MEDIUM TERM FINANCIAL STRATEGY: 2015/16 TO 2019/20

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 Members:

    - Note the forecast position for the next 5 years is noted
    - Agree the approach to business planning targets
    - Agree the following approach to capital planning.
        - Maximise flexibility in resource pools to ensure priorities in relation to housing can be most effectively achieved, including policies related to affordable housing
        - Manage capital resource pools including New Homes Bonus and Community Infrastructure Levy to ensure that Council wide objectives are achieved
        - Reaffirm the existing Corporate Resource Pool allocation principles

Background

3. The last report on the Medium Term Financial Strategy (MTFS) was considered by Cabinet in September 2013. The MTFS has been updated to reflect the budget decisions of March 2014.

4. This updated MTFS sets out the broad issues that will impact on the Council's financial position for 2015/16, outlines some of the decisions facing the Council over the medium term and sets out the planning parameters for the next 5 years.

5. The Local Government Finance Settlement for 2015/16 will not be known until December 2014. However as part of the 2014/15 Settlement, the Government issued an Indicative Local Government Finance Settlement for 2015/16. This was one of the most difficult finance settlements since the introduction of austerity budget measures in 2010.

6. The July 2013 Spending Review sets out the Governments spending plans from April 2015 to March 2016. There has not been an announcement regarding spending beyond April 2016 and therefore the likely level of funding for local government is not known. The position will become clearer following the 2015 general election.

7. 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. The announcement also included a figure of £38m in respect of the Pooled NHS and LA Better Care Fund and it will be an issue for the Council as to how this can be accessed.

Settlement Funding Assessment for 2015/16

8. The December 2013 Local Government Finance Settlement included an indicative settlement for 2015/16 of £112m; this is a reduction of £45m or 29% compared to the figure for 2014/15. It was expected that this would present a more difficult picture for local government following the Autumn Statement announcement of further reductions in funding.

9. When the increase in business rate top up grant is factored in the overall reduction in Settlement Funding Assessment (SFA) is approximately £42m. The SFA includes an assumed increase in locally retained business rates of £2.8m. The Council will need to make its own assessment of retained business rates for 2015/16.

	SETTLEMENT	ILLUSTRATIVE	Difference
	2014/15	2015/16	
	£000	£000	£000
Revenue Support Grant	157,460	112,088	-45,372
Baseline Business Rates Funding			
Local Share of Business Rates	100,593	103,370	2,777
Top Up Grant	28,342	29,124	782
Settlement Funding Assessment	286,395	244,582	-41,813

10. On 22 July 2014 the Government issued a Technical Consultation on the Finance Settlement for 2015/16. The proposals that effect Sheffield City Council were as follows:

- The compensation for the 2% cap on the small business rate multiplier is to continue in 2015/16. This is to be calculated on the basis of the reduction to estimated retained income, as in 2014/15. Whether this funding will then continue in years beyond March 2016 is unknown. This funding amounted to approximately £1m for Sheffield in 2014/15.

- The Council Tax Freeze Grant for 2014/15 of £1.9m has been included in the Illustrative SFA for 2015/16. This has therefore increased the Illustrative SFA to £246.551m. It provides the potential for a larger reduction in future years should a percentage reduction be applied to the quantum of SFA.

11. The Technical Consultation also refers to other aspects of the proposed 2015/16 settlement which will remain as set out in the 2014/15 settlement. At a national level these include:

    - A £1 billion hold back to fund the New Homes Bonus
    - A £50m hold back for the rates retention safety net
    - Protection for grants rolled into the SFA in April 2013 from the percentage reduction announced in the 2013 Spending Review.

Specific Grant funding in 2015/16

12. The Indicative Finance Settlement for 2015/16 has provided an indication of the likely level of specific grant funding via the Spending Power figures. The spending power concept was introduced in 2011 as a measure of the aggregate level of resources that the Government believes are available to individual local authorities. The spending power figures are adjusted each year in the light of policy changes and comparisons between years then include notional figures to provide a basis for comparison.

13. The figures shown in the table below have largely come from the Illustrative Spending Power for 2015/16. The exception being the grants relating to business rates scheme (the compensation for the 2% cap and the extension of small business rates relief) where the actual figures have been based on form NNDR1 which was submitted to the DCLG in January 2014. It has been assumed that the allocations for 2015/16 for the 2% cap and extension of business rates relief will be at the same level as 2014/15.

14. The table shows the actual allocation for 2014/15 (from the 2014/15 spending power figures), the adjusted 2014/15 allocations (to reflect new responsibilities and policy changes) and the illustrative 2015/16. The latter two sets of figures are taken from the Illustrative Spending Power for 2015/16.

15. There are some grant regimes where no figures are provided for 2015/16. The Local Welfare Provision grant is being removed from April 2015. This currently amounts to £2.5m and funds the Council’s welfare assistance scheme.

	Actual	Adjusted	Illustrative
	2014/15	2014/15	2015/16
Specific Grant allocations (from Spending Power figures)	£m	£m	£m
Compensation for business rates capping (not from SP figures)	1.079	1.079	1.079
Small Business Rate Relief grant (not from SP figures)	2.522	2.522	2.522
Lead Local Flood Authorities	0.086	0.086	0.058
Community Right To Challenge	0.009	0.009	
Community Right To Bid	0.008	0.008	
Local Welfare Provision Grant	2.472	2.472	
New Homes Bonus	5.954	5.954	7.313
New Homes Bonus: returned funding	0.443	0.443	1.127
Local Council Tax Support and Housing Administration Subsidy	3.868	3.868	
Council Tax Support New Burdens Funding	0.270	0.270	
Local Health Reform and Community Voices DH grant	0.489	0.489	0.489
Public Health Grant	30.748	30.748	30.748
Adult Social Care New Burdens		3.213	3.213
NHS funding to support social care	12.399	18.257	0.000
Pooled NHS and LA Better Care Fund			37.783
Less Council Tax Support Funding for Parishes	-0.085	-0.085	-0.085
Estimated Specific Grants	60.262	69.333	84.247

16. The table above makes reference to “Council Tax Support Funding for Parishes” of £85k. This relates to a specific grant that local authorities received in 2013/14 to compensate parish councils for the reduction in council tax base, and therefore council tax income, as a result of the introduction of the council tax support scheme. However there was not a specific grant in 2014/15. Instead the Government suggested that this funding had been included in the quantum provided to local authorities and therefore netted off an amount in the spending power for each local authority. The figure of £85k for Sheffield is therefore a notional figure.

17. There are some grants were the precise allocation will not be known until nearer the start of the relevant financial year and which are not included in the spending power figures: e.g. the level of Education Services Grant (ESG) will depend on the number of pupils. 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”.

18. 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.

19. The spending power figures suggest that the level of funding from specific grants and other Government funding will increase compared to 2014/15. However the increase is almost entirely attributable to the introduction of the Better Care Fund. There are also issues around the administration subsidy for housing benefits and council tax support scheme.

<u>Administration Subsidy for Housing Benefit and Council Tax Support Scheme</u>

20. The Council currently receives approximately £3.8m subsidy towards the administration costs of the housing benefit and council tax support schemes. The Illustrative Finance Settlement for 2015/16 did not provide details of the subsidy because of a Government review of the subsidy arrangements following a proposed transfer of some responsibilities to the DWP.

21. On 23 July 2014 the Minister for Welfare Reform issued a letter to local authorities to provide some assurance around the administration subsidy for 2015/16. The contents of this letter contained the following:

- An assurance that the subsidy will not reduce as a result of the current universal credit delivery plans. The letter contains the statement that this "is a commitment made in the context of further spending efficiencies which the Government may seek".
- The subsidy will however reduce by £12m nationally as a result of the transfer of fraud responsibilities from local authorities into the DWP. How this adjustment will be made is to be subject to discussions with the local authority associations.

22. This letter has been interpreted by CIPFA as meaning that the total amount of subsidy is likely to be reduced by between 5% and 10% efficiency savings and a further £12m for the creation of the new Single Fraud Investigation Service (SFIS). Extrapolations from CIPFA suggest that the reductions for Sheffield could amount to £300k for SFIS and up to £386k for "efficiencies": i.e. a potential reduction of up to £686k for 2015/16. For the purposes of the forecast, these amounts have been included as likely reductions in subsidy. The transfer of responsibility for fraud investigation should result in a variation in the Council contract with Capita and result in reduced costs. At the present time these cost reductions have not been included in the forecast.

<u>Better Care Fund</u>

23. The Council currently receive funding via the NHS to meet the costs of providing adult social care. The allocation to Sheffield is shown in the spending power figures as amounting to £12m in 2014/15. However once adjustments are made

for carers, reablement and new Care Bill costs, the "adjusted" figure for 2014/15 becomes £18m. However the actual amount so far allocated to the City Council is approximately £12m.

24. The 2013 Spending Review announced the creation of a £3.8 billion pooled budget for health and social services to work more closely together. It is funding that will be in the NHS budget and will be allocated to Clinical Commissioning Groups (CCG's). The spending power figures show £37m as being allocated to Sheffield from the Better Care Fund and via the CCG's in 2015/16. It is presently unknown as to how much of this will eventually find its way into the City Council budget for 2015/16 and therefore at this time no additional funding is built into the forecast.

Funding from Government for 2016/17 and beyond

25. The Government has not provided any details regarding local government funding beyond March 2016. It is likely that there will be a spending review once the outcome of the 2015 general election is known. However a number of leading think tanks have warned that there are likely to be further spending reductions and that the period of austerity could run until 2020.

26. For the purposes of this forecast, it is assumed that there will be reductions in local government funding of 10% per annum from April 2016. Reductions of this scale have become the norm in funding for Government departments with the majority of public services reduced by this percentage in the spending plans for 2015/16. If Revenue Support Grant (RSG) for Sheffield City Council were to be reduced by 10% per annum this would result in reductions of £11m in 2016/17 to £9m by 2019/20.

27. There is the possibility that a percentage reduction could be applied to the SFA rather than to RSG. This would involve the Government making a bigger reduction in RSG and increasing the business rates baseline, thereby expecting local authorities to generate additional business rates income to make up the difference. If this were the case, reductions of 10% applied to SFA would mean grant reductions of £24m in 2016/17 and £18m by 2019/20. For the purposes of this forecast, it is assumed that reductions of 10% in RSG will happen from April 2016 but there is a risk of more significant reductions.

Council tax income

28. The Council set a Council Tax Requirement for 2014/15 of £164.377m. The Band D equivalent council tax was £1,282.75 which was the same as the previous two years. The overall level of council tax income is dependent on the following:

- The Council Tax base: i.e. the overall number of properties that the Council can collect council tax from.
- The availability or otherwise of a Council Tax Freeze Grant
- Any restrictions on the ability of the Council to increase the level of council tax: i.e. the policy of the Government to prescribe an increase that will trigger a local referendum.

Council Tax base

29. The council tax base for 2014/15 was set at 128,144.18 Band D equivalent properties. This was a small increase of 94 properties compared to the figure for 2013/14. The introduction of the Council Tax Support Scheme (CTSS) has had a significant impact on the tax base: approximately 38,000 properties qualify for CTSS.
30. There is a statutory date for the determination of the tax base for 2015/16. However a review of the current position has been made based on information presently available:

- The overall number of properties: at the present time there are an additional 358 band D equivalent properties on the tax base compared to last year. Some increase was to be expected with additional properties being constructed or brought into use, particularly as a result of the new homes bonus. It is not known to what extent this figure will grow in the coming months.
- Number of properties eligible to discounts and exemptions (not including CTSS). The taxbase for 2014/15 assumed that 36,000 properties would be eligible for discounts and exemptions. At the present time the number of properties claiming discounts/reliefs total 34,500: approximately 1,500 less than anticipated. However with the imminent commencement of a new academic term, the level of student homes exemptions may increase and therefore the present figure cannot be relied upon as representing the final figure.
- Number of properties eligible for the Council Tax Support Scheme (CTSS). The current CTSS in Sheffield which was introduced in 2013 requires council tax payers of working age to pay a minimum of 23% of their council tax bills.

  At the present time any change in the CTSS scheme for 2015/16 has not been assumed: however this will be an issue for Members to consider alongside the savings proposals for 2015/16.

  An assessment will also need to be made of the performance of the current scheme and whether there is to be a variation in the number of properties.

The introduction of CTSS also has an impact on the collection rate. The budgeted level of income for 2014/15 assumes a collection rate of 95.5% (down from 96.5% the previous year).

31. On the basis of current information, there is the potential for the tax base to increase by 358 properties (a 0.30% increase). However there are a range of factors that are not yet known and therefore the forecast does not include any income from variations in the tax base. A 1% increase in the council tax base generates approximately £1.6m of additional income.

	Band D equivalent number of properties
Council Tax Base of Band D equivalent properties for 2014/15	128,144.18
Additional properties in 2014/15	358.76
Variation in number of properties entitled to discounts/exemptions?	??
Variation in properties entitled to CTSS?	??
Adjustment to collection rate? (currently 95.5%)	??
Council Tax Base of Band D equivalent properties for 2015/16	128,502.94

Council Tax referendum limits

32. Government policy regarding the trigger point for a local referendum is announced by the Secretary of State in February each year. In the 2013 Spending Review the Secretary of State indicated that “he was minded” to set a principle that an increase in council tax above 2% will trigger a local referendum. However this will not be known with certainty until the principles for 2015/16 are issued in February 2015.

33. The referendum principles issued in February 2014 did not relate to Parish Councils but included the statement “we are putting on notice that we are prepared if necessary to apply the referendum thresholds to larger town and parish councils from 2015 to 2016 onwards”.

34. It will be for the City Council to decide the policy regarding future Council Tax increases. For the purposes of this report, additional council tax income equivalent to an annual 1% increase (or £1.6m) is included in the forecast from April 2016, based on the current tax base. The position for 2015/16 is impacted by the availability of Council Tax Freeze Grant.

Council Tax Freeze Grant (CTFG)

35. The July 2013 announcement from the Secretary of State included a statement that CTFG will be available in 2015/16 and that the value of the grant will be

equivalent to a 1% increase in council tax but calculated on the Council Tax Base before the deduction for CTSS. For Sheffield it would mean a potential grant of £1.9m; this is £0.3m more than the amount generated by a 1% increase in Council Tax.

36. No assurances have been given beyond the current spending period and beyond the general election. It is therefore not known if CTFG will be available from April 2016 and the forecast has assumed that it will not be available.

37. Although the CTFG for 2014/15 and 2015/16 (if accepted) are to be added to baseline funding and mainstreamed within the overall SFA, it is not known if the lack of assurances beyond March 2016 places the continuation of this funding in doubt. In particular, when specific grants have been rolled up into SFA in previous years, the Government has subsequently split the allocations between RSG and Business Rates Baseline. If this is repeated in future years, it would mean that to generate the level of funding equivalent to the CTFG, the Council would need to achieve the level of the Business Rates Baseline target set by the Government.

Business Rate Income

38. With the introduction of the retained business rate scheme 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 Government sets a "business rates baseline" figure which has been derived at the outset of the business rates retention scheme by dividing up the aggregate business rates income (the national total amount) by the proportionate share (the percentage of the national total historically collected by Sheffield). However it is for the Council to set its own estimate of the likely level of retained business rate income. For 2014/15 the Council agreed a business rates income budget of £100.898m. This figure is slightly above the Baseline figure of £100.595m.

40. In arriving at a reasonable estimate of retained business rate income in 2015/16 and beyond, there are a number of issues that will need to be considered:

- Gross business rates income. When the estimate for 2014/15 was produced, it was estimated that the number of business premises in Sheffield that are liable for business rates is 17,602 with an aggregate rateable value of £530.083m. Based on the rating multiplier of 47.1p this produces a gross business rate estimated income (the "Gross Rate Yield") of £249.9m for 2014/15. This was the starting point for establishing an estimate and constitutes the potential level of income before any further adjustments.

For the purposes of this forecast it is assumed that there will be an inflation uplift in the annual rating multiplier and that this will generate approximately £2m per annum for the City Council. Any funding from Government to compensate local authorities for the capping of the inflation uplift (as happened in 2014/15 and is expected again in 2015/16) will offset this foregone income.

From a review of the developments that have taken place in the current year or are expected to take place, there is the potential for there to be an increase of £1m in the locally retained share. Any forecasts of potential growth need to be treated with caution as there may be reductions in business rate income elsewhere as businesses relocate. For the purposes of this forecast, an increase of £1m in retained business rate income is assumed for 2015/16.

- Losses due to appeals. With the introduction of the business rates retention scheme in April 2013 the Council was required to establish a provision for the potential losses of business rate income due to businesses lodging 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 Council established a provision of approximately £15m in 2013/14 and a further provision of £5m in 2014/15.

  Recent discussions between council officers and officials from the VOA have suggested that the level of outstanding appeals at September 2013 total 985 cases. However there was not information available relating to the potential losses arising from these appeals or the cost of the appeals that have been settled to date. This is an issue that council officers will continue to address in discussions with the VOA. For the purposes of the forecast it has been assumed that the reduction in the appeals provision will amount to £3m per annum in 2015/16 and 2016/17, reflecting the potential for some appeals to be unsuccessful or to be settled at a level that is below that originally estimated. The Government has set a target for the VOA to work through 95% of outstanding appeals by July 2015 and therefore some improvement in losses due to appeals is to be expected.

Forecast revenue expenditure

41. The Council set a net revenue budget for 2014/15 of £451.248m. 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 budget process will be the approach to including additional budget provision during a period in which resources are constrained. Compared to the amounts budgeted for in 2014/15, there are a number of potential additions to annual expenditure in future years:

- Collection Fund: there was a surplus of £171k on the projected year end balance on the Collection Fund. This was utilised in setting the Council Tax for 2014/15. The forecast has removed this surplus from the position from April 2015 onwards.

- Pension scheme costs. There was an actuarial review of the South Yorkshire Local Government pension Scheme in 2013 that has determined the contribution rates for a three year period from April 2014. The overall amount paid by the City Council includes two elements:

  1. An Employers contribution rate: contributions are required to meet the cost of future accrual of benefits for members after the valuation date. This is referred to as the “future service contribution rate” (FSR). At the time decisions were made about the 2014/15 budget, the FSR for Sheffield was considered to be 12.9% for the next 3 years.

  2. Deficit recovery: additional contributions are required from the south Yorkshire employers to overcome a deficit resulting from the assets of the scheme being less than the funding target at the date of the actuarial valuation. The recovery programme involves the City Council making additional contributions, over and above the FSR, to recover the deficit. At the time the budget was considered, the likely deficit recovery contributions amounted to £26m in 2014/15 rising to £28m by 2019/20.

  In 2014/15 the budget included an additional £9m and the approach to financing this cost involved the use of £4m from a reserve that had been secured from the winding up of the Kier Sheffield LLP partnership arrangement at the end of 2013/14. A net amount of £5m was therefore included in the 2014/15 budget.

  In March 2014, following discussions between the South Yorkshire Treasurers, the Pensions Authority revised the assumptions, reducing the level of SFR and the deficit contribution rates. These are now 12.4% for FSR and £22.7m for deficit recovery contribution for 2014/15. This reduction in cost together with further reductions in the staffing establishment has reduced the likely required contribution from the Reserve in 2014/15 by £3m (i.e. a contribution from the reserve of £1m).

For 2015/16, the estimated additional cost arising from the increase in FSR from 12.4% to 12.6% together with the increase in the deficit recovery contribution from £22.7m to £24.7m, amounts to a total of £1.5m. The forecast assumes that a further contribution of £0.5m from the Kier Reserve and a requirement to add £1m to the budget for 2015/16.

- 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.
- Provisions for redundancy/severance costs: the Council will require an adequate provision for redundancy/severance costs. The current budget includes £11.2m for redundancy costs. This was based on a reduction of 644 posts set out in the 2014/15 budget. The budget provision for 2015/16 will depend on the post reductions set out in the budget proposals and an accurate assessment can be undertaken when the reduction in FTE's is known.

  However there is the potential for these costs to increase because of recent advice from the South Yorkshire Pension Authority (SYPA) that costs of early retirement are likely to increase by an average of 15% from July 2014. It has come to light that the impact of early retirement costs had been considered separately from the recent actuarial valuation of the pension fund. In July the SYPA received the revised factors together with the indication that the underlying strain costs of early retirements had increased. The increased costs of up to 15% will apply to all early retirement applications to SYPA from July 2014. These cost increases are starting to appear in early retirement applications in 2014.
- Infrastructure Investment (New Retail Quarter): proposals relating to the development of the new retail quarter were submitted in October 2013. The 2014/15 budget included an additional £0.4m for capital financing costs associated with the required capital investment. The October 2013 report made reference to the £0.4m 2014/15 and the requirement for this to increase to £1.4m from April 2015, to cover capital financing costs and management costs. The forecast therefore assumes an additional £1m revenue expenditure from April 2015.

- Streets Ahead contract: the Council investment in the streets ahead contact will result in the required amount increasing by approximately £1.8m per annum from April 2015, 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 2015/16 which will mean the removal of the overall provision.
- Pay strategy: the Council agreed a new pay strategy with effect from April 2014. As part of this strategy the increment freeze was extended to March 2015 although there will be a payment of £250 for the lowest paid employees. The other elements of the strategy involving the introduction of mandatory unpaid leave, half increments and a Christmas shutdown, will take effect from April 2015.

  The introduction of the new pay strategy, with discussions about the removal of enhancements continuing, will amount to £0.6m in 2015/16 rising to £6.4m by 2018/19 based on the current staffing structures. This assessment will change as more is known about revised staffing structures in future years. For the purposes of this forecast an additional cost of £0.2m has been included for 2015/16
- Impact of 2014/15 budget monitoring: the budget monitoring position for 2014/15 is presently showing a forecast overspend of £11m. Although it is expected that management action will be reflected in forecasts in future months, there are difficulties associated with delivering the full extent of the contract savings. For the purposes of the forecast, it has been assumed that there will not be any issues overhanging from 2014/15 or, if there are, these will be dealt with as part of the approach to managing pressures.

  A significant part of the Council's net investment in the Great Place to Live Outcome is accounted for by three key lines of spending - the Streets Ahead road refurbishment project, the waste management and disposal contract and the levy payable to the Sheffield City Region Local Transport Body (LTB). If these areas of spending do not deliver the target level of savings there will be a disproportionate effect on the other services within the outcome if these have to make good the shortfall.

  The 2014/15 Business Planning strategy set an overall savings target for the three line items for each of the next three years. A significant proportion of the 2014/15 target has been delivered. Work is in hand to develop options to deliver the remainder of the savings target over the next two years. These options may include service redesign, refinancing or additional income to offset costs. The process is likely to be lengthy because the Streets Ahead and waste contracts are complex and will require renegotiation.

- The Sheffield City Region Local Transport Body (LTB), previously the Integrated Transport Authority, reduced the transport levy in 2014/15 by 9% resulting in a saving to the Council of £3m. As part of a 4 year budget approach the LTB has planned to make further savings of 4.5% in 2015/16 and 2.7% in 2016/17. This results in savings to the City Council of £1.4m and £0.8m in 2015/16 and 2016/17 respectively. As part of the approach to balancing the budget for 2015/16, the Place Portfolio has included these savings within that Portfolio's overall savings proposals and therefore these reductions in the LTB levy are not factored into the overall financial forecast.
- Sheffield City Trust (SCT) debt charges – In 2013 Cabinet approved proposals to restructure the funding for SCT. The forecast includes an increase of £0.45m per annum from April 2015 as set out in the report to Cabinet on 19 June 2013.
- Capital financing costs: an assessment has been made of the likely level of capital financing costs in future years. Given the low levels of interest and the current capital spending profile, it is estimated that the capital financing budget can be reduced by £1.6m in 2015/16 rising to £8.5m by 2019/20.
- Howden House PFI: there will be additional costs associated with the annual inflation uplift in the unitary charge. Based on current inflation forecasts, the additional annual cost is expected to be approximately £0.3m in 2015/16 rising to £0.8m by 2019/20.
- Capita contract: the current capita contract expires in January 2016 and the Council has been considering what should happen beyond this point. There has been a working assumption that, given the nature of the difficult financial scenario facing the Council, any renewal of the contract or alternative arrangement must involve a lower cost than at present. There are some anticipated additional costs which are assumed to be met from those savings.

42. In terms of Portfolio cost / demand pressures, these amounted to approximately £30m in 2014/15 and were offset by savings of an equivalent figure. The majority of the pressures in 2014/15 related to adult social care costs and it is likely that these will again feature prominently in a review of potential pressures in 2015/16. 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.

43. The level of pressures for 2014/15 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 in 2015/16.

Overall Position

44. Bringing together the picture relating to forecast resources and forecast expenditure, there is a forecast revenue gap of £38m in 2015/16 rising to £78m by 2019/20. This is the cumulative position and would reduce by the value of savings identified in year one which is 2015/16. Details of the build-up of the forecast are set out in Appendix One and summarised in the table below:

	2015/16 **£m**	**2016/17** **£m**	**2017/18** **£m**	**2018/19** **£m**	**2019/20** **£m**
Base position b/forward	0.0	38.3	52.2	63.4	72.2
Reductions in Government funding	40.8	14.8	10.0	9.0	8.0
Reduction in business rate appeals provision	-3.0	-3.0	0.0	0.0	0.0
Increase in business rate income	-3.0	-2.0	-2.0	-2.0	-2.0
Increase in council tax income	0.2	-1.6	-1.6	-1.6	-1.6
Expenditure increases	5.0	8.1	6.7	5.4	3.8
Expenditure reductions	-1.6	-1.6	-1.9	-1.7	-1.7
Total forecast Gap	38.3	52.6	63.4	72.2	78.2

Council Tax Support Scheme (CTSS)

45. 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%.

46. 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

47. The Council requires sufficient savings proposals to meet a forecast shortfall of £38m in 2015/16 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 £63m plus pressures.

48. 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 does not mean that these budgets will be ring fenced in some way and avoid reduction. 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 and will not involve the application of a predetermined percentage reduction. The elements that fall into this category include:

    - Benefit payments (£194m)
    - CYP Pensions (£0.9m)
    - Central costs including external audit fees, Capita contract costs, bank charges, pension cost of former employees, redundancy costs (£47m)
    - Combined Authority Transport Levy and Environment Agency Levy (£31m)
    - Commercial services savings: identified as a separate item in the budget (-£.8m)
    - Streets ahead contract, Howden House and Schools PFI contracts (£76m)
    - Capital Financing costs (£65m)
    - Housing Association payments (£5m)
    - The transport and facilities management budget (£14m) where savings are being achieved through the workplace programme.
    - Budget additions from Reserves carried forward

49. 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 35% across the three years. These reductions will impact on all service budgets.

50. 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.

51. 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.

52 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.

53. 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 35% over the three years will be built into the financial limits analysed across the three years as follows:

- For 2016/17 reduction of 15%
- For 2017/18 reduction of 10%
- For 2018/19 reduction of 10%

54. A reduction of 15% in 2015/16 is sufficient to balance in that year although there is not significant scope for non-achievement of that requirement. 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 there are a number of variables that could add considerably to the expenditure base of the Council beyond that currently forecast. The Council is in a position where it will 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.

55. 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.

Capital Programme for 2015/16

56. Capital spending pays for buildings, roads and council housing and for major repairs to them. It does not pay for the day-to-day running costs of council services. The Council's Corporate Capital Strategy is shaped by a number of Government policies.

- the self-financing regime for the Housing Revenue Account (HRA) has provided for a relatively well funded programme of investment in existing and even new Council housing stock
- the Streets Ahead programme is providing massive investment in the City's roads and street lighting over the next few years, funded via the Private Finance Initiative (PFI), which is outside the capital programme
- the Government austerity programme, which has had a major impact on the rest of the non-housing programme, which has not only led to less capital funding but is also reducing revenue budget funding reducing the scope for contributions to the capital budget;
- the education policy mandating that all new schools should be academies which transfers maintenance responsibilities away from the Council's Local Education Authority (LEA) role and will subsequently reduce central grant funding which is formula driven based on pupil numbers;
- the shift towards capital funding to economic regeneration projects which generate a financial return to repay the initial investment and create a revolving fund;
- the devolvement of capital funding to City Region authorities and the involvement of the Local Enterprise Partnerships (LEP) in capital allocation decisions.

57. As a result of the above, the Housing investment programme therefore now accounts for almost three-quarters of the Capital Programme. The next biggest category includes economic regeneration, council buildings and recreation facilities like Graves and North Active Leisure centres.

58. The delivery of the Council's Affordable Housing policy will be increasingly through council housing investment and, for private sector affordable housing, local housing associations or the Sheffield Housing Company initiative where the Council is working in partnership with a private sector developer to increase the number of affordable homes and regenerate housing estates.

59. In the Competitive City outcome, the focus will be on creating the necessary infrastructure to support economic regeneration. The declining central government support will place increased reliance on the Council's Asset Enhancement programme to generate capital receipts to use on its own priorities.

The graph below illustrates the change in activity in the Capital Programme from 2010/11 to 2017.

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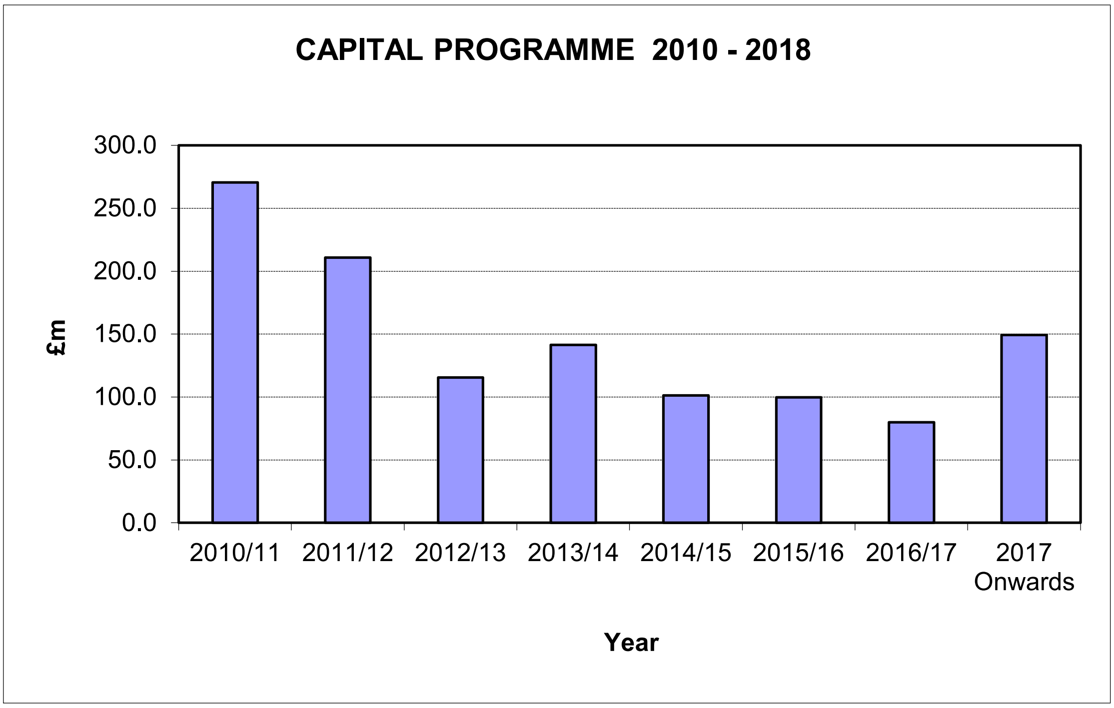

Corporate Resource Pool

60. The CRP funds those elements of the capital programme not funded by other dedicated funding streams which already have established provision for housing, transport and education schemes – be that internal funds for housing (Housing Revenue Account and housing land) or government funds for education and transport. A large number of Council priorities have no clear source of funding and have to be funded by the Corporate Resource Pool (CRP), which is largely financed by capital receipts from land sales.

61. So, capital receipts plug the gaps and provide match funding to lever in external funding. Recent examples include:
    - the significant enhancement of the City's recreational leisure facilities which should also deliver revenue budget savings. The Council has put £2.5m into the £7.1m North Active facility to gain £2.3m from the Department of Health's National Centre for Sport Exercise and Medicine (NCSEM) initiative. A further £750k has been used by SIV at Concord Leisure Centre; and
    - £2m into the £6.2m Don Valley remediation project to win £2.3m ERDF grant.

62. Without capital receipts, these projects would not have happened. Other projects requiring CRP support include the demolition of vacant property which again helps the Revenue budget. Castle Market buildings is an example where the Council needs to find £4m but this may secure additional external funds to realise the vision for the site of a park showcasing the old castle ruins.

63. A large proportion of our capital already goes to social housing but in addition many housing sites are disposed of under value or at nil value to deliver social housing (e.g. for housing association schemes where the council is obliged often to give its land at little or no value to make the scheme work).

64. So, to ensure the CRP reaches the projects it is intended to support, and make best use of a scarce resource, CRP allocations are based on the following guidelines:
    - The project has no other available funding sources i.e. not from central government, internal investment funds e.g. HRA, or other grant funding bodies; and
    - is in line with corporate priorities; and
    - the project is necessary to make an asset compliant with legislation; or
    - the project has a robust business case which delivers financial savings or significant improvements in performance; or
    - is a strategic project which requires cash flow support until a funding package can be arranged. Funding for these projects will be on an ***exceptional*** basis taking into account the current level of unallocated cash within the CRP. The project must be viable and capable of repaying the CRP within a reasonable time, for example, by generating asset sales. If the project does not proceed, any abortive project costs would have to be financed from the sponsoring portfolio's Revenue Budget.

65. For the last three years, officers have recommended that no commitments beyond one year are made from the CRP. This reflects the uncertain and lower level of receipts due to the general economic downturn. The impact of the Affordable Housing policy has created further pressure whilst diverting more funds towards Housing investment.

66. The timing of future capital receipts has been very difficult to forecast and usually over optimistic. All land transactions are inherently fraught with difficulty because of the contractual process and often tend to slip. The relatively low level of receipts in recent years means that the pool has reduced and approved and potential commitments, plus the need to maintain reserves for emergencies like major infrastructure failures or the floods of 2007, mean that these cumulative demands exceed the current reserves and a future stream of receipts is essential.

67. The Report on the 2015/16 Capital Programme will therefore recommend again that no further commitments are made beyond 2015/16.

Pressures on the Capital Programme

68. The capital programme faces several challenges:

    - Decreasing central government funding e.g. transport;
    - Increasing demand pressures e.g. school places plus local standards which may mean that additional support beyond that provided by central government is required. Tinsley and the Attercliffe schools are examples;

- Increasing costs as the construction sector recovers from the recession and tender prices rise. This means we get less for our money or need to spend more to deliver the same scope;
- Contingency for overspends to cover unforeseen delivery problems e.g. ground contamination on BRT North (£4m+);
- Contingency for assumed future funding streams such as Community Infrastructure (CIL). £2m is assumed to arise to fund the Bus Rapid Transit scheme (BRT North) based on planned developments in Meadowhall;
- Providing capital to enable revenue saving projects to go ahead and deliver savings to meet the demands of the National Austerity programme;
- The increasing age of the Council's building estate requiring refurbishment. This may incur significant compliance costs to bring infrastructure up to current standards (e.g. electrical systems) or make buildings accessible; and
- Member priorities.

Alternative Funding Opportunities

69. Faced with the pressures identified above, the Council needs to look at alternative funding streams. The General Fund is not likely to be an option given the continuing austerity measures. At best there may be some limited headroom *if* there is a genuine increase in National Non Domestic Rates (NNDR) from additional development activity – but there are many competing demands on these resources.

Sheffield City Region Investment Fund (SCRIF)

Not new money but central government grants devolved to City Regions to allocate in pursuance of their local priorities. Likely to be allocated to large economic development projects (e.g. city or town centre redevelopments, transport infrastructure). £2.1m bid in to support the Grey-to-Green project to redevelop West Bar to Castlegate. Over £20m of other bids submitted for city centre redevelopment.

Tax Incremental Financing (TIF)

This initiative is useful for large scale infrastructure projects which are expected to generate future revenue streams e.g. through NNDR. It is to be employed to fund the city centre development work.

Community Infrastructure Levy (CIL)

To be introduced from 1st April 2015 this will raise funds from developments on a differential scale linked to the location and type of development. It is intended to cope with the costs of growth e.g. additional schools and transport infrastructure.

Expectations around the impact of this money need to be carefully managed. It is a significant opportunity but the annual income is likely to be no more than £4m and the first £2m is promised to an approved project BRT North.

New Homes Bonus
A scheme which incentivises Council's to facilitate additional housing through either new construction or bringing long term empties back into use with premiums for Affordable Housing. Typically this generates between £1,400 and £1,800 per unit. This could amount to £7m - £9m in each of the next three years. £9m existing of planned commitments over this period have already been made but there is still a substantial sum. However, NHB is not additional money. It is top sliced out of the Revenue Support Grant and most empirical studies suggest that Northern metropolitan councils are "net losers" compared to those areas in the South East experiencing very active housing construction.

Better Care Fund (BCF)
Proposals for this initiative are being developed and within the scale of BCF and the capital programme this is very small. However it does fund work to adapt homes to enable people to live independently which is a Member priority.

Section 106
There is about £3.7m of unallocated funding from previously made agreements can be used as part of the capital strategy for funding the programme.

Conclusions on capital

70. The Capital programme funding strategy needs to be flexible enough to respond to the above opportunities.

71. The traditional approach to funding capital is not sustainable. A *passive* approach relying on central government grants is likely to result in a much diminished programme and undelivered priorities. The Council will only be able to expand the programme to meet its priorities by winning alternative external funding. Many of these funding streams are the subject of competitive bidding. Three consequences follow:

- The Council will have to ensure that it is organised such that it has the necessary skills to construct successful bids for funds. This may require new investment in training on new cost-benefit-analysis techniques as seen in the recent TCA bids;
- The Council will need to have its own resources to pledge as match funding; and

- Outcome Boards must proactively select and supervise projects to ensure that approved projects deliver maximum benefits and offer real value for money.

72. The current programme is heavily skewed towards Housing schemes because 3 things that ensure that a significant proportion of the council's capital programme already goes to social or affordable housing:

- The capital programme itself is nearly 75% housing
- A large number of housing land sales are under value
- Affordable housing requirements then take a slice of general capital receipts

73. What the current discussions and recommendations are seeking to do ensure that a reasonable proportion of potential receipts go to fund the other unfunded commitments in the capital programme to meet a broad range of Corporate Plan objectives. The budget process will test if Council priorities are accurately reflected in the current distribution of capital funds.

74. In terms of a medium term financial strategy for capital, the approach to be adopted should:

- Maximise flexibility in resource pools to ensure priorities in relation to housing can be most effectively achieved, including policies related to affordable housing
- Manage capital resource pools including New Homes Bonus and Community Infrastructure Levy to ensure that Council wide objectives are achieved
- Reaffirm the existing Corporate Resource Pool allocation principles

Appendix 1

FORECAST REVENUE POSITION 2015/16 TO 2019/20

	2015/16	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m	£m
Grant variations:					
Reductions in RSG - 2015/16	44.52	44.52	44.52	44.52	44.52
Reductions in RSG - 2016/17 (10%)		11.20	11.20	11.20	11.20
Reductions in RSG - 2017/18 (10%)			10.00	10.00	10.00
Reductions in RSG - 2018/19 (10%)				9.00	9.00
Reductions in RSG - 2019/20 (10%)					8.00
Reductions in HB and CTSS Admin Subsidy	0.69	0.69	0.69	0.69	0.69
Fall out of Freeze Grant -2014/15 & 2015/16		?	?	?	?
Council Tax Freeze Grant for 2015/16/Council Tax Increase	-1.90	-1.90	-1.90	-1.90	-1.90
Fall out of compensation for small business rates cap		1.08	1.08	1.08	1.08
Small Business Rates Relief Grant	-2.50	?	?	?	?
Business rate income:					
Inflation on business rate multiplier	-2.00	-4.00	-6.00	-8.00	-10.00
Increase in Business rate income	-1.00	-1.00	-1.00	-1.00	-1.00
Reduction in appeals provision	-3.00	-6.00	-6.00	-6.00	-6.00
Council Tax income:					
1% increase per annum from April 2016		-1.60	-3.20	-4.80	-6.40
Fall out of Collection Fund surplus	0.17	0.17	0.17	0.17	0.17
Expenditure variations:					
Pensions deficit	1.00	2.00	3.00	4.00	5.00
Use of Reserves to fund pensions	?	?	?	?	?
Employers NI Contributions		2.40	2.40	2.40	2.40
Redundancy costs	?	?	?	?	?
Debt charges (New Retail Quarter)	1.00	1.00	1.00	1.00	1.00
Streets Ahead contract	1.80	3.70	5.60	7.50	9.30
Sundry Debt saving	0.25	0.25	0.25	0.25	0.25
Pay Strategy	0.20	2.00	4.87	6.40	6.40
MSF ongoing Increase	0.45	0.90	1.35	1.80	2.25
Howden House PFI	0.26	0.39	0.52	0.65	0.78
Capital Financing costs	-1.60	-3.20	-5.10	-6.80	-8.50
Capita contract costs?	?	?	?	?	?
TOTAL	38.34	52.60	63.45	72.16	78.24
Year-on-year increase	38.3	14.3	10.8	8.7	6.1

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