financial Strategy will enable the Council to remain financially sustainable and deliver against the Council Plan.

This report sets out an early view of the medium-term financial position for the Council. This report sets out the scale of mitigations required to offset budget pressures and will be updated in the autumn following details of work on the future Target Operating Model and budget prioritisation activity.

Recommendations:

The Committee is recommended to:

1. Approve the Medium Term Financial Strategy as set out in this report and summarised in Appendix 1.

2. Endorse the proposed approach to ensure the financial sustainability of the Council over the medium term.

3. Note the Sheffield City Council Productivity Plan as mentioned in paragraph 1.8 of this report and attached at Appendix 4.

Background Papers:

- 2024/25 Revenue Budget
- Future Sheffield – Digital Strategy & Customer Experience Strategy
- Council Plan 2024/28

<table>
<tr><th colspan="3">Lead Officer to complete:-</th></tr>
<tr><td rowspan="4">1</td><td rowspan="4">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.</td><td>Finance: Philip Gregory, Director of Finance and Commercial Services</td></tr>
<tr><td>Legal: David Hollis, General Counsel</td></tr>
<tr><td>Equalities & Consultation: Adele Robinson, Equalities and Engagement Manager (EIA 2759)</td></tr>
<tr><td>Climate: n/a</td></tr>
<tr><td></td><td colspan="2">Legal, financial/commercial and equalities implications must be included within the report and the name of the officer consulted must be included above.</td></tr>
<tr><td>2</td><td>SLB member who approved submission:</td><td>Philip Gregory</td></tr>
<tr><td>3</td><td>Committee Chair consulted:</td><td>Cllr Tom Hunt</td></tr>
<tr><td rowspan="3">4</td><td colspan="2">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.</td></tr>
<tr><td>Lead Officer Name:
Philip Gregory</td><td>Job Title:
Director of Finance and Commercial Services</td></tr>
<tr><td colspan="2">Date: 15 July 2024</td></tr>
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1.0 PROPOSAL

1.1. This report sets out a Medium-Term Financial Strategy (MTFS) for the period 2025/26 to 2028/29. It shows how the delivery of the Council Plan and the Target Operating Model go hand-in-hand with financial sustainability. It has been prepared recognising the economic uncertainty following a period of heightened inflation and from the uncertainty facing the local government sector due to continued delays to funding reform whilst taking into account anticipated future demand and pressure on services provided by the Council.

1.2. The purpose of the Medium-Term Financial Strategy (MTFS) is to set the context for the future financial position of Sheffield City Council. The MTFS is a statement on the council's approach to the management of its financial resources to meet the Council Plan priorities.

1.3. Medium term financial planning must make assumptions about the future demand profile and cost pressures on expenditure and on factors that affect income sources. The MTFS sets the financial planning envelope within which the council must fund its activities in order to set a balanced budget in each of the next 4 years through the budgeting and business planning process. In order to begin the budget setting process for 2025/26 and beyond it is prudent to revise the MTFS at the outset of this process.

Medium Term Financial Strategy 2025/26 to 2028/29

1.4. A report to Strategy and Resources Committee in September 2023 set out the following forecast covering the period 2024/25 to 2027/28:

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Budget Gap (incremental)	18.1	20.2	7.2	15.8
Budget Gap (cumulative)	18.1	38.3	45.5	61.2

1.5. A review of the assumptions within the MTFS has been undertaken to inform this update, rolling these forward to 2028/29 to present the updated MTFS position. This roll forward includes Services updating their estimates of pressures and the impact of the 2024/25 financial position. At this stage, the figures only include a limited number of savings or mitigations such as anticipated inflationary increases for Sales Fees and Charges. Further work to identify additional mitigations or savings and prioritising expenditure will be undertaken in the coming months.

1.6. The outturn financial position for 2023/24 was an overspend of £15.5m. This reduced the budget contingency reserve from £30.7m to £15.2m. An additional £12.5m has been identified as a one-off surplus from the Collection Fund to increase this reserve to £27.7m. This is the amount set aside to cover overspends and budget pressures in future years across the medium term.

1.7. A specific section of this report is dedicated to the 2025/26 budget gap. Throughout the summer and autumn, services will develop service plans and budget proposals to deliver a balanced budget for 2025/26. In addition, this process will identify where savings may be achieved in future years and begin planning their delivery.

1.8. In April 2024, the former Department for Levelling Up, Homes and Communities (DLUHC) Minister, Simon Hoare MP, wrote to all councils with a requirement to submit 'Productivity Plans' by 19th July 2024. The letter outlined a semi-structured approach to the Plans, requesting that councils limit responses to four pages and that they should focus on four key areas:

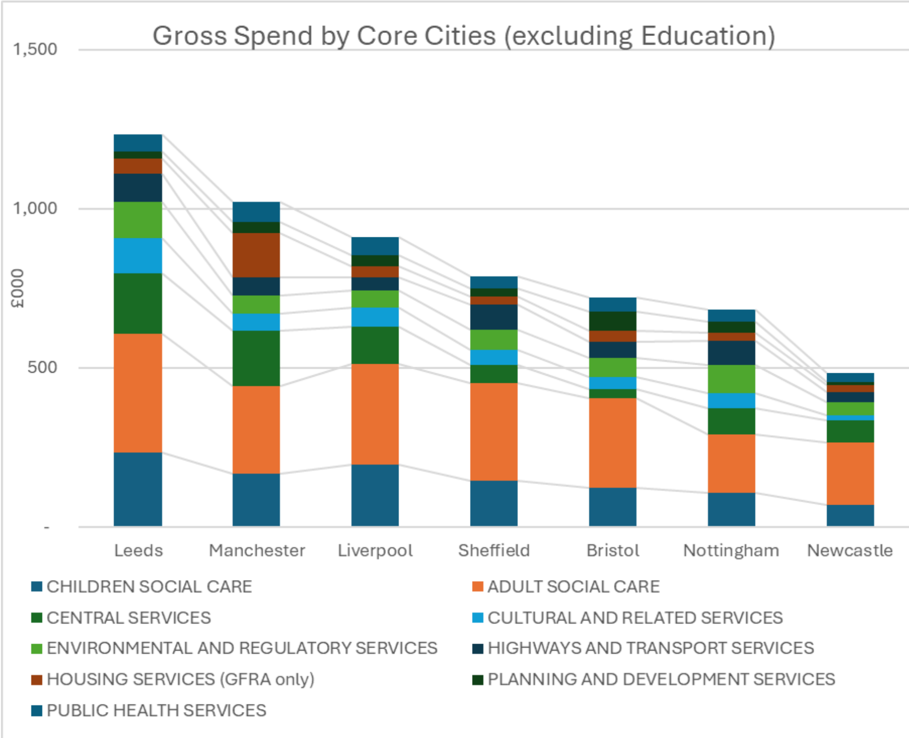
1. How the council has transformed the way it designs and delivers services to make better use of resources.
2. How the council plans to take advantage of technology and make better use of data to improve decision-making, service design and use of resources.
3. The council's plans to reduce wasteful spend within its organisation and systems.
4. The barriers preventing progress that the Government can help to reduce or remove.

Our proposed response is attached in Appendix 4. Our response draws heavily on the journey we are on as an organisation, referencing our Council Plan, City Goals and Future Sheffield, emphasising the importance of accountability, using public money wisely, and our Customer and Digital strategies to deliver for our citizens.

Background

1.9.	**Sheffield is not the only Core City with significant MTFS budget gaps.**	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 MTFS's for these councils reported budget gaps between £10m and £35m per annum. Our current forecast is an average of £17m per annum.
1.10.	**Significant funding cuts to high need Local authorities during**	All Core Cities therefore have to maintain a focus on financial sustainability and having to deliver significant savings to bridge budget gaps. This is due to 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 spending power

	austerity make it harder to respond to inflationary budget pressures.	(the amount of funding a Council has to deliver services) reduced in Sheffield by 26% or £858 per resident, compared to the national average of 18% and £556 per resident. Lobbying the new Government to equalise the impact of this reduction and implement the Fair Funding review to redistribute funding more equitably, must be a priority.
1.11.	**SCC's % of gross spend mainly in line with other Core Cities but does highlight a greater proportion spent on Social Care**	As part of this analysis, we also reviewed spend across the Core Cities to identify any trends or differences worth exploring. The first graph below shows gross expenditure across seven of the eight Core Cities (Birmingham's data is not available). 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 fourth highest gross expenditure overall despite being the second largest by population.



1.12.	**Deprivation as well as population size are key determinants of overall spend and**	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 listed by these measures. Liverpool and Manchester top this list, and this is one of the main reasons their overall funding exceeds Sheffield's.

spend on social care.

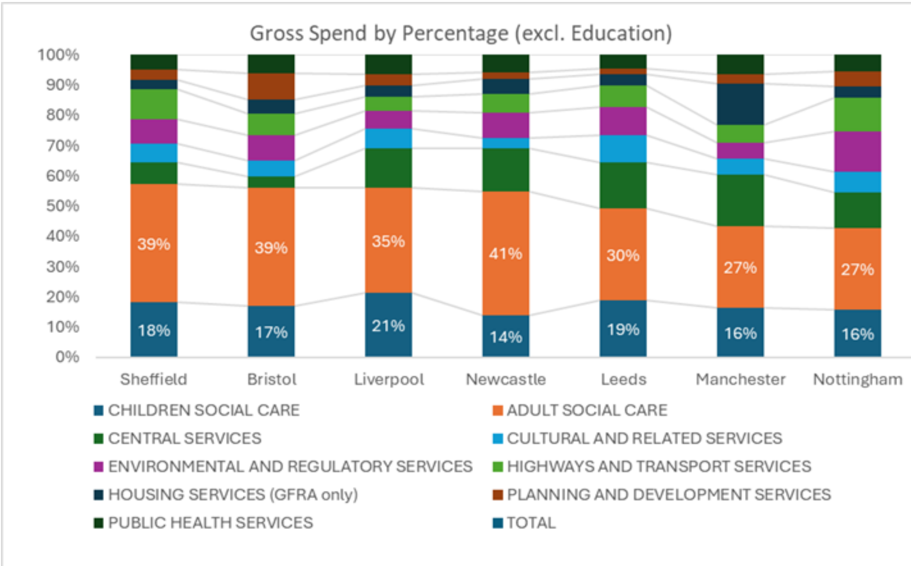
	Liverpool	Manchester	Nottingham	Newcastle	Leeds	Sheffield	Bristol
IMD Score	42.4	40.0	34.9	29.8	27.3	27.1	26.4

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

1.13. **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 would be expected to drive lower social care costs, particularly across children's services.



2.0 MTFS Detail

2.1 **Our mid case forecast is that the Council faces a budget gap of £68.9m by 2028/29**

Under the mid-case assumptions in Appendix 1, the budget gap grows to **£68.9m** by 2028/29.

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

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	Total Budget Gap £m
Inflation & Pre-Agreed items	**29.9**	**23.5**	**20.9**	**21.7**	**96.0**
Corporate Items	**2.6**	**1.7**	**0.6**	**2.4**	**7.2**
Additional Funding	**-19.4**	**-22.1**	**-23.2**	**-24.3**	**-89.1**
Budget Gap (before additional pressures / mitigations)	**13.0**	**3.1**	**-1.8**	**-0.3**	**14.0**
Demand / Growth Pressures	**16.3**	**14.2**	**14.3**	**13.1**	**57.8**
Investments	**4.8**	**0.6**	**0.2**	**0.2**	**5.8**
Budget Gap (before mitigations)	**34.1**	**17.9**	**12.7**	**13.0**	**77.7**
Mitigations (including Fees & Charges increase)	**-2.7**	**-2.0**	**-1.9**	**-2.0**	**-8.7**
Net Budget Gap	**31.4**	**15.8**	**10.8**	**11.0**	**68.9**

2.2 Total available resources over the MTFS will be determined by 3 key factors.

The starting point of the MTFS is to establish the overall financial envelope in which services must be delivered. There is an assumption that all previously agreed budget improvement plans (BIPs) will be delivered in full. 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.

2.3 No additional Government funding is assumed over the medium term.

In February 2024 the Department for Levelling Up, Housing and Communities (DLUHC) approved the 2024/25 settlement for Local Government. Included within the Settlement were details of Council Tax thresholds, Business Rates changes and additional funding including social care support.

Beyond 2024/25 the picture is less clear. However, there is a general acknowledgement that due to fiscal constraints, there will be very little, if any, increase in public sector spending in unprotected services such as Local Authorities over the remaining period of the MTFS. Therefore, our MTFS includes no forecast increase in Government funding and makes the council even more reliant on increases in local taxation and sales, fees and charges to manage budget pressures.

2.4	**Fair Funding delays and/or transition arrangements means no additional funding can be relied upon.**	If SCC were to receive any additional funding during the MTFS 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 as old as 2011. A review of this formula should 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, if at all, 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 no increased share of Local Government funding in the medium term.
2.5	**Local taxation is forecast to increase by £89.1m**	The majority of additional resources will come from local taxation over the next 4 years. A total increase of **£89.1m** for additional Business Rates and Council Tax income is forecast over the medium term. Full details of the mid-case assumptions applied can be found in **Appendix 2.**
2.6	**The Budget Contingency Reserve has been used to fund shortfalls and over-spends in the past 3 years.**	During the 2022/23 to 2025/26 MTFS process, a £70m Budget Contingency Reserve was established to support budget pressures. £56m from this reserve has been drawn down. As part of setting the 2024/25 budget, £13m of one off 2023/24 Collection Fund surplus has been added to this reserve, leaving £27m to support future budget pressures. If overspends continue at the rate seen over the past 3 years, this reserve is likely to be exhausted in 2025/26.

Budget Contingency Reserve	£m
2021/22 Overspend	20
2022/23 Budget Balancing	14
2022/23 Overspend	5
2023/24 Overspend	16
2024/25 Contribution	*-13*
Unallocated	*-27*
Total	**83**

For SCC to remain financially sustainable without persistent overspends there must be a programme of savings and prioritisation of spend to set a balanced budget for 2025/26 and the medium term ahead.

2.7 Pressures forecast to increase by £166.7m over the next 4 years.

Corporate and service pressures are forecast to increase by **£166.7m** over the next 4 years and can be summarised as follows:

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	Total £m
Inflation & Pre Agreed	29.9	23.5	20.9	21.7	96.0
Corporate Items	2.6	1.7	0.6	2.4	7.2
Demand / Growth Pressures	16.3	14.2	14.3	13.1	57.8
Investments	4.8	0.6	0.2	0.2	5.8
Total	**53.5**	**40.0**	**35.9**	**37.3**	**166.7**

Inflationary pressures of **£96.0m** relate to contractual obligations such as the Local Government pay award, National Living Wage increase, care fee increases and RPIX linked contracts such as highways and waste. This also includes the £3m per annum investment in climate initiatives agreed as part of the 2024/25 budget amendments.

Corporate pressures total **£7.2m** (over 4 years) and are largely due to the increase in capital financing costs resulting from lower cash balances and increased external borrowing. This also includes the forecast increase in cost of the planned uplift to the Council Tax Hardship Fund to support those least able to cope with future increases.

Demand and growth pressures total **£57.8m** and mainly relate to social care. It includes the effects of demographic changes and growth in demand for services. This particularly impacts care fees, placement costs and SEND transport as well as staffing increases in both Adults and Children’s services.

Investments total **£5.8m** and include proposed policy changes and increases to funding for programmes and services.

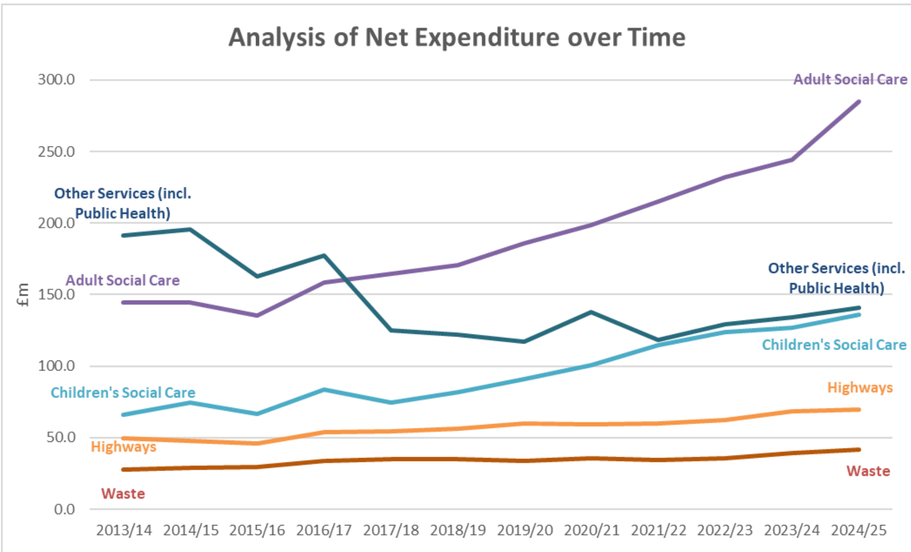
The assumptions applied are set out in Appendices 2 and 3. As part of the Future Sheffield Programme, a number of programmes of work are underway including the Target Operating Model, Digital Strategy, Customer Strategy, Accommodation Review and Transport Planning are underway with the objective to improve services and deliver efficiency savings. These projects are to be funded from already identified resources and/or savings delivered by the projects, therefore no negative impact on the MTFS is assumed. The savings from these programmes are being identified and will be included in future MTFS updates.

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

Social Care budget growth forecasts total £119.1m and are the biggest financial risk over the medium term, reflecting the trend in recent years of increasing unit costs, including pay inflation, and increasing demand for placements. Adults Social Care services are forecasting increased costs as a result of fee uplifts, growth and other demographic changes, plus increased transition costs between children's and adults care. For Children's Social Care, additional placements cost resulting from rising demand for higher cost services and a significant increase in placement and home to school transport costs are being anticipated.

2.9 **Limited resources remain outside of Social Care, so diverting additional funds over MTFS period is not sustainable.**

Our social care costs are rising at an unsustainable rate putting the financial sustainability of the Council at risk over the medium term. The rest of the Council cannot support this level of anticipated budget growth. Our flexibility to divert budget from other services to fund social care is limited because we have already transferred investment from other services to support social care as highlighted in the graph below:



Even with the planned budget growth in the MTFS, there will need to be reductions or efficiencies within Social Care spending to ensure that the Council can continue to set a balanced budget in the medium term.

2.10	**Resources are to be targeted at activities that best deliver the priorities in the Council Plan.**	Following the approval of the Council Plan 2024/28 in March 2024, the Council has a clear set of outcomes and priorities for the medium term. The delivery of these outcomes will require resources to be directed towards those activities which will best ensure the successful delivery of the Council's priorities underpinning the outcomes. For this reason, the Council is committed to moving toward a Priority Based Budgeting (PBB) model over the term of the MTFS.
	Transformation savings will be required to mitigate pressures and maximise the resources supporting priorities.	To support PBB and the delivery of the Council's priorities, the Council will also continue to deliver transformation savings to help offset the significant financial pressure faced. The Future Sheffield programme is driving this process by assessing the current and future shape of the organisation to ensure the Council is best placed to deliver its services in the most efficient and effective ways.
	An updated MTFS will include estimates of savings from transformation programmes & projects	Supporting this programme to deliver savings are projects such as the Target Operating Model, the Digital & Customer Experience Strategies and the Accommodation Review. Further details on how the Council is planning its digital transformation, customer journeys and deployment of its estate to improve service delivery and efficiency can be found in the background papers linked to this report. The savings forecast to be delivered via these projects are being assessed and will be presented within the MTFS update due later in the year.
	Further Mitigations will need to be identified and should include a review of income.	The main mitigations identified to date against pressures and included within the MTFS assumptions, are taxation income and an assumed level of increase to Sales, Fees and Charges in line with forecast CPI figures. These and any further savings or mitigations proposed will require political approval in due course. Future mitigations should include a full review of increased income targets where applicable and not just rely on an assumed CPI increase.

3.0 MTFS Summary

3.1	**The Mid case shows that significant action will be**	The mid case shows the need for the delivery of significant efficiencies across all Directorates and Committees to avoid unsustainable short to medium-term pressure on the Council's finances.

	needed to ensure financial sustainability (£69m gap)	This task should be aided by the implementation of Priority Based Budgeting (PBB), aligned to the Council Plan 'Together We Get Things Done'. However, without firm action, which includes making difficult decisions, it will be challenging to set a balanced budget for 2025/26 onwards.

4.0 Sensitivity Analysis

4.1	**Best Case This gap lessens to approximately £11.2m under more optimistic assumptions**	In contrast, if the Council were able, 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 £6.9m in 2025/26 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 3.
4.2	**Worst Case The gap grows to £144m by 28/29 under pessimistic assumptions**	The failure to constrain service delivery pressures, inflation not remaining at the 2% target, a fall in local taxation revenues and the additional Social Care funding ceasing (provided following delays to Care Charging reforms for 2023/24 and 2024/25), would result in the budget gap worsening to £144m 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.

5.0 Early 2025/26 Budget Assessment

5.1	**Pressures facing the Council are lower than in previous years at circa £54m**	Based on an early review of the most significant budget pressures facing services for 2025/26, the total savings and / or additional income required to set a balanced budget will be in the region of £54m. This is lower than in previous years, partly due to lower inflation however, there has been additional income in previous years to offset pressures and this is not expected to recur (see 5.2 below). Further clarity on funding

should be forthcoming following the General Election on 4th July but the timing of this is not yet known.

The review of pressures excludes any non-delivery of 2024/25 BIPs, which are assumed to be delivered or mitigated through recovery plans. Pressures are calculated 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.

5.2 Anticipated Income and Savings are significantly lower than previous years at £19.7m

A lack of certainty over funding from Government has resulted in a prudent approach to the income forecast being taken in 2025/26. Unlike previous years, it is assumed that there will be no additional Revenue Support Grant or Social Care Funding.

The following table shows a summary of income increases and savings identified with the comparable figures for the prior year:

	25/26 £	24/25 £
Council Tax income	- 11.5	-10.8
Social Care Precent	- 5.7	-5.4
RSG		-2.4
Inflation on Business Rates Multiplier	- 2.2	-9.2
Social Care Funding		-15.9
Mitigations and savings	- 0.3	-14.4
Total	**- 19.7**	**- 58.1**

The Council can increase Council Tax by 2.99% on the Core element and 2% for the Adults Social Care Precept and the assumption in this report is that the full amounts will be taken, as per previous years. This will generate £11.5m and £5.7m respectively in 2025/26. These figures also assume a growth in the tax base. The corporate expenditure variations set out in the MTFS 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.

Revenue Support Grant (RSG), Business Rates Income and Social Care Grant are all assumed to be at cash standstill in 2526.

In addition, £0.4m of savings have been identified to mitigate these pressures. This is significantly lower than the prior year due to lower core capital financing charges.

More details around the corporate assumptions can be found in **Appendix 2.**

5.3 **A Sales, Fees and Charges notional target could generate £2.4m 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 forecast of 2.0%. The aim being to avoid possible subsidies for income generating services.

Early indications show approximately £2.4m could be generated via this approach with £1.9m of this relation to Older Peoples contributions to care and ICB contributions under the S75 agreement.

	Increase @ CPI 2% £m
ADULT HEALTH AND SOCIAL CARE	(1.9)
COMMUNITIES, PARKS AND LEISURE	(0.1)
EDUCATION, CHILDREN & FAMILIES	(0.1)
TRANSPORT, REGEN & CLIMATE	(0.1)
WASTE AND STREET SCENE	(0.2)
Grand Total	**(2.4)**

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.

5.4 **The 2025/26 Budget Gap at £31.4m is higher than the prior year**

With the inclusion of a SFC target, the Budget gap currently stands at £31.4m. This figure is still subject to change but the comparable 2024/25 Budget Gap at this time last year, stood at approx. £18.1m.

6.0 This report sets out 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?

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

8.0 Risk Analysis And Implications Of The Decision

Equality Implications

The Equality Act 2010 requires a public authority, in the exercise of its functions, to have due regard to the need to eliminate discrimination and to advance equality of opportunity between persons who do and do not share a relevant protected characteristic. As well as complying with legislation, assessing the equality implications can help to design services that are customer focussed, in turn leading to improved service delivery and customer satisfaction.

The Council's equality and diversity strategy commits the Council to ensuring fair and open service delivery, making best use of data insight and reflecting the service needs of the users. Equality Impact Assessments allow for structured, evidence based and consistent approaches to ensuring the equality implications of proposals and should be considered at the early stages of planning.

There are no new savings proposals put forward in this report for which an EIA would be required although an initial EIA has been completed. Where savings proposals are put forward in future reports, the Council will ensure that appropriate mitigations are considered and relevant groups are consulted.

Financial and Commercial Implications

The financial implications are detailed throughout this report.

Legal Implications

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

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

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

By the law the Council must set and deliver a balanced budget, which is a financial plan based on sound assumptions which shows how income will equal spend over the short- and medium-term. This can take into account deliverable cost savings and/or local income growth strategies as well as useable reserves.

However, a budget will not be balanced where it reduces reserves to unacceptably low levels and regard must be had to any report of the Chief Finance Officer on the required level of reserves under section 25 of the Local Government Act 2003, which sets obligations of adequacy on controlled reserves.

Climate Implications
There are no direct equality 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
No direct implications.

9.0 Alternative Options Considered

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.

Appendix 1: Medium Term Financial Strategy

	2024/25 Budget £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m	2028/29 Forecast £m	2025/26 Movement £m	2026/27 Movement £m	2027/28 Movement £m	2028/29 Movement £m
Financial Planning									
NET COST OF SERVICES (prior year)	**473.9**	**473.9**	**503.8**	**527.3**	**548.2**				
Inflation and Demographic Change		29.9	53.4	74.3	96.0	29.9	23.5	20.9	21.7
NET COST OF SERVICES	**473.9**	**503.8**	**527.3**	**548.2**	**569.8**	**29.9**	**23.5**	**20.9**	**21.7**
Capital	38.1	40.1	41.3	42.8	44.3	2.0	1.2	1.5	1.5
Corporate Items	24.7	25.2	25.7	24.8	25.6	0.6	0.5	-0.9	0.9
Reserves									
Contributions to / from Earmarked Reserves	14.9	2.4	2.4	2.4	2.4	-12.5	0.0	0.0	0.0
Surplus / Deficit on Collection Fund	-12.5	0.0	0.0	0.0	0.0	12.5	0.0	0.0	0.0
Net Expenditure after reserves	**539.0**	**571.5**	**596.7**	**618.1**	**642.2**	**32.5**	**25.2**	**21.4**	**24.0**
Funding									
Council Tax	-284.0	-301.3	-319.5	-338.8	-359.2	-17.2	-18.2	-19.3	-20.4
NNDR	-200.8	-203.0	-206.9	-210.8	-214.7	-2.2	-3.9	-3.9	-3.9
Revenue Support Grant	-46.5	-46.5	-46.5	-46.5	-46.5	0.0	0.0	0.0	0.0
Other Grants	-7.7	-7.7	-7.7	-7.7	-7.7	0.0	0.0	0.0	0.0
Budget Gap (before additional pressures / mitigations)		**13.0**	**16.1**	**14.3**	**14.0**	**13.0**	**3.1**	**-1.8**	**-0.3**
Demand / Growth Pressures		16.3	30.5	44.8	57.8	16.3	14.2	14.3	13.1
Investments		4.8	5.4	5.6	5.8	4.8	0.6	0.2	0.2
Budget Gap (before mitigations)		**34.1**	**52.0**	**64.7**	**77.7**	**34.1**	**17.9**	**12.7**	**13.0**
Savings - Existing Plans		-2.4	-4.2	-6.2	-8.2	-2.4	-1.9	-1.9	-2.0
Savings Identified		-0.4	-0.5	-0.5	-0.5	-0.4	-0.2	0.0	0.0
Net Budget Gap		**31.4**	**47.2**	**58.0**	**68.9**	**31.4**	**15.8**	**10.8**	**11.0**
Council Tax Calculation									
Council Taxbase	146,974.63	148,474.63	149,974.63	151,474.63	152,974.63				
Council Tax at Band D (£)	1,932.56	2,028.99	2130.24	2236.54	2348.14				
Percentage Increase in Council Tax	4.99%	4.99%	4.99%	4.99%	4.99%				

Appendix 2 – Underlying 4 -Year MTFS Assumptions

Key Assumptions / Scenario - Mid Case	
	Income Variations
Core Government Funding	Revenue Support Grant (RSG) and other core government funding are assumed to be cash flat over the period of the MTFS. Fiscal constraints, existing funding commitments and slow economic growth forecast means local government, as an unprotected service, is unlikely to receive any additional core government funding over the medium term. This includes the long-awaited Fair Funding (FF) reforms. The FF review is now unlikely to happen within the MTFS period, if at all, and will require significant transitional arrangements, to protect those LA's who lose significantly from the new formula. It is 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 no increased share of Local Government funding in the medium term.
Social Care funding	Any additional Social Care funding is expected to be funded via a reduction in other core grants or likely to include new burdens / costs such as supporting hospital discharges. Social Care funding therefore has a net nil impact on this MTFS. There is however a working assumption the Social Care Grants received by the Council will remain at current levels during the MTFS period.
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 1% 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 MTFS.
Council tax	A planning assumption of a 2.99% per annum rise in Core Council Tax, although the actual levels will be set by members each year Social Care Precept is forecast to rise by 2% over the MTFS period, although the actual levels will be set by members each year.

	If the council tax referendum triggers were to be set below these levels the Council would generate approximately £3.0m less for each 1% reduction below the 5% total. 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 2025/26 onwards. We are assuming that the number of properties claiming discounts, reliefs and/or the Local Council Tax Support Schemes, will remain consistent during the MTFS 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. The current Council Tax Support Scheme 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 2025/26 onwards.
Collection Fund surplus/ deficit	Any gains or losses within the Collection Fund 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 2024/25 levels for the period of MTFS.
Minimum assumed Sales, Fees and Charges	The MTFS assumes all eligible sales, fees and charges will increase by a minimum of CPI inflation over the period.

Key Assumptions / Scenario - Mid Case

	Expenditure Variations
Pay inflation	3% per annum for 2025/26 and 2026/27 and 2% per annum for 2027/28 and 2028/29.
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 MTFS period.
Contract Inflation	The Council investment in significant contracts such as Waste, Streets Ahead and the care sector are forecast to rise in line with RPI inflation estimates. These are current assumed at 2.5% for 2025/26 costs 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 MTFS period, the Capital Financing budget will fluctuate, reflecting the completion and disposal of significant developments in the Heart of the City project. Any additional 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.
Service pressures	These 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 are limited savings included at this stage with additional mitigations to be identified and agreed before inclusion in the MTFS update later this year.
Transformation Activity	The council investment in transformational activity will rely upon reserves and other identified resources and is not expected to impact upon the MTFS expenditure pressures.

Appendix 3 – Assumptions adjustments applied to the Best, Worst and Mid cases

Area	Mid Case	Best Case	Worst Case
Business Rates Income	Assume multiplier at estimated September CPI of 1% for 2025/26 and then returns to target 2%.	Assume multiplier at estimated September CPI of 2% for 2025/26 and 3% thereafter.	Assume multiplier at estimated September CPI of 0% for 2025/26 and 1% thereafter.
Council Tax Income	1500 new Band D properties per year. Assume a 2.99% rise in Council Tax bills across all years. Assume a 2% rise in Social Care Precept across all years.	1700 new Band D properties per year. Assume a 2.99% rise in Council Tax bills across all years. Assume a 2% rise in Social Care Precept across all years.	1300 new Band D properties per year. Assume a 2% rise in Council Tax bills across all years. Assume no further increase in Adult Social Care Precept.
RSG / Fair Funding	Assume RSG to remain cash flat across all years. Assume Fair Funding Review delayed outside of MTFS period.	Assume RSG to rise with estimated September CPI of 2% for 2025/26 and 3% thereafter. Assume additional £10.0m from 2026/27 from a partial re-set of business rates or a more favourable funding distribution from a new government.	Assume a 3% cut to RSG across all years. Assume Fair Funding Review delayed outside of MTFS period.
Social Care Funding	Assume no additional funding or any increases offset in reductions elsewhere or new burdens.	Assume an ongoing £6m increase in 2025/26.	Assume no additional funding or any increases offset in reductions elsewhere or new burdens.
Heart of the City	Assume a £1.6m net increase in income over the four-year MTFS period fluctuating year by year in line with rent and property sale forecasts.	Same as the Mid Case.	Assume a £0.4m increase in income over the four-year MTFS period as a result of being slower to sell blocks and let units and under performance of hotel.

Area	Mid Case	Best Case	Worst Case
Contract Inflation	Investment in contracts such as Waste, Streets Ahead and the care sector are forecast to rise in line with RPI inflation. These are currently estimated at 2.5% for 2025/26 costs and 3% thereafter.	RPI at 2% across all years.	RPI at 4% across all years.
Pay Award	Assumed at 3% for 2025/26 and 2026/27 and 2% thereafter.	Assumed at 2% for 2025/26 and 2026/27 and 1% thereafter.	Assumed at 3% across all years.
Capital Financing	Assume additional borrowing required of £6.2m over the four-year MTFS period.	Assume cash balances stay high so borrowing £2.0m lower over four-year MTFS period.	Assume cash balances lower so borrowing £2.0m higher over four-year MTFS period.

Appendix 4

Sheffield City Council - Productivity Plan 2024/25

Sheffield is a brilliant Core City, proud of its past and resolutely determined about its future. Sheffield City Council is an organisation undergoing a major transformation, focused on delivering our new Council Plan and City Goals to deliver the best outcomes for the people of the city, maximising our prosperity and contribution to UK's economy while protecting our natural environment in the transition to a low carbon future. Our Future Sheffield transformation programme is focused on maximising customer experience, ensuring we have a relentless approach to continuous service improvement to deliver value for money and a council our fantastic city can be proud of.

How the council has transformed the way it designs and delivers services to make better use of resources

We are on a rapid journey to ensure that our organisation has clear purpose, outcomes and is relentlessly focused on delivering for the people of Sheffield. This includes:

- **Clear purpose** – we have agreed a new medium-term Council Plan, aligned to our four-year Medium Term Financial Strategy, which has a clear mission, policy drivers and strategic outcomes to set our direction. We will prioritise our resources and capacity on the Council Plan outcomes with a priority-led budget. We have built upon our Corporate Delivery Plan which focused on a set of urgent performance challenges to drive improvement in key services.
- **Outcomes and performance framework** – we have agreed a new Outcomes and Performance Framework aligned to our Council Plan to ensure we take a robust and focused assessment of our performance to drive up productivity and delivery. Our Finance Committee takes the political lead for holding the organisation to account for performance.
- **Future Sheffield** – is our integrated transformation programme to deliver a customer and community focused council. We've started by launching our Customer Experience and Digital strategies as vital foundations for our new Target Operating Model for SCC. The projects and will be delivered over the next 3-5 years, helping us to modernise, improve the way we work and deliver a balanced budget. We have enabled a thematic programme of 13 focused KLOE workstreams to support our organisational journey, longer-term outcomes improvement and our MTFS – helping to ensure any changes we make achieve savings or invest in the things that are going to make the biggest difference for Sheffield.
- **Strategic budget management** – Sheffield has 26% or £858 per household less to spend in real terms, when compared to 2010/11, well above the national average of approximately 18% or £556 per dwelling[1]. Over 14 years,

[1] Where core spend power calculations are quoted these include income generated from Council Tax and therefore mask the true scale of Central Government funding cuts. For Sheffield this equates closer to a 50% cut in real terms since 2010 and has deepened the Council's reliance on local taxation.

we have offset cuts in funding totalling over £483m as well as managing inflation and increased demand for vital services. We've continued to improve our delivery of budget savings – with savings delivery with 80% of £47.7m of 2023/24 savings on track for delivery in year with a further 12% due to be delivered in future years.

- **Rigorous budget monitoring** – our annual budget (agreed by Full Council) is rigorously monitored by elected Councillors in Policy Committees and particularly our Finance Committee which provides check and challenge through quarterly monitoring and a rigorous budget process (eg. Quarter 3 and year-end outturn report for 2023/24). Directorate Leadership Teams undertake monthly budget monitoring for their areas of responsibility and our Performance & Delivery Board provides strategic officer challenge and accountability for our performance and finance management.
- **Addressing demand pressures in vital services** – the demand pressures on adult social care and children's services have increased significantly over the last decade (complexity of need; covid-19; impact of sustained austerity on citizens; multiplicity of pressures on the interface between social care and NHS) with demand and cost far outstripping any funding increases from Government. We are driving transformation focused on our medium-term ASC Strategy based on person-centred, strength based approaches and harnessing the assets of our communities to deliver better outcomes and our prevention planning We are proud to have received a 'good' OFSTED rating for our Children's Services, including 'outstanding' for experience of children in care.
- **Audit and standards** – is key part of the Council's corporate governance arrangements and it oversees and assesses the Council's risk management, control and corporate governance arrangements and advises the Council on the adequacy and effectiveness of these arrangements. It also has responsibility for the statutory financial reporting process through approval of the Statement of Accounts. Key material: 2022 Auditors Annual Report. 2023/24 Unaudited Statement of Accounts. Annual Governance Statement 2022/23.

How we plan to take advantage of technology and make better use of data to improve decision making, service design and use of resources

- Our Customer Experience Strategy and Digital Strategy are key pillars the Council's four-year transformation programme, Future Sheffield, which is aimed at improving service effectiveness and delivery across the organisation whilst creating a robust long-term financial plan for the Council.
- We have a vision to become: A digital council, empowering local people, communities, businesses and staff with reliable, seamless, inclusive and intuitive services, which are available 24/7 and managed sustainably.
- Work is underway on key enablers, such as improving online transactions, automation, modern data platform and a work towards a responsible AI policy
- These strategies will ensure an organisation wide approach to customer services and digital transformation. This will contribute to achieving the vision and priorities of the Council Plan

- The full breadth of our ambition and more detail on the plans are available in our SCC Digital Strategy and Customer Experience Strategy.
- Acting as a companion to the new Council Plan, our refreshed Performance & Outcomes Framework provides the structure and approach for how Sheffield City Council will provide effective performance management against delivery of the Council Plan outcomes.
- The Performance Framework sets out how performance measures, management and budget monitoring are aligned to present a comprehensive picture of the Council's overall performance in terms of council plan outcomes, service delivery and fiscal management, the later through development of priority based budgeting.
- Through the high-level measures directly linked to the plan in our Outcomes Framework we can build an evidence base and narrative that shows the progress we are making against the outcomes in the plan. A key principle is the inclusion of all current and future Office for Local Government (Oflog) measures in our performance reporting and we will publish data dashboards for all our Outcome measures. Initially as static reports, moving to interactive tools during the time frame of the Council Plan.
- Sharing data across agencies helps us to improve outcomes for our citizens. Examples include our Building Successful Families programme, Family Hub and Start for Life programmes, which are under pinned by multi-agency data sharing, including with Police and Health.

The council's plans to reduce wasteful spend within its organisation and systems

Improving efficiency

- As set out above, we have a rigorous approach to managing our **budget, governance, audit** and are focused on delivering the outcomes in our Council Plan to ensure that our resource and capacity directly aligned to the ambitions and needs of our citizens.
- Our **Future Sheffield** transformation programme will, over the next 5 years, transform our organisation so that it is fit for purpose, customer focused and digital by design. Through the programme, we will look at reducing external expenditure, how we deliver our services, harnessing digital technology and adapting how we work to release and focus our capacity.
- **Agency and consultant spend** – the data on our spend on agency was recently published at Full Council (see p7). Agency capacity has largely been to bring in technical and specialist support to the organisation and to fill skills gaps in our workforce which have resulted from the impact of austerity and budget reductions. (% of staff budget / how assess value for money).
- **EDI investment** – being an excellent service provider to all our city's communities is critical to being an effective and efficient organisation and as such, promoting fairness and tackling inequality are at the heart of our values. This is at the heart of our Customer Experience Strategy and is the second of our four new Equality Objectives. By better understanding and listening to

our communities, we can drive out inequality in service provision, improve services for citizens, meet our Public Sector Equality Duty and reduce failure demand as part of being a more efficient council. Thus, EDI training is part of our core development for every employee in our organisation. These are all online e-learning modules which are part of our wider learning and development package. We want every member of our team to be empowered with the knowledge to deliver for our citizens and drive out inequality and discrimination where it exists.

- **Strong governance** – as set out above, we have a Committee System in which we have Policy Committees that are responsible for managing their specific budgets; Finance Committee has the lead responsibility for budget and performance monitoring; the Governance Committee regularly reviews the function and specific elements of our governance; Audit and Standards Committee assesses risk and corporate governance.

The barriers preventing progress that the Government can help to reduce or remove.

- **Local government finance reform**[2] – the funding system and framework for local government is broken and needs fundamental reform to allow a fair assessment of need and move to multi-year settlements which take account of inflation and provide longer-term stability and certainty.
    - Council funding is short-term, undermining stability and the ability to invest and drive local reform and investment over multiple years. Further, annual budget allocations are announced in December, often late into local budget processes without any consideration of the impact this has on strategic financial planning.
    - Since 2010, the combination of the *extent of austerity* (46% per person reduction in Government funding to councils); *distribution* (funding reductions of 35% per person in most deprived councils); and *escalations in cost and demand in acute services* has led to the destabilisation of local government and put vital local services at risk.
    - Government announced a Fair Funding Review into local government finance in 2016 but this has not progressed or reported.

- **Move to longer-term strategic investment** – the fragmented, approach to local funding has seen a proliferation of small, competitive, short-term revenue and capital funding pots. This has reinforced short-termism, uncertainty and acted as a drain on scarce local capacity where officer time is taken up writing multiple bids and business cases, which ‘pit ‘our places against each other and can inadvertently raise local expectation short-term then to disappoint in the medium to longer-term The Centre for Cities calculated councils spent £63m on consultancy support for just three funds

[2] More detail in IFS (2024) ‘*How have English councils’ funding and spending changed? 2010 to 2024*’ https://ifs.org.uk/sites/default/files/2024-06/How%20have%20English%20council%27s%20funding%20and%20spending%20changed.pdf

(Levelling Up Round 1, Future High Streets Fund, and Towns Fund)[3] and was without accounting for existing staff costs/time.

- **Take a whole-place approach** – public services in a place should be people and outcome focused rather than directed by the organisation is funded to deliver an element of a person or household's needs. The Total Place pilots pre-2010 and the whole-place community budget pilots (2010-15) demonstrated clear evidence both of improved outcomes and savings across the public sector[4]. These approaches are premised on strong place leadership, the convening power of local government, with the role of central government being to create the authorising environment in which public services and resource can be redesigned at place level. A more productive and efficient state is one that is customer and prevention-focused, built around the needs of citizens, maximising local assets and outcomes rather than departmental silos and budget lines.

- **Social care for children and adults needs long-term investment and funding certainty, a strategic, whole-system focus on prevention and clear career pathways** – the challenges facing social care have a significant impact on the future of local government:
    - Uncertainty over the future of the adult social care precept and restricting it for use on adults' social care only
    - Sustained increases in demand for vital services in adults and children's social care, SEND and homelessness which far outweigh the short-term funding increases from Government
    - Inadequate funding and resource for preventative measures – esp to pump-prime change and unlock better outcomes for the person and whole system (ie. NHS)
    - Workforce shortages and difficulty recruiting and replacing workers
    - Shortage of foster carers in children's social care resulting in costly residential provision
    - Cost of residential placement for looked after children
    - Linked to longer-term commissioning planning for housing needs and bespoke housing supply to support housing choice, care and support.

- **Reduce unnecessary central reporting** – support councils to deliver for citizens rather introducing new and multiple blocks and burdens:
    - Extensive monitoring required by Government departments for some funding through reporting, Boards and administration
    - Guidance on Government Policy/Schemes often appears months after announcements, so delivery cannot commence and time is wasted guessing impacts/approach

[3] Centre for Cities (2022) https://www.centreforcities.org/blog/local-government-is-tied-up-in-the-red-tape-of-competitive-grants/
[4] LGA - https://www.local.gov.uk/publications/learning-20-years-place-pilots

    - Collect once – currently multiple ways in which Government collect monitoring information, ie via Microsoft Forms for UKSPF, via Delta for most other things, via Excel spreadsheet for Levelling Up Funds

- **Work with the sector to develop coherent, comparable and an outcome-focused approach to local performance, accountability and audit** – there is a need for a robust but comparable approach to local performance, accountability and audit embedded in local government, building from the tentative initial step with OFLOG. There is a significant backlog in the publication of audited accounts of local bodies in England, impacting on good decision making, transparency and accountability to local citizens. The Productivity Plan approach is an opportunity missed which risks collecting a suite of incomparable data and evidence from councils without genuinely providing any insight or intelligence on the 'productivity' of local government.

- **Enable councils to operate as modern, customer-focused organisations that are able to mirror the customer experience of citizens elsewhere in the private sector**
    - Digital first – the majority of citizens (80%) access our services online via a smartphone but we are still required to produce paper Council Tax bills and publish public notices (eg. planning notices) in print rather than online which would have greater public reach
    - Accessibility and engagement - enable some Council meetings to be held online (where appropriate). Our experience of online council meetings during Covid-19 saw significant increases in citizen and stakeholder participation. The potential to fostering better engagement and interaction with international, regional and local business, industry and investment sector and partnerships and B2B capabilities.
    - Freedom of Information Act (including Subject Access Requests) needs reform so that it supports citizens to access information but is not exploited by some organisations which adds unnecessary demand on councils

- **Invest in the democratic strengths of local government** – local government is the convenor of place in every part of the country, listening and delivering for local communities. Over the last 14 years, councils have continued to deliver for our communities while seeing significant reductions to our resourcing. Elected councillors work tirelessly for communities, we need to invest in our democracy, encouraging and enabling people from all communities and life experiences to get involved in local democracy. Vital to this is properly addressing the low pay for Elected Members, reinstating councillor pensions to ensure that short-and long-term financial constraints do not prohibit citizens from seeking to be democratic representatives of people and places, and ensuring there is a robust Standards regime in place to support high standards in public life.