Medium Term Financial Analysis 2022/23 to 2025/26

Introduction

1. The purpose of the Medium Term Financial Analysis ("MTFA") is to provide Members with details of the forecast financial position of the Council for the next 4 years, and to set the financial constraints within which the budgeting and business planning process will need to work to achieve a balanced budget position over the medium term.

   The last MTFA covering the period 2021/22 to 2024/25 was presented to Cabinet in October 2020. An update to this Analysis was provided to EMT in May 2021, however this analysis merely updated the 2021/22 to 2024/25 position for developments over the previous six months. Consequently we are now providing a full refresh, rolling forward the period covered to 2022/23 to 2025/26. This roll forward includes Services updating their estimates of pressures and savings, and an estimate of the impact of the 2021/22 financial position, as it stands at the end of Month 3. It also includes consideration of capital budgets and the HRA.

2. Background context to this Analysis is the £44m forecast overspend at Month 3 2021/22. This is the largest forecast overspend that anyone can remember at this stage in the year. This overspend, if unchecked, will use most of the Council's available reserves in 2021/22, leaving largely recurrent overspends to flow into 2022/23. Without significant mitigation, there is a risk that the Council will not be able to set a balanced budget for 2022/23.

3. **There are three main areas of concern**

   1. **Leisure -** not an issue for this year versus budget, but will be an issue for 2022/23 if subsidy levels do not reduce drastically from the current £15m budgeted subsidy to something more like the £3m underlying budgeted subsidy
   2. **Adult Health and Social Care -** £19m overspend on a £113m budget after significant year-on-year growth in core funding in recent years. The majority of the cost increase results from increased Home Care use and cost.
   3. **Children's Social Care -** £17m overspend on a £97m budget after significant year-on-year growth in core funding in recent years. Demand has risen because of the pandemic and agency staffing costs continue to be high.

4. **Our social care costs are rising at an unsustainable rate. The rest of the Council cannot support this level of spend**

   Our social care costs are rising faster than we can contain and at a rate that is putting the financial stability of the Council at risk.

   Our flexibility elsewhere is limited because we have already transferred investment from other services to support social care.

   - The Resources / PPC budget is around £25m excluding IT and Revenues and Benefits
   - The Place budget is around £25m excluding HRA, Highways and Waste, the Transport Levy and traded services (e.g. Planning)

A collective approach is essential, but a sustainable answer will not be found by disinvesting in other services and investing more in our social services. That could only ever be part of a solution.

5. This report highlights the need to re-establish strong controls over spending as the Council moves out of the pandemic and one-off central government support is withdrawn.

Detail

6. **COVID brings significant uncertainty**

The MTFA will need to be viewed in the context of the evolving financial position caused by the COVID pandemic. Hospitalisation rates have fallen substantially, and restrictions have been eased. However, there are still risks of further waves of infections, and/or new variants of concern. Consequently there is still no certainty on the eventual path of the pandemic, nor on the economic scarring it will leave behind.

As the pandemic recedes, there is a need to focus the longer-term renewal of Council priorities and activities and the longer-term regeneration of the City. The Council has published a One Year Plan and is developing a longer term corporate plan to articulate these priorities.

The MTFA will set out the financial envelope within which the policy and strategy conversations can be held.

7. **The Council has survived 10 years of austerity, by prudent financial management**

The Council has taken a careful and pragmatic approach to managing its finances throughout 10 years of government austerity, whilst ensuring the services that the people of Sheffield depend upon and expect from the Council continued to be delivered. At the same time the Council has also focused on the protection of services to the most vulnerable people, households and communities in the city.

This careful, pragmatic and balanced approach has meant that the Council's finances were in a relatively strong position at the start of the pandemic compared to many others.

8. **Some corporate budgets that are no longer needed have been used to support the budgets, protecting available reserves**

A balanced budget was set for 2020/21 prior to the pandemic hitting.

COVID-related Central Government financial support for 2020/21 and 2021/22 has meant that the Council has not needed to draw on reserves to date to balance 2020/21, or to set a balanced budget for 2021/22. However, balancing these two years has included using the £9m pension deficit recovery budget that was no longer needed following the 2019 Fund Valuation that was completed in March 2020, and central social care budgets of a further £9m which could be released. These, together with some other smaller sums, means that a total of £19.4m on a recurrent basis has been used to support the Council's overall budget from 1 April 2021. Use of these sums significantly reduced the flexibility available to the Council to absorb further recurrent spending increases.

The Council has previously identified up to £50m of one-off funds to meet the medium-term costs of COVID, to transform services and to aid in the recovery of the city from the pandemic. By taking additional risk, it is possible that a further £20m could be released.

These funds remain available, but these reserves are not "spare", they will be needed to support the pressures that we know will arise over the next three years, unless other decisions reduce those pressures.

The current forecast overspend for 2021/22 will require a large portion of these one-off reserves merely to balance the 2021/22 position. If the overspends include spending commitments (e.g. support for leisure or agreed packages of care) that continue in to 2022/23 onwards, then they will make the challenge over the medium term very difficult to manage without significant additional Central Government support. This support looks unlikely to be forthcoming as CG attempts to repair the national finances following spending on the pandemic.

Reserves are one-off money that, once spent, is gone.

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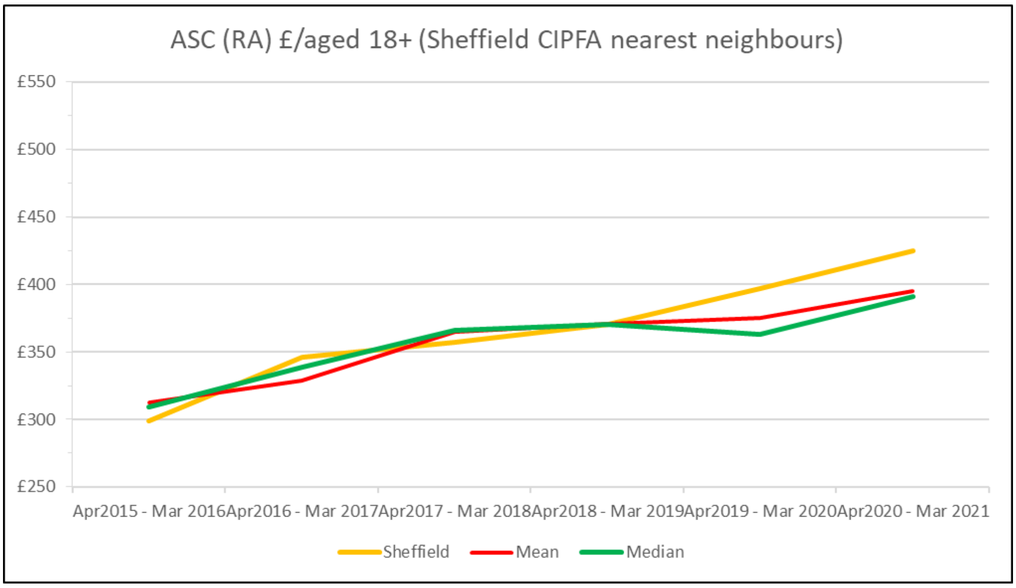
9. **The Council has also invested significant additional resources in social care over the past five years**

Recognising the significant pressures within social care, the budget for People Directorate has increased by £88m (44%) between 2017/18 and 2021/22. £86m of this increase is made up of increases in Children and Families (£33m), Adult Care and Support (£50m) and Commissioning, Inclusion and Learning (£3m).

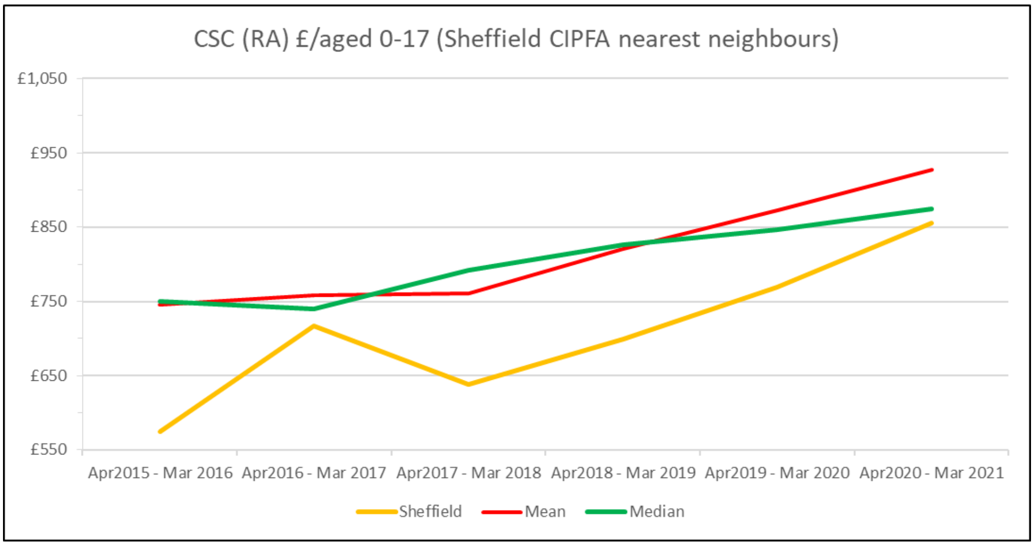
This rate of increase is much higher than at comparable authorities, as illustrated below. It is worth noting that Sheffield's rate of increase has continued its steep increase into 2021/22 as well, and whilst formal comparative data is not yet available, informal benchmarking with Core Cities indicates that the other Core Cities are forecasting lower increases in social care spend than Sheffield. Deprivation is generally agreed to be a driver of social care costs, but it should be noted that Sheffield actually has a lower overall level of deprivation, as measured by IMDs, than most of the other Core Cities, as these cities often comprise mainly the inner-city core, and, unlike Sheffield, do not include numbers of more affluent suburbs.

Adult social care



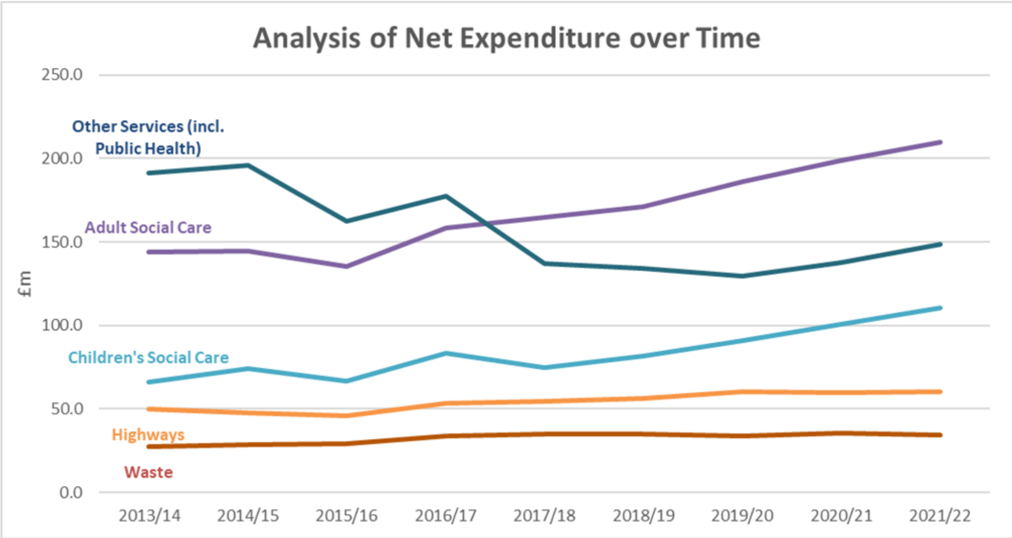
Note Nearest neighbours are listed in Appendix 4

Children's social care



Note Nearest neighbours are listed in Appendix 4

The graph below shows the more general trend in expenditure across the different areas of Council spend since 2013/14. It also clearly demonstrates that the Council has protected social care services, whilst reducing spend in most other areas (the Highways and Waste contracts being the other exceptions).



Note: The increased expenditure in 'Other Services' in 2020/21 and 2021/22 is mainly a result of the increased investment required in Leisure Services.

10.	**The forecast financial position remains challenging**	A combination of baseline cost pressures, which run to over £20m per year in social care services alone, and the impact of COVID, means that the Council is forecast to face a very challenging financial position from 2022/23 onwards.
11.	**Mid Case** **Our mid case forecast is that the Council faces a budget gap of £120.6m by 2025/26**	Under the mid-case assumptions in Appendix 1&2, the budget gap grows to £120.6m by 25/26. This assumes: • Normal levels of portfolio pressures and initial savings • A small allowance for Member policy choices • Flat cash funding from Central Government (noting that the actual announcement of CG funding is due late in 2021) Our one-off reserves cannot deal with this sort of recurrent challenge.
12.	**Even to achieve the position in the mid case requires the delivery of £51.7m of agreed savings, £35.7m in 2022/23, and a further £16.0m in the following years**	Our agreed 2021/22 budget assumed that we would achieve £21m of agreed savings. This budget includes £15m of agreed Portfolio savings, including £3.0m from a market reshaping of Care Homes, £2.5m from placements, £1.1m from improvements in income and collection services, £1.9m from Place contracts and £1.1m to GF from Housing repairs and maintenance. A full list of all the agreed savings is given in Appendix 3. In addition there are £6m of corporate savings, mainly a corporate MER estimated to save £4m in 21/22, but also reviews of our Operating Model and Customer Experience processes. For 2022/23 to 2025/26 a further £51.7m of Portfolio savings (including the £12m reversal of 2021/22 SIV pressure over three years) are required. For example £21.4m from ASC recovery and investment plans,

		£2.3m from Adults changes in social work practice, £5.0m from Children's and Families (demand management, fostering etc), £2.9m from a corporate asset review, £1.5m income from the CAZ, and £1.3m GF income from improvements to Housing Repairs and Maintenance. Achieving these savings' targets, and reducing the level of historic non-achievement, will be key to protecting the Council's financial position, and to allow targeted investments to be made. It is important to note the mid case assumes full delivery of the above savings with no slippage provided for.
13.	**The mid case shows that significant action will be needed to ensure financial sustainability**	The mid case shows that careful prioritisation and focussing of investment will be needed, together with the delivery of significant efficiencies to avoid unsustainable medium-term pressure on the Council's finances. This task will be made much easier if we are able to agree clear and long-term policy-led priorities with the Administration. Without firm action, it will be challenging to set a legal budget for 2022/23 onwards.
14.	**Best Case** **This gap lessens to £54.1m under more optimistic assumptions**	In contrast if the Council is able to focus its spending on a few key priorities, contains pressures, and delivers on declared savings, then the financial position remains under control, with the budget gap containable within current levels of available reserves until 2024/25. This scenario does assume limited (£6m in 2022/23) additional CG support.
15.	**Worst Case** **The gap grows to £235.1m by 25/26 under pessimistic assumptions**	If financial control is not maintained and the position continues to deteriorate, then the financial position quickly moves out of control. It does assume CG funding reductions of £12m p.a. (i.e. 1/3rd of our current RSG), but even without these reductions, a legal budget for 2022/23 onwards could not be set.

16. Figure 1 – Summary of Projected Budget Gap for the 4 years to 2025/26 (mid case)

£m	22/23*	23/24	24/25	25/26	Total
Reduction in Central Government Funding (Inc RSG)	15.4	0	0	0	15.4
Impact of Social Care Announcement 7/9/2021	0	0	0	0	0
Business Rates & Council Tax Income	-6.5	-6.6	-6.6	-6.6	-26.3
Corporate Expenditure variations	17.7	9.2	5.9	4.5	37.3
Social Care pressures	61.5	22.2	22.2	23.2	129.1
Other service pressures	9.9	0.5	2.8	3.5	16.8
Overall Budget Gap	**98.0**	**25.4**	**24.3**	**24.6**	**172.3**
Proposed Savings / Mitigations	-35.7	-11.9	-4.2	0.1	-51.7
Net Gap Still to Find	**62.3**	**13.5**	**20.1**	**24.7**	**120.6**
Use of Reserves Required	**62.3**	**75.8**	**95.9**	**120.6**	**354.6**

* 22/23 figures include brought forward Social Care pressures from 2021/22 of £34.8m

17. **Most pressures come from Social Care**

The Council's Social Care services expect significant cost and demand pressures which, historically, have completely outstripped growth in local taxation. In addition, as illustrated earlier, the rate of increase in spend in these services has been much higher than our comparators. Adults' social care has moved from a mid-rage spend per head, to highest quartile spend, whilst Children's social care has moved from low spend per head to mid-range, and at the current rate of increase will soon by a high spender as well.

Work with partners, particularly in Health, has helped to contain some of these pressures, and there has been some pooling of budgets, and joint funding, with total s75 arrangements with Health partners worth over £25m. The pandemic has at least focused attention in the need to properly support care services. We should work locally and lobby nationally, to continue and expand this work post-pandemic, hopefully to direct more resources towards community care and prevention, and so reduce the size of the annual increases needed in acute spend.

18. **In addition, leisure pressures have become very significant**

The pandemic has had a severe impact on the leisure sector, with most facilities closed for long periods of time, and consequent large falls in income.

For 2020/21 and 2021/22 the Council has supported its two leisure partners by £15m per annum (up from £2m to £3m in 2019/20), and there is not yet an agreed path to reduce these subsidies to pre-pandemic levels.

The Council is currently considering its investment and operating options for Leisure and is exploring ways in which this can be done in a way that is affordable over the medium to long term.

Recommendations

19. **It is recommended that Members**

1. Note the forecast position;
2. Note, as a planning assumption, core Council Tax increases of 2% each year;
3. Note the additional pressures caused by the COVID crisis, and in response consider what further transformation savings are required, and lobby Central Government for additional financial support;
4. Note that the Council's current level of reserves provides a limited amount of time for action to be taken strategically in response to the COVID crisis and the more general financial position, but that firm actions will be needed, on current projections, to maintain financial stability in the short to medium term. These actions will include further co-operation with other key stakeholders, in particular the NHS; and
5. Note that unless firm action is taken to contain pressures, deliver agreed savings, and focus any new spending on a small number of key priorities, the Council's financial position will soon spiral out of control.

Appendix 1 – Underlying Assumptions

Key Assumptions / Scenario	Base Case
Income Variations	
RSG	This grant or central government funding will remain at 2021/22 levels, with the exception of £17.7m of one-off Covid funding being withdrawn in 2022/23.
Social Care funding	£2.3m of additional funding will be received in 2022/23, but this sum is offset by the additional costs of the Health and Social Care National Insurance Levy. Any further social care funding received during the MTFA period is anticipated to offset a reduction in fee income from social care clients as a result of the Governments' planned reforms, and therefore assumed to be a net nil impact for the Council. This assumption may be revised when more details around the distribution methodology of the levy are known but do currently pose a financial risk to the Council.
Business rates	The overall position on Business Rates for the medium term is an anticipated reduction in the early years, with a slow recovery to current levels by 2024/25. This reduction is mainly the result of the anticipated economic downturn resulting from the Covid pandemic. The income reductions will be managed via the collection fund but will also require the utilisation of the specific Business Rates earmarked reserve. For these reasons the impact of reduced business rates income is shown as a nil impact for this MTFA. Further reduction beyond current forecast will result in a revisiting of the impact in the MTFA. Business ratepayers can seek an alteration to the rateable value of a property by appealing to the VOA. However, because of the large volume of appeals, decisions by the VOA can take several years. A prudent provision has been taken for the appeals and as such this should not impact on the MTFA. It is difficult to arrive at a reliable estimate of the potential refunds due on outstanding appeals in addition to any new ones that may be lodged. Based on the most recent data provided by the VOA, it is assumed that the cost of refunds due to appeals will remain at 2019/20 levels. There are a number of reliefs against business rates liability, including small business rates relief, charitable relief, and deductions for empty properties and partly occupied premises. The total value of these reliefs and deductions was £49.5m for 2021/22. This includes the Pre-Covid increase of Retail relief to 50% however it does not include the enhanced retail relief of £113m. It is anticipated that if the government repeated the enhanced relief, that local authorities would be fully compensated. Top-up Grant is forecast to rise in line with Government announcements but will used to offset reduction in rates income.
Council tax	The MTFS has a planning assumption of a 2% per annum rise in Core Council Tax from 2022/23 to 2025/26, although the actual Council Tax level will be set by members each year, including any decision to take any future Social Care Precepts which the Government might announce. The tax base for Sheffield is forecast to continue growing, and provides us with enough confidence to forecast an increase of 1,300 new Band D

	equivalent properties for 2022/23 onwards. It is worth noting the forecast growth levels have been revised down by 200 Band D equivalents from the previously published MTFA, and reflects the anticipated impact of Covid 19 on the house building sector. We are assuming that the number of properties claiming discounts, reliefs and/or the Local Council Tax Support Schemes, will increase in the short term due to the Covid 19 but recover during the MTFA period. Any reductions in income as a result of the above schemes or due to properties falling into arrears, will be managed via the collection fund and associated reserves. Local Council Tax Support Scheme stays the same. 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. For financial planning purposes, it has been assumed that the scheme will not be altered in the medium term. However this will be an issue for Members to consider alongside the savings proposals for 2022/23 onwards.
Collection Fund surplus/ deficit	During the period of the MTFA the collection fund is anticipated to report a deficit position, but with losses funded via a combination of Government compensation and/or the Collection Fund reserve.
Specific grants	No additional specific grants are forecast.
Other Income	Rental income from the Heart of the City Development of approximately £3.5m for 2021/22. This reduces during 2022/23 after the anticipated sale of part of the development, but increase again in 2023/24, 2024/25 and 2025/26, as further phases of the development are completed.
Public Health	The public health grant will remain at 2021/22 levels for the period of MTFA.

Expenditure Variations

Pay inflation	2% per annum from 2022/23, to be absorbed by Portfolios
Pay strategy	An estimated £4.8m of pay and reward costs have been included over the period of this MTFA. This is above the 2% pay inflation that portfolios have added to their pressures. It also allows for the cost of increments to be taken corporately rather than by portfolios.
Employers' national insurance	1.25% increase in national insurance for 2022/23 to fund the Health and Social Care Levy. This cost is offset by additional funding from Government.
Pension Contributions	We anticipate that increased contributions will be required for 2023/24 onwards and we have set aside an earmarked reserve to cover these contributions. The Council do not anticipate that recent high-profile national legal cases affecting pension payments, such as the McCloud case, will significantly affect contributions payable, as the impact of these cases was largely anticipated by the actuary in their contribution figures for 2020/21 to 2022/23. Of course the stock market remains uncertain with both the COVID crisis, so falls are possible, which might well necessitate increased pension contributions from the date of the next valuation (currently 2023/24, but may be amended following current CG consultation).

Streets Ahead Contract Inflation	The Council investment in the Streets Ahead contract will result in the required amount increasing by between £1.6m and £1.1m per annum from April 2022, as planned, totalling £5.4m over the MTFA period.
Council Tax Hardship Fund	Hardship Fund increases by £0.2m per annum.
Heart of the City Capital Financing Costs	The MRP and Interest on borrowing for the city centre development will increase by £2.4m in2022/23, £5.1m in 2023/24 and an additional £1.4m in 2025/26. This additional capital financing requirement is partly offset by the additional rental and business rates income the scheme is anticipated to generate.
Capital Financing Costs	SCC has been operating with an artificially low capital financial budget due to being under borrowed as a result of high cash balances. The level of cash available to SCC is anticipated to fall in the coming years with SCC having to therefore borrow to fund its capital spending. This additional requirement totals £7.0m over the period of the MTFA.
Portfolio pressure	Are the best estimates of the future costs in relation to demand for services, contract inflation cost pressures and national pay awards.

Appendix 2 – Assumptions adjustments applied to the Best, Worst and Mid cases

Area	Mid Case	Best Case	Worst Case
Impact on the opening position as at 1st April 2022, by non-delivery of savings and additional pressures emerging in 2021/22	Non delivery of £34.8m	Non delivery of £34.8m	Non delivery of £40m
Full year effect (benefit) of corporate schemes (£6m due to be delivered recurrently in 2021/22; £9.5m in total).	Savings target reduced to £4.0m	Savings target reduced to £4.0m	Savings target reduced to £4.0m
Additional spending commitments made in 2021/22	£1.3m	£1.3m	£4m
Assumed additional savings identified or pressures mitigated	£0.0m	(£8m) 22/23 (£12m) 23/24, 24/25 & 25/26	£0.0m
Impact of further in-year savings non-delivery, or additional cost pressures emerging (annual additional costs)	£0.0m	£0.0m	non-delivery of £12m p.a.
Further MT impact of Covid on income and costs (loss for each year from 22/23); excl CT and BR; above the £3m already in the Oct 20 MTFA	None	None	£3m p.a.
MT impact of Covid on CT & BR income; GF impact	None	None	£3m in 23/24 and a further £3m in 24/25
Cost of subsiding Leisure (annually from 22/23), on top of the £2.8m p.a. agreed subsidy in ongoing budgets. (note these figures exclude a separate £2.8m in 22/23 for members' ongoing leisure strategy costs, falling to £1.3m p.a. from 23/24)	A further £4m in 22/23, dropping to £2m in 23/24, and nil in 24/25 onwards	A further £4m in 22/23, dropping to £2m in 23/24, and nil in 24/25 onwards	A further £10m from 22/23 onwards
Impact of other major projects (e.g. HotC, West Bar, CAZ). Additional costs from 22/23	nil	(£1m)	£2m
Additional impact of introduction of LACs, per annum	£0.0m	£0.0m	£1.5m

Appendix 3 Portfolio savings already declared and included in the 2021/22 Budget

Portfolio Savings

	BIP Reference*	Cost/ Contract Price Reduction £'000	Service Effectiveness £'000	Staff Cost Reductions £'000	Income Generation £'000	Total £'000
People						
Deputyship Income & Appointeeship Efficiencies	10.B1		(221)			(221)
Direct Payment Support	10.B2		(56)			(56)
Dementia Support	11.B1		(350)			(350)
Homecare Account Management	11.B2				(100)	(100)
Uplift to the Contribution Cap (Non-Residential Care Home)	11.B3	(344)				(344)
Market Reshaping (Care Homes)	11.B4		(3,000)			(3,000)
Continued Improvement of Income & Payment Services	11.B5				(1,099)	(1,099)
Libraries Offer & Income Opportunities	30.B1				(122)	(122)
Library Archive & Information Resources Review	30.B2			(94)		(94)
Reduction in Pension Costs	4.B1	(100)				(100)
Operational Efficiencies	4.B2			(16)		(16)
Annual Uplift on Traded Income	4.B3				(5)	(5)
Reduction to Postage & Insurance	4.B4		(160)			(160)
Capacity of Team Reduced (Transfer of Responsibility)	2.B1			(55)		(55)
Permanent vs Agency staff (Integrated Workforce)	19.B1			(200)		(200)
Placement Mix	21.B1		(1,460)			(1,460)
Demand Management in Placements	21.B2		(1,000)			(1,000)
Young Careleavers Transition & Semi Independent Living	21.B3	(500)				(500)
Residential Home Generating Additional Income	18.B1				(500)	(500)
Mental Health Reviewing & Reshaping	28.B1		(250)			(250)
Youth Staffing	28.B2			(15)		(15)
Staffing Review	34.B1			(55)		(55)
		(944)	(6,497)	(435)	(1,826)	(9,702)
Place						
Fees & Charges Review (Infationary Increase)	41.B1/38.B2/37.B1/43.B2				(368)	(368)
Contract Saving & Refinancing	41.B2/41.B4	(1,950)				(1,950)
Sustainable Development Fund (Match Funding Ceased)	41.B3		(500)			(500)
End of Lease (Parkway Market)	41.B5	(100)				(100)
Housing Repairs Team	43.B1		(1,077)			(1,077)
Corporate Mail Service	43.B3		(100)			(100)
Vacant Posts Review	43.B4			(500)		(500)
		(2,050)	(1,677)	(500)	(368)	(4,595)
Policy, Performance & Communications						
Staffing Review	44.B2			(39)		(39)
General Savings	44.B3		(26)			(26)
Joint Research Project Income	44.B4				(15)	(15)
		0	(26)	(39)	(15)	(80)
Resources						
Register Office Charges	49.B2/49.B3				(28)	(28)
Workstyle Changes (Covid 19)	49.B5			(70)		(70)
Disestablishment of Planning and Performance Team	49.B6		(80)			(80)
New HR and Payroll System	52.B1		(30)			(30)
Members Allowances	53.B4	(19)				(19)
Staffing Review	50.B2			(310)		(310)
		(19)	(110)	(380)	(28)	(537)
Total Savings		(3,013)	(8,310)	(1,354)	(2,237)	(14,914)

Appendix 4 CIPFA Nearest Neighbour authorities

The following authorities are classified as statistically the 15 most similar authorities to Sheffield (i.e. our "nearest neighbours") by CIPFA.

- Bristol
- Bolton
- Coventry
- Derby
- Dudley
- Kirklees
- Leeds
- Liverpool
- Newcastle
- Plymouth
- Salford
- Sunderland
- Tameside
- Wakefield
- Wigan