July 2018

MEDIUM TERM FINANCIAL STRATEGY (MTFS)

2018/19 – 2022/23

Sheffield City Council

1 FOREWORD & EXECUTIVE SUMMARY

1.1 Foreword

The last 12 months has brought a stark reminder of the damage that eight years of austerity can do to the country's public services. In its 70th year, the NHS is facing an unprecedented crisis of funding and demand for its services and we have seen homelessness across England rising every single year since 2010[1]. In cities, towns and villages across England, local councils have a critical role in delivering the universal services which make our neighbourhoods good places to live. Schools, parks, libraries, the local roads and bin collections are part of the fabric of our daily lives. And councils also support some of the most vulnerable people in our communities; getting people the right support when they need it to help them live fulfilling lives.

But in the last eight years, the services that councils provide have borne the brunt of austerity. Local councils have seen £16 billion of vital funding taken away - 60p in every £1 of core Government funding they receive - since 2010[2]. The situation has led the National Audit Office (NAO) to report that council finances are increasingly uncertain[3] and Government have been slammed by Parliament's Public Accounts Committee for having no clear plan for the future funding of councils[4]

In Sheffield, we have seen our funding cut by over £430m since 2010, forcing us to make deep cuts to services that we did not want to make and bringing major changes to the services that people and businesses in our city depend upon. Further, the impact of austerity alongside population changes has brought a huge increase in the demand for social care and so councils like Sheffield across England are spending more and more of their reducing budgets on care, leaving little left to spend on other key local services.

Our Medium Term Financial Strategy (MTFS) sets out an honest and robust assessment of the City Council's financial challenge over the coming years, recognising that Government's cuts mean that we need to continue to make savings and changes to bridge a further £39 million gap over the next five years. Working with the other local public services, we will deliver service that people across every part of the city have the best life chances and opportunities by improving and protecting our services.

The city's financial future has to be built upon the city's strengths and we are committed to creating a fairer, stronger economy with more good, skilled, better paid jobs will increase local incomes and enable more people make best use of their talents. We are seeing our city centre transform with the Heart of the City 2 we are building more high quality, affordable homes across the city; and the development of the Advanced Manufacturing Innovation District is bring world-leading companies and new jobs to the city because of Sheffield's manufacturing innovation and research expertise.

[1] MHCLG (2017) *Rough sleeping statistics, Autumn 2017*, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/682001/Rough_Sleeping_Autumn_2017_Statistical_Release_-_revised.pdf
[2] Local Government Association (2018) *Local Government Funding: Moving the Conversation On*, https://www.local.gov.uk/sites/default/files/documents/5.40_01_Finance%20publication_WEB_0.pdf
[3] NAO (2017) *Financial sustainability of local authorities 2018*, https://www.nao.org.uk/wp-content/uploads/2018/03/Financial-sustainabilty-of-local-authorites-2018.pdf
[4] PAC (2018) *The financial sustainability of local authorities*, https://publications.parliament.uk/pa/cm201719/cmselect/cmpubacc/970/970.pdf

Councillor Olivia Blake
Deputy Leader / Cabinet Member for Finance
July 2018

1.2 Executive Summary

The Local Government Association estimate that local councils across England face a funding gap of around £7.8bn by 2025, constituting over a decade of budget reductions, in which Government have cut £16bn from the money they give to councils. The scale of the reductions has been particularly acute in urban and poorer areas that are more dependent on national funding and less able to raise money locally through Council Tax and Business Rates[5].

The fundamentals of how local services are funded have transformed since 2010 with budget reductions increasingly disconnecting the link between local needs and the amount of funding received by councils. Government have predominantly focused cuts on the core funding they give to councils meaning that councils are increasing reliant on locally-raised money such as Council Tax and Business Rates to pay for the services that local people need. The instability of local government funding has been highlighted as a concern by the National Audit Office[6] and the Public Accounts Committee[7] has criticised the Government for lacking a clear plan for the future of local government funding. Government *are* undertaking a 'Fair Funding Review'[8] of local government funding to consider how to allocate resources to councils after 2020/21 but the direction and potential impact of this review is currently unclear, causing additional uncertainty for local financial plans. Government have decided that from 2020, councils will be allowed to keep 75% of their local Business Rates (currently 50%), but the Government have also indicated that this change is likely to be fiscally neutral, i.e. other funding will be reduced in line with the extra Business Rates retained.

But the financial challenge facing councils like Sheffield is about more than cuts. The significant increases in demand for some of the most critical services (adult social care, children's social care) means that we are spending more money on the critical services for the most vulnerable people and the demand for social care is having a knock-on effect on demand in the NHS. 71% of Sheffield's projected £39m budget gap over the coming four years is due to the increases in demand for social care, which, together with Government funding cuts, means there is less money available for the other important services we need to provide for the city. It is therefore vital that we have a strong, shared plan with Sheffield's NHS Clinical Commissioning Group (CCG) for delivering better, integrated and sustainable health and social care services in the city.

Whilst Government have set out their intended plans for the NHS, the future plans for social care and the wider investment in public services remain unclear. Government's delayed Green Paper on social care is expected to be published in autumn 2018 and this will be followed by the Spending Review in 2019. Both will have profound implications for the present and future of Sheffield and the City Council.

---

[5] Institute for Fiscal Studies (2016) *Council funding reform may mean big winners and losers*, https://www.ifs.org.uk/publications/8706
[6] [6] NAO (2017) *Financial sustainability of local authorities 2018*, https://www.nao.org.uk/wp-content/uploads/2018/03/Financial-sustainabilty-of-local-authorites-2018.pdf
[7] [7] PAC (2018) *The financial sustainability of local authorities*, https://publications.parliament.uk/pa/cm201719/cmselect/cmpubacc/970/970.pdf
[8] MHCLG (2017) *Fair funding review: a review of relative needs and resources*, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/669440/Fair_funding_review_consultation.pdf

Managing the city's financial future – our plan:

Over the next five years, the City Council faces a £39.9m gap in its funding. As we have through the eight years of austerity to date, our approach to manage the City Council's finances will be to: improve services so that they are preventative, modern and more effective at meeting the needs of local residents; increase incomes and opportunities for all by investing in our economy; and maintain a prudent management of the Council's finances.

We face unprecedented financial challenges but we will continue to press Government to deliver a fair, sustainable funding system for councils which ensures Sheffield has the high quality services it deserves.

Our approach:

1. Deliver high quality, preventative services for everyone in Sheffield

We will continue to invest in the vital services that people and communities across Sheffield need so that everyone in every part of our city has the best chance in life. This will include:

- Delivering the right level of support by the right service at the right time to children and families in Sheffield - promoting the early identification of children with additional needs and delivering high quality preventative and supportive services to enable children to continue living successfully and safely with their families and communities.

- Working with NHS partners to protect and improve our health and care services, creating a high performing, joined-up health system in Sheffield that focuses on maximising people's wellbeing and preventing problems from getting worse. This will mean an increasing focus on access to universal services, early help and preventative support, helping people to regain and maintain their independence and reducing demand on services that manage crises.

- Continuing to deliver the vital core services for everyone in every part of Sheffield, keeping our neighbourhoods clean, green, and safe places to live and work

2. Build a stronger economy that makes the city fairer

- Offer fair opportunities to all by investing in education, skills, training and employment so that Sheffielders can use their talents to access more good jobs and better incomes

- Invest in our city's economic assets to create new opportunities for businesses and new jobs including: delivering the Heart of the City 2 project to transform our city; supporting the continued growth of the world leading Advanced Manufacturing Innovation District to bring more global companies and high skilled jobs to Sheffield; and investing in our transport infrastructure to drive economic growth and connect people to jobs and neighbourhoods.

- Deliver a sustainable approach to building the homes and neighbourhoods that our city needs; helping people living in Sheffield to have access to appropriate, better quality and affordable homes; improve our existing housing so that more people can live in safe, secure, pleasant and warm homes; and supporting Sheffield residents to live independently in homes which promote good health.

3. Good management of the city's finances

- Continue to maintain a prudent, balanced financial approach to the City Council's finances, maximising income to support frontline service delivery across the next 5 years, in order to sustain quality service provision for the city.
- Making bold investments across the City Council, including in delivering an ambitious customer experience programme and significantly improving our IT capabilities, enabling us to deliver modern, flexible and effective services for Sheffield.

Marianne Betts
Director of Finance & Commercial Services
July 2018

1.3 Key notes

The purpose of this report is to:

- Set out a brief summary of the policy and operational context for the Council (which is fully detailed in the complementary document – the Council's Medium Term Financial Analysis);
- Set out the broad financial approach to be adopted by the Council in the next 5 years; and
- the intended revenue based financial position for the Council across the next 5 years

This document reflects the position as known at July 2018, and should any assumptions held therein materially change, this document will be reviewed and re-published as appropriate. We anticipate the next publication to be in 2019.

Unless expressly stated otherwise, the monetary values stated within this document are in GBP£m.

Any references are listed in Appendix 1, and a glossary of terms can be found in Appendix 2.

2 STRATEGIC CONTEXT

What we anticipate could or will likely influence the Council's Medium Term Financial Strategy

This section contains a description of areas that could cause potentially major movements in funding and/or costs for the Council in the next 5 years.

These issues or opportunities are not known in sufficient detail for their impacts to be wholly quantified and for full inclusion in the MTFS, but are noted due the potentially significant impact on the Council's future financial position.

Full details of each item can also be found in the next publication of the MTFA.

2.1 Social Care System Review

Social Care services, in particular, face unprecedented levels of demand. The cumulative effects of funding cuts due to the national austerity programme, combined with emerging social care pressures and the challenge of securing funding from Health, who are themselves under pressure, are making the Council's current financial predicament extremely difficult.

The current business planning forecasts shows the Council faces a £39.9m gap, across the next 5 years, between what we anticipate the future costs of services to be (future pressures) and the revenue funds we have available (the budget). 71% of this gap is driven by increase in demand for Social Care services across the City and the required investment in social care services to meet this demand.

This should also be viewed within the context of a national drive to form Accountable Care Partnerships (ACP) between Local Authorities and Health bodies. This could see radical or marginal transformation of the care system and associated implication for budgets across all parties involved. As yet the implications are unknown and could present an opportunity or risk to SCC in a purely budgetary sense.

It also worth noting, that joint transformation plans with Sheffield's NHS Clinical Commissioning Group (CCG) for delivering better outcomes and subsequent budget savings for people receiving Mental Health service are also currently forecasting to under deliver, adding further cost pressures across public sector health services. Some of these cost pressures will be unknown given the nature of transforming services within a complex, multi-agency system.

2.2 Fair Funding Review

The Ministry for Housing, Communities & Local Government (MHCLG) is currently in the process of reviewing the formula that determines baseline funding levels for all local authorities.

As of July 2018, the result of this Review is uncertain for the Council. There are potential downfalls if the parts of the formula that benefit the Council (e.g. the funding for population density) are, in the round, decreased in favour of less-advantageous measures to Sheffield. There are also potential upsides, in so far as re-baselining has the chance to better recognise our funding need (i.e. social care pressures).

There is also the question of the amount, rather than split, of funding – the formula may change in a way that advantages the Council relative to other authorities, but if the overall pot of funding from Central Government decreases, the effect of this will be minimal.

The new baseline of funding currently under review is scheduled to begin for the year 2020/21. Officers are continuing to represent the Council during the phases of consultation.

2.3 Nature of grants

Aside from year on year reductions in the provision of Revenue Support Grant to Sheffield, there has been a trend in recent years for grants to be announced in the Local Government Finance Settlements (approximately Oct to December each year), therefore late in our financial year and current planning timetables. The MTFS includes known allocations of funding, and these then cease at the given point.

Two areas worthy of note for the revenue budget are the Revenue Support Grant and Social Care Funding; please see section 3 for further details.

2.4 Business Rates retention

The Local Government Finance Settlement for 2018/19 announced the Government's intention to increase the retention of business rates by Local Authorities from 50% to 75%. Whilst increased retention has been a proposal for some time, this has been at a different rate.

The Council has always assumed that any growth in retained rates would be matched by reductions in Government grants – in effect, the net increase in finances would be nil.

The opportunity in this position is that Council would see increased benefit of growth within the Business Rate (BR) tax base and retain a greater share of this growth in income. The risks are that the Council would see an increased downside of any BR decline, and also takes 75% of successful appeals that reduce BR liabilities. This last point is especially pertinent given known redevelopments in the city, including Meadowhall and the City Centre, which mean a potential loss of BR income across the short to medium term, before rates then recover and hopefully increase in the medium to long term.

2.5 National pay bargaining

Within Local Government we typically opt to negotiate collectively pay deals for our staff with the Trades Unions on a national level. Over the past few years Sheffield has assumed staff will be paid a nationally agreed pay increase of 1%, and we have agreed locally also to increase staff pay by half increments on their pay spines (until they reach the top of the spine). We also ensure all staff are paid the Foundation Living Wage as a minimum. This approach has meant we have protected more, good quality, jobs in Sheffield, and maintained a financially prudent approach.

National negotiations for the 2018/19 pay deal has seen a 2% increase being agreed, 1% above our previous assumptions. This trend will result in increasing cost pressures, as yet unquantifiable, to the Authority within the context of a decreasing budget.

In parallel, the National Joint Council (NJC) are reviewing local authority pay scales to reflect the new bargaining agreement, between this and the impact of FLW on our lower pay scales, we are likely to need a fundamental review of our pay structure in 2019/20 to ensure fairness, parity and a motivated workforce into the longer term.

2.6 Pension fund valuations

The cost of pensions provision with SCC makes up almost 10% of the influenceable revenue budget detailed in this MTFS. The Local Government Pension Scheme (LGPS) reviews what contributions SCC has to make as an employer, to the fund, every 3 years. The next review is due in 2020.

The value of the contribution is influenced by many factors, including but not limited to, the performance of the economy, stock markets, uptake in pension fund members etc. As such, the review can present the Authority with a risk or opportunity as costs may increase or reduce in value.

2.5.1 Pension fund – External Bodies

External bodies whose pension liability is underwritten by the Council are likely to find the cost of the scheme a significant burden in the current economic context. If they become insolvent, the resulting liability may involve significant cost to the Council.

The greatest risks to the Council are those schemes at risk of their pension fund closing in a deficit position. The current Triennial Review, which covers 2017-20, highlights the total liabilities being underwritten by the Council for external bodies are £10.4m. This figure is on an ongoing, rather than least risk, basis. In the worst case, if these funds were to crystallise, the potential liability could be much higher.

These risks are continually reviewed to ensure that any impacts of potential crystallisations are minimised.

2.6 National Spending Review

The Chancellor of the Exchequer announced in spring 2018 that there will be a full spending review across Government, to be published in 2019. This is likely to be a comprehensive reassessment of the Government's spending plans, and will set the national fiscal context for the next few years. It will set both the total level of public spending for the period from 2020 onwards, and how this spending is to be allocated across Government departments. As a result, there is likely to be intense lobbying from all sectors about the best way to distribute investment, as well as calls to increase the total level of spending after many years of austerity.

Local government has historically been less effective in its lobbying efforts than other parts of the public sector (e.g. health and defence) during Spending Reviews. The Chancellor will, though, be under significant pressure to use the Spending Review to provide certainty and stability for local government in the face of the growing funding crisis in the sector. However, at the time of writing it is unclear how the Spending Review will impact upon other recent and forthcoming announcements, such as the additional funding for the NHS announced in 2018, the Social Care Green Paper, 75% business rates retention, and the ongoing Fair Funding Review.

Any changes resulting from the Spending Review will not take effect until the 2020/21 financial year at the earliest, creating a risk that any shorter-term action before then from the Government to provide additional resources for social care will simply be a continuation of stopgap measures that have been put in place over the last few years, rather than a more comprehensive plan to deal with the underlying issues. As such, it represents both a medium-term opportunity and a short-term risk to the Council's financial position.

3 Gross Revenue Budget Context

How the Revenue Budget is funded, what it is typically spent on and what we can and can't influence directly (as at 2018/19)

3.1 Income – What funds does the Council receive to provide the City's services

As at 2018/19, we receive approximately £1.3bn of Gross Revenue funding to provide or invest in services and assets in the City. The sources of funding are as detailed in Figure 1 below. The MTFS only deals with a proportion of this spend, £402m, as the large majority is ring fenced for specific purposes as set out by National policy or statutes.

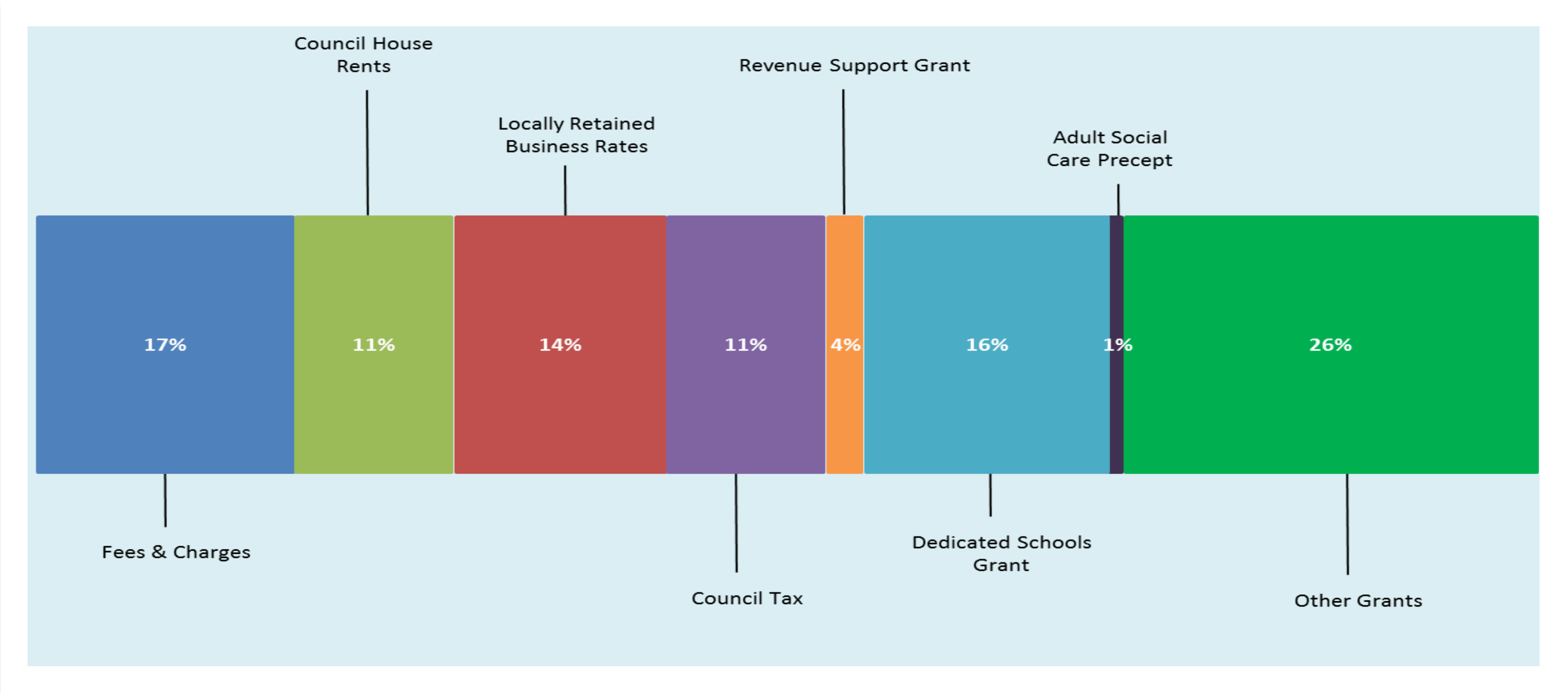


Figure 1: Gross Revenue Income, broken down by key income stream (source: SCC)

The gross revenue budget is forecast to marginally increase by 2022/23, however the proportions of funding as illustrated in Figure 1 will stay largely the same.

The marked exception being a reduction in Revenue Support Grant (RSG), this reduces to a flat £37m assumed across the 5 year period.

Any increases have been attributed to successful bids with longer term plans (e.g. Housing Growth) or inflation and appreciation in funding values (at on average 2% per annum).

Overall this financial picture is typical of a Northern Unitary Authority, we can see there is increasing impetus being placed on Councils to raise funds locally or through grant cycles (which have less certainty, as you are often competing for funds).

3.1.1 Income – Fees & Charges

Fees & Charges make up 17% of the Council’s income as at 2018/19 and this percentage is set to grow as grant funding diminishes.

£m	2018/19	2019/20	2020/21	2021/22	2022/23
Fees & Charges	222	227	231	236	240

Table 1: Forecast Income generated from fees & charges for SCC between 2018/19 and 2022/23

Local Authorities operate in an environment where Fees and Charges are heavily regulated, we often have to ring fence any funds raised to be used within the same services the fees are charged from.

In addition, 39% of the fees generated are social care fees, which are ‘passported’ through the Council to social care providers chosen by and on behalf of the individuals with social care needs, so the Council is not materially benefitting from the income in those instances.

In cases where we have discretion, we operate in a free and competitive market, and as with any business, the Council will need to balance our pricing and charging models with the quality of service, costs and customer needs.

3.2 Expenditure - How funds received are used to provide the City's services

As at 2018/19, we spend approximately £1.3bn of Revenue funding on providing or investing in services and assets in the City. This is allocated to services and assets as detailed in Figure 2 below.

The MTFS only deals with a proportion of this spend, £402m, as the large majority is ring fenced for specific purposes as set out by National policy or statutes.

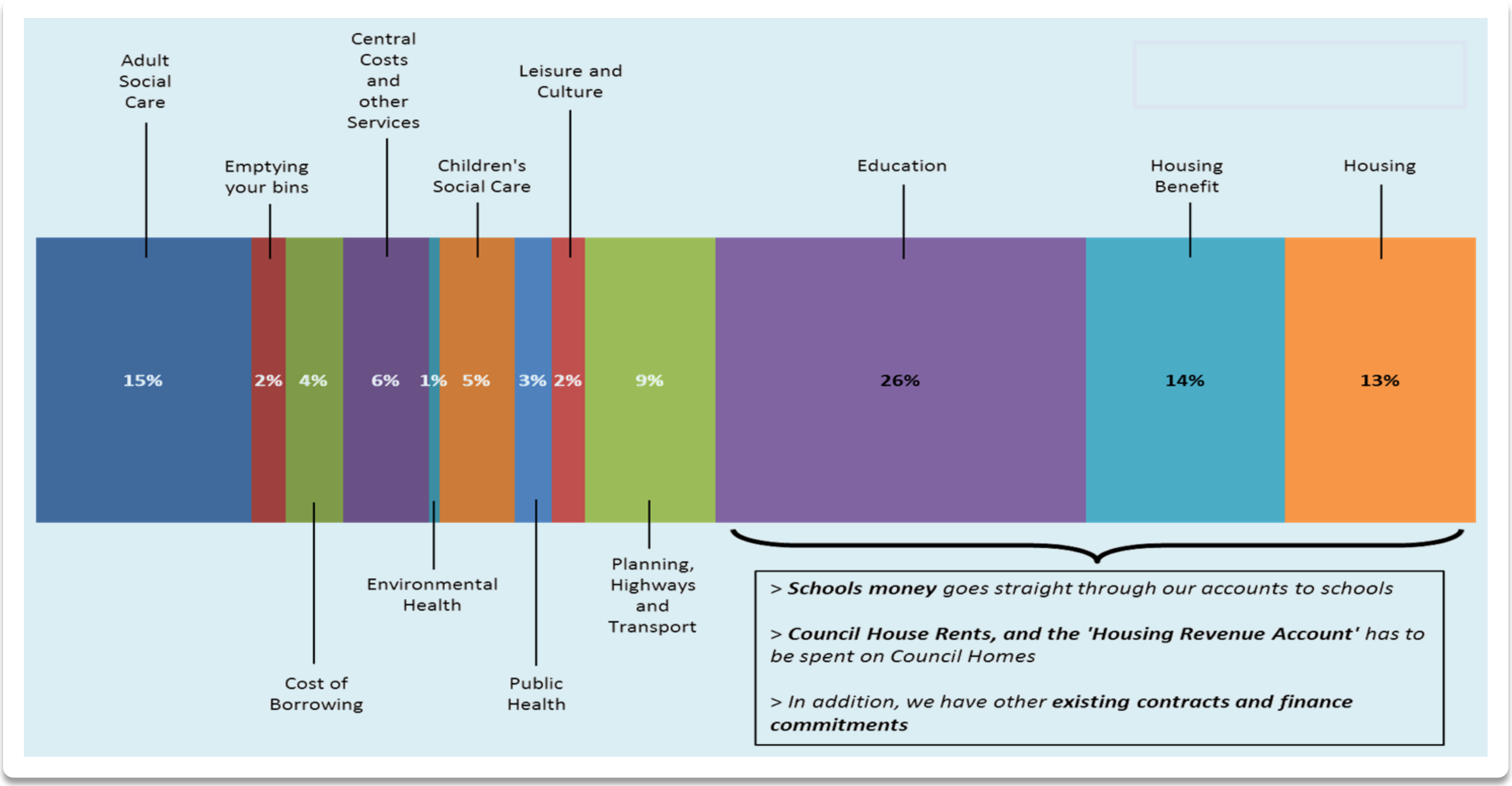


Figure 2: Total Revenue expenditure, broken down by key service area (source: SCC)

The above allocation evidences the Council's strategy to protect front line services that enable and support the most vulnerable in our City.

Across the next 5 years we are forecasting increasing demand for social care services, partly down to an increase in life expectancy and increased birth rates. Therefore we are forecasting an increased proportion of funds being used to support social care services to children and adults; this means a reduced amount of funds available to support other services, unless income increases.

3.3 Local Choice – What funds does the City have the ability to choose to allocate to services

Whilst the Council has an overall budget of £1.3bn, most funds received are provided to the Local Authority for a specific purpose (ringfenced funding) and we have little local discretion on how those funds are distributed between services. Please see Figure 1 for more details.

Approximately £402m is influenceable directly by Sheffield, and the MTFS focusses solely on the net aspect of our revenue budgets.

3.4 Current Reserves Position

Figure 3 below shows the Council's reserves are slightly below the 'core city' average, although we still judge them to be adequate. Whilst the majority of reserves are held for specific purposes, our reserves can be used in the short term to support services through:

- Delivering savings by prepaying major contracts and commitments
- Avoiding more expensive external borrowing
- Providing assurance of service continuity
- Investing in services to drive change and associated savings

Any service overspends will typically be funded from reserves, but this reduces our ability to deliver the benefits above.

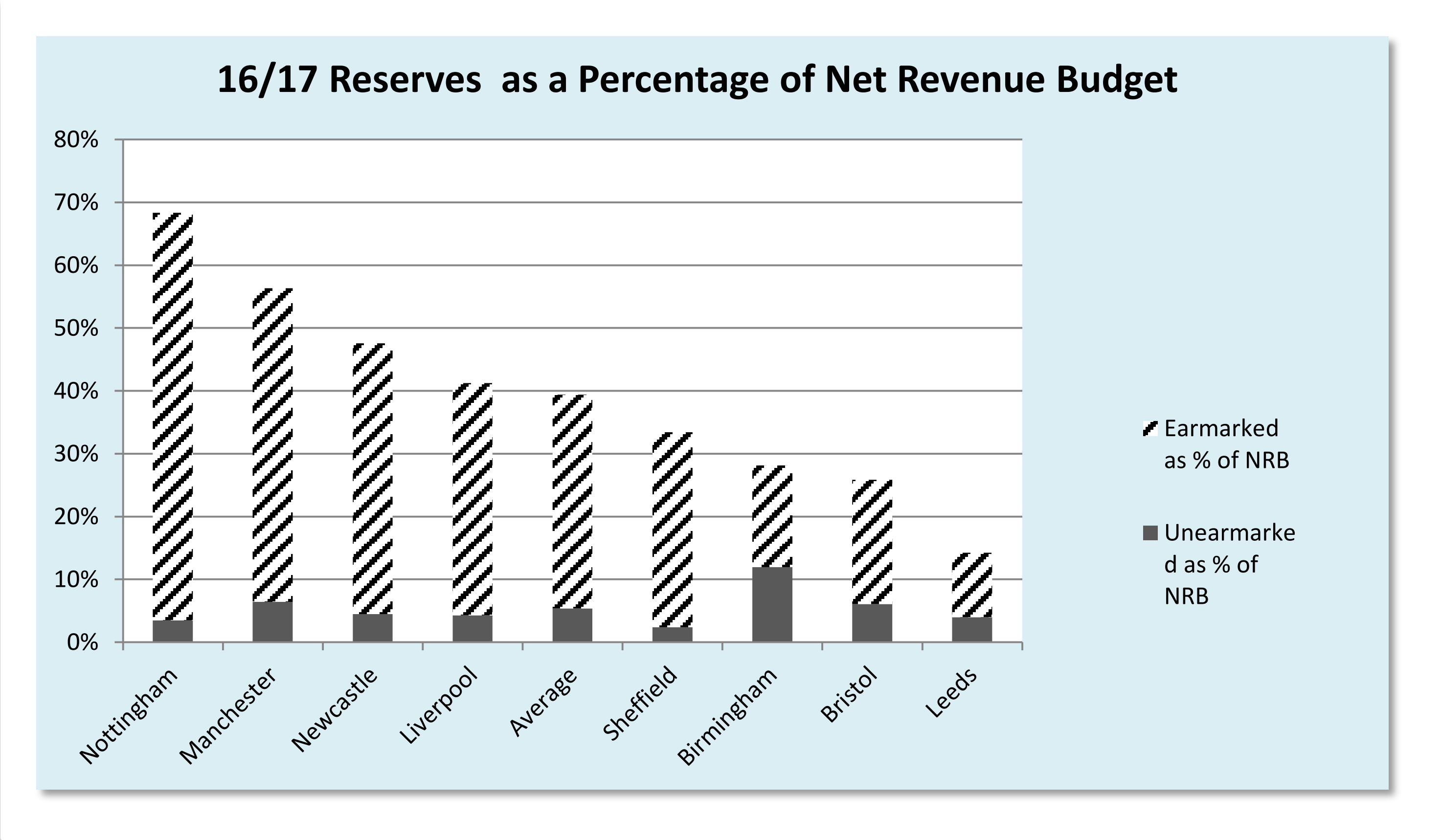


Figure3: SCC proportion of reserves as compared to Core City Local Authorities (source: SCC, Core City Statement of Accounts & Budget Books)

4 PROPOSED MEDIUM TERM STRATEGY

Given the strategic context and current financial position of the Council, this section outlines the financial approach to be adopted by the Council, and the anticipated financial position of the Council for the next 4 years.

4.1 MTFS Summary

The Council faces a £39.9m gap over the next five years (see Table 2). We intend to maintain a prudent financial approach, to sustain quality service provision for as long as possible, however we remain facing unprecedented financial challenges over this period.

	£m	2018/19	2019/20	2020/21	2021/22	2022/23
4.2	Total Income	401.9	402.3	408.4	414.7	420.9
4.3	Total Expenditure	-401.9	-425.7	-437.6	-449.1	-460.8
	Net Total	**0**	**-23.4**	**-29.2**	**-34.5**	**-39.9**

Table 2: Forecast Income, Expenditure and funding gap for SCC between 2018/19 and 2022/23

The Council is not currently forecasting any ongoing injection of additional funds from Central Government, or by other means, that materially addresses the current funding gap. We are therefore assuming the Council needs to provide services now and into the medium term within the values of currently stated operating budgets. This means our budgets are effectively capped and we will need to absorb inflationary operational costs.

The Council has also already released financial benefits from our key financial instruments (such as reprofiling our debt) without compromising the financial integrity of the Authority, now or into the long term or moving away from local policy.

Any change in this approach, whilst providing a potential avenue to balance in the medium term, will mean increased risk to the Authority now and means we would be unlikely to balance into the longer term. Please see section 5 on our key assumptions for further details.

The Council is clear the balanced financial approach outlined above, with all things being equal, needs to be maintained to enable future generations to continue to deliver the same breadth of quality services for the City. The sections below outline our forecasts based on current plans and the financial approach we will adopt in each case. Please also se section 5, for key assumptions behind the MTFS values stated.

4.2 Income

The Council's financial approach is to maximise income to support front line service delivery across the next 5 years. Whilst the overall value of revenue income marginally increases, as can be seen in section 4.3, when reviewed against increase in demand, this increase does not meet the financial pressure we anticipate.

Please see sections 4.2.1 to 4.2.6 for further details.

	Source of funding	**2018/19**		**2019/20**		**2020/21**		**2021/22**		**2022/23**	
		£m	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
4.2.1	Revenue Support Grant (RSG)	52.4	13%	36.9	9%	36.9	9%	36.9	9%	36.9	9%
4.2.2	Council Tax	190.8	47%	198.1	49%	203.2	50%	208.5	51%	213.8	51%
4.2.3	Social Care Precept	14.9	4%	15.0	4%	15.0	4%	15.0	4%	15.0	4%
4.2.4	Retained Business Rates	141.9	35%	143.0	36%	144.0	35%	145.0	36%	145.9	35%
4.2.5	Other Grants & Contributions	1.9	0%	0.0	0%	0.0	0%	0.0	0%	0.0	0%
4.2.6	Better Care Fund	0.0	0%	9.3	2%	9.3	2%	9.3	2%	9.3	2%
	Overall total	401.9		402.3		408.4		414.7		420.9	

Table 3: Forecast Income for SCC between 2018/19 and 2022/23

4.1.1 Revenue Support Grant (RSG)

RSG is the core funding provided annually by Central Government to Local Authorities to provide services locally. We will see this funding drop by 30% in 2019/20 to a plateau of £37m across the medium term and anticipate this potentially being reduced further as austerity continues and the Fair Funding Review is undertaken.

Our financial approach is to seek to generate alternative sources of income (or mitigate costs), please see following sections.

Please also see associated notes below on Fair Funding Review and Business Rates retention.

4.1.2 Council Tax

The Council will become increasingly dependent on Council Tax (and Business Rates) for future sustainability of services across Sheffield.

Under current legislation the Council can raise a maximum of approximately £5.7m per annum (without a referendum), based on the currently eligible households in the City. Council Tax looked at in the context of our wider demand pressures, will not be the solution to address our funding gap alone.

Council tax remains an area of 'unringfenced' funding for a Local Authority, therefore has some of the most flexibility in its deployment. Our financial approach will be to ensure we are being commercially and financially astute in deploying our Council Tax resources, and releasing funds where we can see a return on investment (whether a saving or increased income) will be prioritised.

4.1.3 Social Care Precept

In the context of national social care pressures, Central Government introduced a social care precept of 2% as a levy to be collected by local authorities in 2016/17. There was a further ability to raise up to 6% over the three years from 2017/18 to 2019/20, with a maximum cap of 3% in any particular year.. The MTFS assumes this is the last instance, and no further increase in precept will be levied, as Central Government has not yet confirmed its intentions with regard to social care funding in general and the precept itself.

4.1.4 Business Rates

The value of Business Rates is set nationally by Central Government, and Sheffield is currently able to retain 50% of business rates generated in the city. However, the government has announced that from 2020/21 the Council will be able to retain 75% of business rates from eligible businesses in the City.

Our approach is to evaluate the potential increase in rates receivable but not play those into the MTFS until the full funding package for Local Authorities is known by government. We anticipate the rate increase will be provided, but that in return, other funding sources will be removed or diminish.

Also we will have significant developments occurring across the City up to 2023 (and beyond) that will increase the number of business rate appeals we are likely to receive and therefore reduce our base income assumptions during the MTFS period.

4.1.5 Other Grants & Contributions

The Council's largest contributor of grant funding are the Central Government Departments, who typically release opportunities to bid in an annual cycle or as policy is developed nationally. For the purposes of the MTFS we have only included funding we are certain of receiving, so there is little shown as a contribution past 2020.

The Council's approach is to ensure it has a wholly developed suite of strategies and underpinning plans, so when invited to bid we have decent collateral and increased credibility to drive up our success rate for 'winning' funding. We will maintain the prudent approach of only 'banking' on and accounting for committed funding.

4.1.6 Better Care Fund

The Better Care Fund was established in 2017/18, to drive transformation of care services jointly with Health across Sheffield, and consists of nominally pooled budgets.

The original award announced via the Autumn Statement in 2016 set out a three year increasing allocation. For Sheffield this was £2.2m for 2017/18, an additional £10.4m in 2018/19 and a further £9.3m for 2019/20. The level of funding announced nationally was criticised from the outset given increasing demand for services, related cost pressures and significant cuts to the needs based funding (RSG) that supports Social Care services. This additional ongoing funding will continue protect care services by partly offsetting the reduction in the needs based funding.

Following nationwide lobbying, including representations from Sheffield City Council, the Government announced additional on-off funding during the spring of 2017. Due to the one-off nature of this income, the Council has earmarked this additional BCF for transformational activity which will support the People portfolio to deliver its recovery plans on long term savings. This element of the funding is therefore reflected in the MTFS via a reduction in the People Portfolio pressures and delivery of future savings.

4.2 Expenditure

The Council's expenditure is set to increase across the next 5 years, largely due to social care demand pressures and inflationary costs. Table 4, details the proportion and value of spend across each Portfolio.

	Budget Allocation	2018/19		2019/20		2020/21		2021/22		2022/23	
		£m	%	£m	%	£m	%	£m	%	£m	%
4.2.1	People	213.0	53%	234.4	55%	241.1	55%	246.4	55%	251.7	55%
4.2.2	Place	147.1	37%	148.6	35%	154.0	35%	158.9	35%	163.9	36%
4.2.3	Resources & PPC	40.8	10%	41.8	9%	43.1	9%	44.2	10%	45.4	10%
4.2.4	Corporate items	1.1	0%	0.9	0%	-0.5	0%	-0.3	0%	-0.1	0%
	Overall total	**401.9**		**425.7**		**437.6**		**449.1**		**460.8**	

Table 4: Forecast Expenditure by Portfolio and Corporate for SCC between 2018/19 and 2022/23

We have a suite of strategies and plans in place that seek to protect front line services (as shown by the 55% budget allocation to People based services) but balanced against driving efficiencies, savings or income.

The Council's approach to managing the increase in cost is detailed in sections 4.2.1 to 4.2.4 below.

4.2.1 People Portfolio

The People Portfolio's primary (revenue related) strategy is to manage the, nationally recognised, demand pressures they face within social care.

The Social Care Improvement plans were published in 2017 and cover a 4 year period, especially crafted to challenge the social care cost pressures the Council faces. The Portfolio is working with local health bodies to adopt a system-wide approach, which will protect services, whilst allowing the funding to follow the service provided. The MTFS position should be seen in this wider context and assumptions therein, assume these joint plans are delivered against

In particular, the Council is seeking to improve services for patients by speeding up and increasing access to the Council's home care provision from hospital. This reduces Delayed Transfers of Care (DToCs) – i.e. people who remain in hospital after they are medically fit to be discharged. However reducing DToCs requires additional services, as individuals are coming to social care earlier than under the previous system, are receiving care packages for longer. In particular social care support, and these additional services are resulting in cost pressures borne by the Council. In addition, the incidents of individuals receiving Continuing Health Care has been reduced in Sheffield and costs are either being picked up by the individual or SCC.

This also means continuing to challenge ourselves to be as productive as possible, refocusing services to prevent need and take a lifelong view of the vulnerable individuals in city; whilst bringing new ways of working into the relevant Council provided services.

A rebaseling of social care service budgets will also be undertaken in 2018/19, the outcome of this will be fed into the next MTFS.

4.2.2 Place Portfolio

The Place portfolio are undertaking a major change programme, including a review of the financial infrastructure and funding. The programme is set to run until 2019/20 and realise significant service change and savings. Front line services are set to increase the quality of the customer experience by undertaking whole process /system reviews, maximising technological solutions and increasing productivity.
Various Place projects and strategies will require a blend of capital and revenue investment. Once agreed, the revenue implications will be played into a future MTFS.

4.2.3 Resources Portfolio and Policy, Performance & Communications (PPC)

The Resources portfolio & PPC are focussed on delivering corporately enabling initiatives such as the Customer Experience programme and Tech 2020 – its strategies underpin the other portfolios, enabling all portfolios to achieve ambitious plans. Resources are also reviewing their productivity and continue to embark on reshaping its services to enable SCC's strategic objectives.

4.2.4 Corporate items

The corporate items are areas of spend that affect the council budgets and services as a whole, for example our cost of borrowing. We anticipate as inflation increases the corporate items will increase in cost.

Our financial approach is to manage those pressures through portfolio savings, invest to save corporate proposals or reserves as appropriate.

4.2.5 Material movements in expenditure

Table 5 outlines, the aggregate and material financial movements of over £4m (positive and negative) we anticipate will occur across the five year period of the MTFS (to 2022/23):

Service affected	£m	Rationale for the material movement in expenditure
Adult Social Care	34	Demographics are driving demand, whilst costs are also above inflationary increases due to items such as National Living Wage and local market pressures. This is a net increase after savings proposals to: • Contain costs • Target support better • Drive efficiencies • Early intervention strategies
Transport and Highways	11	Continue to improve the city's transport infrastructure and road networks to facilitate economic growth across the city and meet inflationary cost pressures..
Children's Social Care	4	The ambitious plans for Children's Social care almost balance the immediate pressures on the service over the medium term. Ambition to improve quality and suitability of provision is pervasive throughout recovery plans
Central Costs	6	Investment in organisational wide improvements such as improved ICT. These help to contain costs in all areas, drive productivity and improve customer experiences.

Table 5: Material variances in SCC budgets between 2018/19 and 2022/23 (Source: SCC)

4.3 Net Assets

In terms of the Council's balance sheet we remain a strong financial position, with Net assets of a forecast worth £1.37bn as at 2022/23.

£m	2018/19	2019/20	2020/21	2021/22	2022/23
Long Term Assets	3,225,162	3,284,813	3,345,657	3,407,719	3,471,021
Current Assets	251,435	250,435	249,435	248,435	247,435
Current Liabilities	-249,489	-253,752	-260,507	-263,613	-267,051

Long Term Liabilities	- 2,119,944	- 2,114,991	- 2,101,198	- 2,087,352	- 2,073,514
Net Assets	**1,107,163**	**1,166,506**	**1,233,388**	**1,305,189**	**1,377,891**

Table 6: SCC Net Assets 2018/19 and 2022/23 (Source: SCC)

Within the context of enabling economic growth in the city and protecting our strong Sheffield heritage, our overall approach will be to leverage value from assets when the market opportunities arise, whether a refinancing option or capital receipts for example.

We are seeking to maintain a good level of liquidity, in order that we can continue to invest in services and the City, but this means delivering on the efficiency plans and enabling strategies in the short term, to ensure this position remains available to the authority in the medium to longer term.

There are no material movements to record as at July 2018 but future borrowing is likely increase in the medium term as major city developments get under way, such as the Heart of the City II scheme.

Our financial approach is maintain and retain a steady asset base, we have also assumed property values are set to appreciate by a prudent 2% per year; though we would seek best market value should they be sold. This also balances and principally mitigates our asset depreciation and inflation on borrowing costs.

Full details of our Assets and Labilities can be found in the Council's budget book 2017/18.

4.4 Reserves

Our reserves are split between usable and unusable reserves. Our usable reserves are then broken down by those that are 'earmarked' (i.e. committed to future debt repayments) and those that are 'unearmarked'.

Our unearmarked reserves have been replenished in 2018/19 to 3% of the net revenue budget (approximately £12.6m). This is assessed as the minimum level of provision we require and is typically used for emergencies (such as severe flooding).

The Council's reserves strategy is to maintain the minimum assessed provision, and should there be an overspend in year, reserves will be used but are required to be replenished as the priority.

5 Key Assumptions

5.1 Assumptions made within the MTFS

Table 7 details the principle assumptions made with the MTFS and the current policy position we adopt and embed in our financial approach.

Subject	Policy Background or Financial Approach	Key assumptions in MTFS
Business Rates	Maximise receipt of business rates to be retained by Sheffield, for investment in services that benefit Sheffield.	2018/19 to 2020/21 – 50% retention based on current Business Rates income values. 2020/21 onwards – 75% retention but net nil impact – balanced against loss of other grants and reduction in BR income due to city wide developments.
Borrowing	We look to the cheapest source of borrowing first, often our own cash (internal borrowing), then typically PWLB loans, lastly the private sector market.	Values for investment in a service or project are only included where there has been financial and appropriate approvals i.e. has become a commitment.
Capital Financing	Refinancing only where the gains are material, the risk minimal and the long term impact is minimised.	No refinancing
Council Tax	The Council may increase council tax by 2.99% per year. Central Government may review the referendum cap.	Increase of 2.99% per year.
Fair Funding Review	Central Government is leading a review of local government funding. No formula for allocation of funding is yet agreed.	Net nil impact.
Fees & Charges	Fees and charges will be increased in line with inflation or actual costs incurred, where we are statutorily able to make such increases.	Average 2% increase in fees per year
Health Contributions	Elements of the Social Care Improvement plans to 2021, have been jointly agreed with the CCG and SCC.	The savings agreed in the joint Social Care Improvement Plans between SCC and CCG, including the CCG contribution to SCC, are embedded with the MTFS budget
Insurance Provisions	Maintain an appropriate level of provision to enable the Council to insure and self insure, based on current planning and risk registers.	£2m released from the Insurance provision into the MTFS budget assumptions in 18/19. Takes SCC back down to the assessed minimum level of prudent provision.

Minimum Revenue Provision	Maintain an appropriate level of provision to enable the Council to borrow as required and based on current SCC business planning assumptions.	£6.3m contributed in 18/19. Nil further contribution as maintaining the level of provision required based on current business plans
New Homes Bonus	Ringfenced for investment in housing and economic growth across the City and tied future development plans. (Note: this is one off funding)	Excluded from the MTFS.
Pay	Salary costs and inflationary salary pressures are absorbed within the Council's current budget allocations.	The salary costs will not exceed the 18/19 budget allocation.
Pensions	Minimise risk of accruing a further pension deficit, especially those that are likely to crystallise.	Nil impact
Social Care Funding	Given the national prevalence of the issue of social care funding, it may be possible that further funding will be issued via late grants in the future. However the actual position is not yet known, so represents both a potential risk or opportunity, depending upon the actual level of grant received. The Council position is to be prudent and not 'bank' on this as a permanent income stream. Also to seek to generate and maintain social care contingencies until the funding position is known nationally.	The Government will continue with its 2019/20 level of social care grants into 2020/21 to 2022/23.
Reserves (unearmarked)	To maintain the minimum level of assessed reserves provision	No reserves used for overspend. Invest to save proposals agreed as 18/19 budget planning are included in the portfolio budget allocations and savings.

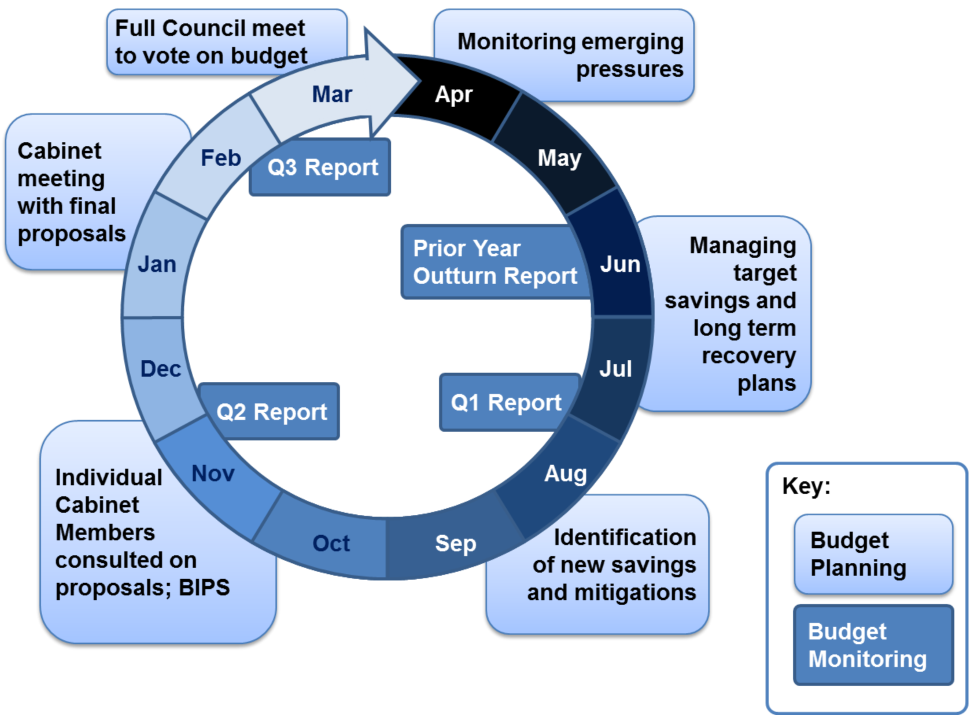
Table 7: Key MTFS assumptions across 2018/19 and 2022/23 (Source: SCC)

6 Financial prudence and assurance

The Council's approach to maintain prudent financial management and delivery of the MTFS

6.1 Financial Planning

In the context of a medium term financial plan, the Council also has an annual budget cycle. This starts with business planning for the following year and monitors performance against prior plans in year. Monitoring also includes regular reporting to key stakeholders and enables SCC to hold those to account for delivery of the business and budget plans. This works alongside the governance detailed in section 6.2. This planning cycle allows us to meet our statutory obligation to provide an annual budget book and annual set of accounts. However, most plans developed are considered past 1 year and the broader planning cycles encourages multiyear plans to be adopted. Our whole financial approach is based in prudence and is balanced, in that it is undertaken to enable ongoing quality service provision and investments in the City in the short, medium and long term.



6.2 Decision making

The Council maintain financial assurance of our Revenue budget through a series of governance procedures, the key aspects of which are detailed below:

6.2.1 Delegated Authority

The Leader of the Council holds ultimate authority to take a decision. The Leader is also able to set up a scheme of delegations, delegating decisions to other Members or Officers.

Decisions are typically developed using internal Boards as first line approvals, financial and commercial advisors are integral to those Boards.

Each and every potential decision with a revenue budget implication is brought to the Leader (or relevant decision maker under the Leader's Scheme of Delegation) for consideration and approval.

Material decisions are typically taken to Cabinet, in the form of a Cabinet Report, on which appropriate parties are consulted. All Executive Decision reports, including Cabinet Reports, must detail the financial and commercial implications of the decision, to ensure decision makers are fully informed before they make their decision.

6.2.2 Financial Regulations

The Council articulates and sets out as part of its Regulations, a financial protocol. All Members and Officers are required to comply with the financial procedures set out therein.

The procedures put in place a series of control measures to enable financial prudence across the authority and minimise financial risks, such as fraud.

6.2.3 Statutory Roles

The Council is required by statute to appoint a series of statutory officers. With regard to finance, the Council has appointed a Section 151 Officer. This Officer is ultimately accountable for the financial performance of the organisation and has powers to 'step in' and veto a decision should it prove to be financially imprudent.

Other statutory roles provide complementary functions in managing overall risk to the Authority.

A1 BIBLIOGRAPHY

This appendix 1 sets out the articles, papers or documents referenced within this document

Title	Reference (if appropriate)	Link (available as at July 2018)
BCC Budget Book 2018/19	February 2018, Birmingham City Council	https://www.birmingham.gov.uk/download/downloads/id/9437/council_plan_and_budget_2018.pdf
BCC Statement of Accounts 17/18	2018, Birmingham City Council	https://www.birmingham.gov.uk/downloads/file/9987/birmingham_city_council_draft_statement_of_accounts_2017_to_2018
BCC Budget Book 2018/19	February 2018, Bristol City Council	https://www.bristol.gov.uk/council-spending-performance/council-budgets
BCC Statement of Accounts 17/18	2018, Bristol City Council	https://www.bristol.gov.uk/documents/20182/2644553/2017-18+Draft+Statement+of+Accountsment+of+Accounts/90b77328-f6cf-3c8b-6922-16a707eae8d1
Council funding reform may mean big winners and losers	2016, Institute for Fiscal Studies	https://www.ifs.org.uk/publications/8706
Council's will not benefit equally from Business Rate retention	Feb 2018, Public Finance	https://www.publicfinance.co.uk/news/2018/02/councils-will-not-benefit-equally-business-rate-retention
Discussion Paper regarding the Relative Needs Assessment	May 2018, Ministry of Housing, Communities & Local Government (presented at the Local Government Association)	https://www.local.gov.uk/topics/finance-and-business-rates/business-rates-retention > Steering Group > 14 May 2018
Fair funding review: a review of relative needs and resources	2017, Ministry of Housing, Communities & Local Government	https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/669440/Fair_funding_review_consultation.pdf
Financial sustainability of local authorities 2018	2017, National Audit Office	https://www.nao.org.uk/wp-content/uploads/2018/03/Financial-sustainabilty-of-local-authorites-2018.pdf
Grant Thornton Vibrant Economy Index	April 2018, Grant Thornton	https://www.grantthornton.co.uk/insights/vibrant-economy-index/
Health & Social Care Interface	July 2018, National Audit Office	https://www.nao.org.uk/report/the-health-and-social-care-

		interface/
LCC Budget Book 2018/19	February 2018, Leeds City Council	https://www.leeds.gov.uk/docs/2018-19%20Revenue%20Budget%20and%20Council%20Tax%20%20report.pdf
LCC Statement of Accounts 17/18	2018, Leeds City Council	https://www.leeds.gov.uk/docs/Draft%20Statement%20of%20Accounts%202017-18.pdf
LCC Budget Book 2018/19	February 2018, Liverpool City Council	https://liverpool.gov.uk/media/8638/budget-book-2018-19.pdf
LCC Statement of Accounts 17/18	2018, Liverpool City Council	http://liverpool.gov.uk/media/1356973/statement-of-accounts-2017-18-unaudited.pdf
Local Government Funding: Moving the Conversation On	2018, Local Government Association	https://www.local.gov.uk/sites/default/files/documents/5.40_01_Finance%20publication_WEB_0.pdf
MCC Budget Book 2018/19	February 2018, Manchester City Council	http://www.manchester.gov.uk/info/200110/budgets_and_spending/7618/our_funding_for_201820
MCC Statement of Accounts 17/18	2018, Manchester City Council	http://www.manchester.gov.uk/download/downloads/id/26059/unaudited_accounts_201718_v2.pdf
Medium Term Financial Analysis 2018/19 -2022/23 (MTFA)	July 2017, Sheffield City Council	http://democracy.sheffield.gov.uk/ieListDocuments.aspx?CId=123&MId=6619
NCC Budget Book 2018/19	February 2018, Newcastle City Council	https://www.newcastle.gov.uk/your-council-and-democracy/budget-annual-report-and-spending/budget/budget-2018-19
NCC Statement of Accounts 17/18	2018, Newcastle City Council	https://www.newcastle.gov.uk/sites/default/files/wwwfileroot/your-council-and-democracy/budget-annual-report-and-spending/copy_of_annual_report_accounts_2017-18_-_31-05-18-_draft_1a.pdf
NCC Budget Book 2018/19	February 2018, Nottingham City Council	http://committee.nottinghamcity.gov.uk/ieListDocuments.aspx?CId=155&MId=6561
NCC Statement of Accounts 17/18	2018, Nottingham City Council	http://www.nottinghaminsight.org.uk/d/201057
Rough sleeping statistics, Autumn 2017	2018, Ministry of Housing, Communities & Local Government	https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/682001/Rough_Sleeping_Autumn_2017_Statistical_Release_-_revised.pdf

SCC Budget Book 2018/19	February 2018, Sheffield City Council	https://www.sheffield.gov.uk/home/your-city-council/budget-spending.html
SCC Budget Risk Register	February 2018, Sheffield City Council	Appendix 5 in the SCC Budget Book 2018/19.
SCC Capital Budget Book 2018/19-2023/24	February 2018, Sheffield City Council	https://www.sheffield.gov.uk/home/your-city-council/budget-spending.html
SCC Key Decisions - Forward Plan	June 2018, Sheffield City Council	
SCC Housing Strategy	2018, Sheffield City Council	https://www.sheffield.gov.uk/content/dam/sheffield/docs/housing/housing-strategy/Housing%20Strategy%202013-2023.pdf
SCC Statement of Accounts17/18	2018, Sheffield City Council	https://www.sheffield.gov.uk/content/dam/sheffield/docs/your-city-council/budgets-and-spending/Sheffield%20City%20Council%20Unaudited%20Statement%20of%20Accounts%202017-18.pdf
SCC Social Care Improvement Plans	2017, Sheffield City Council	http://democracy.sheffield.gov.uk/ieDecisionDetails.aspx?AIId=15332
State of Sheffield 2018 Report	March 2018, Sheffield City Partnership	https://www.sheffieldcitypartnership.org/scp-reports/2018/3/5/state-of-sheffield-2018-report-tyte2
The financial sustainability of local authorities	2018, PAC	https://publications.parliament.uk/pa/cm201719/cmselect/cmpubacc/970/970.pdf
The progress of the Fair Funding Review	2018, Local Government Association	https://www.local.gov.uk/search/all/fair+funding+review
What is the real living wage?	2018, Living Wage Foundation	https://www.livingwage.org.uk/what-real-living-wage

A2 GLOSSARY

This appendix 2 sets out definitions of key words and phrases contained in this document.

Acronym	Term / Name	Description
BR	Business Rates	Business rates are a property tax paid by occupants of non-domestic properties. Various reliefs, both mandatory and discretionary, are available from full business rates liability.
	Core Cities	Eight cities within England have been designated "core cities", forming a network of major regional cities. These cities are focal points in their respective regions and have forged a strategic partnership. These Cities are Birmingham, Manchester Leeds, Sheffield, Liverpool, Nottingham, Bristol and Newcastle.
FLW	Foundation Living Wage	A voluntary amount paid above the national living wage to reflect the actual cost based on a basket of goods. Currently this around 12% higher than the national living wage.
HRA	Housing Revenue Account	The specific Council fund where costs and income associated with the provision of council housing are collected. The fund provides a substantial contribution to the refurbishment of council owned properties.
	Gross Revenue	All income the Authority receives. This includes tax income, grants (Specific and Non-specific), rents and fees and charges.
HOC II	Heart of the City II	City Centre development – mixed use scheme, that replaced the previous Sheffield Retail Quarter (SRQ) proposals.
	Influencable Revenue	Locally collected taxes (council tax and Business Rates) plus Revenue support Grant. These are funds where the Authority has discretion on how they are spent.
MHCLG	Ministry for Housing, Communities & Local Government	Central Government Department with responsibility for overseeing Local Authority activities and budgets.
MTFA	Medium Term Financial Analysis	An annual document produced to show the expected financial position of the authority over the medium term. The primary purpose of this report is to illustrate future challenges not necessarily solutions to dealing with them.
MTFS	Medium Term Financial Strategy	This document sets the Financial strategy over the medium term. Its primary purpose is to implement a plan to deal with the challenges identified in the Medium Term Financial Analysis above.
NJC	National Joint Council	The main role of the NJC is to reach agreement on a national scheme for pay and conditions that can then be applied locally.
RSG	Revenue Support Grant	Revenue Support Grant is a central government grant given to local authorities which can be used to finance revenue expenditure on any service. The amount of Revenue Support Grant provided to authorities is established through the local government finance settlement.

Sheffield
City Council