Revenue Budget & Capital Programme Monitoring As at 30th November 2021

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Introduction

1. The purpose of this report is to inform Members of the Outturn budget monitoring position on the City Council's Revenue Budget and Capital Programme as at Month 8 and the implications for the future.

   The report contains further detail at sections 7 to 10 on the position of each portfolio's Revenue Budget and the Housing Revenue Account. Further information on the City Council's Collection Fund Account and Capital programme position is at Appendices 1 and 3 respectively. Approval to write-off £1.04m of old debt is sought at Appendix 2.

Financial Position

2. **Forecast headline overspend has reduced by £3.9m to £33.4m**

   The Council's Revenue Budget is currently forecast to overspend by £33.4m. This is an improvement of £3.9m on the position at Month 6 and is driven by:

   - £2.2m of additional income from the NHS to assist with the Council's social care activity;
   - £1m UK Government grant to assist with the implementation of the Clean Air Zone; and
   - Approximately £0.5m of additional income from Parking Services and permits to work on the highway as the impact of Covid appears to be less than anticipated in the Budget. This is consistent with the trend seen at Month 6.

3. **The gravity of the underlying position remains unchanged**

   Although there has been an improvement in the headline overspend in the last two months, that is driven by largely one-off factors so the underlying position remains unsustainable and requires urgent, determined action.

   Adjusting for one off items of spend like the implementation cost of the new Committee system of governance, and the benefit of carrying over Covid grants from previous years, the underlying annual overspend on budget related to business-as-usual activities is estimated at between £35m to £40m.

   The Council has instituted a series of "Cost Management Measures" to contain the overspend. These include senior manager level approval of all recruitment, and, minimising travel and other expenditure which is not related to the delivery of front line services.

The Adult Care and Support and Children & Families services within the People portfolio have developed and are implementing *Recovery Plans* to reduce the overspend which in those services accounts for 95% of the net overspend in the Council (up from 87% at the last report). In the short term this will create additional cost to provide additional resource above that engaged on business-as-usual activities to address the operational problems. Some of this activity has been funded by reprioritising expenditure from elsewhere.

4. **The scale of the deficit requires strategic and structural change in Budgets across the Council**

The Medium-Term Financial Analysis report to Co-operative Executive in October set out the scale of the challenge which would be faced by the authority in setting its 2022/23 Budget and future years beyond that.

Part of this response will involve seeking additional government funding to address the pressures caused by demographic changes in society.

Sheffield is not alone amongst core cities in experiencing budgetary pressures, but it does seem to be reporting a much worse position. The Council has arranged to benchmark its performance against other cities to understand if this is due to local demand factors or the way it delivers services, or a combination of both. This exercise has been delayed by the restrictions required to contain the rise of the Omicron Covid variant.

The 2022/23 Budget report to Council will seek approval for several strategic reviews of activity across the Council to identify opportunities where it can more effectively use resources. This may eliminate potential duplication channelling more effort into meeting the needs of citizens.

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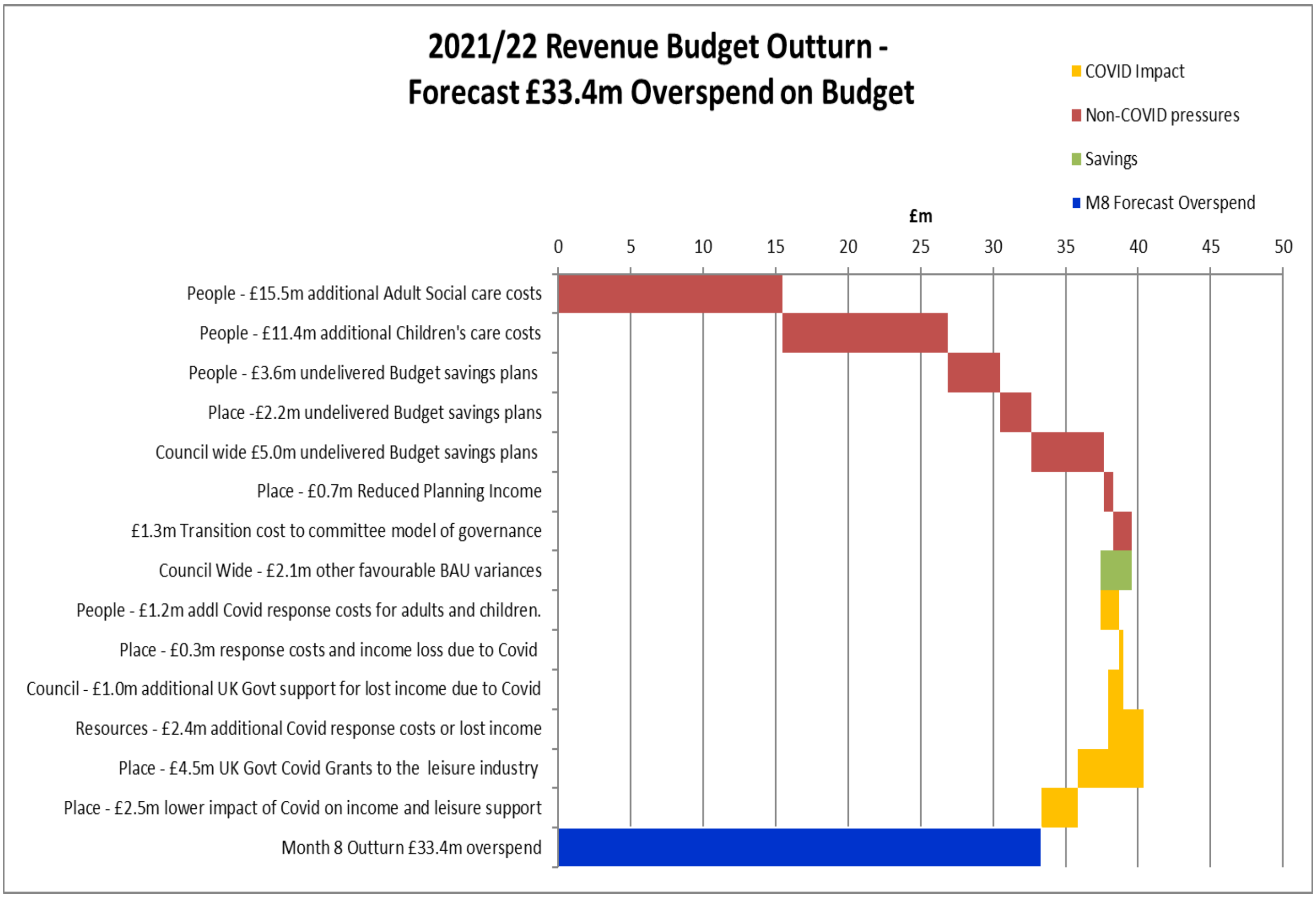
5. The following sections provide more detail on the position of each portfolio.

Financial Position

The graph below summarises the main movements in the Council's financial position from an initially balanced budget.



Summarising the content of the graph above:

- the impact of Covid has been less than expected in the budget assumptions. The carry over of grants from 20-21, stronger economic performance than forecast at the time the budget was compiled in Autumn has mitigated the £4m additional Covid response costs resulting in a net improvement against budget of £2m;
- the Council has benefitted from £2.1m of savings in its day-to-day activities across all departments;
- which leaves £40m overspend on the specific items coloured red in the above chart. This includes £10.8m of target savings identified in the 2021/22 Budget which have not been delivered.

6. **Council Position**

Portfolio	Month 8 Outturn	Month 8 Full Year Budget	Month 8 Variance	Month 6 Forecast Variance	Change From Month 6 to Month 8
People	306,599	273,628	32,971	35,098	(2,127)
Place	138,661	145,455	(6,794)	(4,977)	(1,817)
Policy, Performance & Communications	2,938	3,076	(138)	(38)	(100)
Resources	9,660	6,042	3,618	3,368	250
Corporate	(424,503)	(428,201)	3,698	3,794	(96)
Grand Total	33,355	0	33,355	37,245	(3,890)

The main changes in the forecast variances from budget are:

- People – following a detailed review of forecasts, Adult Social Care costs have been revised downwards again and the Council has received £2.2m from the NHS to support social care. There may be further support in this area;
- Place – a further improvement on Month 6 forecast of £1.8m reflecting £1.0m grant from UK Government to support the introduction of the Clean Air Zone, an improving outlook for fees and charges income particularly in the Parking and Highways services and Planning Fees income (£0.6mB), and £0.2m lower impact on income from the shutdown of the City Road Crematorium for urgent maintenance work; and
- Resources – forecast £250k increase in costs in Legal Services due to an increased use of higher cost temporary staff to meet workload demands and cover staff absence, and, additional IT license and software costs to support homeworking in response to the pandemic.

7. **Dedicated Schools Grant**

The forecast is a £3.4m overspend on DSG. This is £0.9m worse than the M6 position due to increasing demand pressures from pupils with Special Educational Needs provision. The costs occur both in the provision of places and transport to schools. A review is underway to seek more cost-effective ways of providing this support but this will continue into next year where the Council anticipates additional government funding.

8. **Public Health**

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

Public Health	Outturn	Month 8 Full Year Budget	Variance	Month 6 Forecast Variance	Change From Month 6 to Month 8
People	27,736	27,967	(231)	(178)	(53)
Place	2,933	2,884	49	(8)	57
Director of Public Health	1,667	1,921	(254)	(112)	(142)
Total	32,336	32,772	(436)	(298)	(138)

The reasons for this position are a predicted overspend on the new PCS (community sexual health) contract which commenced in August. This is offset by an underspend on the GP health check contract which ceased in April with no further activity planned this year, plus using UK government Covid grants to fund some staffing costs.

9. Housing Revenue Account

The HRA income and expenditure account provides a contribution towards funding the HRA capital investment programme by reinvesting any surplus on the HRA to leave the overall position balanced.

For 2021/22 the budgeted contribution is £20.6m. The forecast Outturn position is a contribution of £15.1m, £5.6m lower than budget but £0.7m higher (i.e. better) than the Month 6 forecast.

Housing Revenue Account (excl. Community Heating)

	Outturn	Month 8 Full Year Budget	Variance	Month 6 Forecast Variance	Change From Month 6 to Month 8
Net Income - Dwellings	(143,634)	(145,013)	1,378	1,404	(26)
Other Income	(6,194)	(6,150)	(44)	1	(46)
Tenant Services incl. Repairs & Maintenance	97,240	92,938	4,302	4,953	(651)
Depreciation	24,421	24,421	0	0	0
Interest on borrowing	13,109	13,175	(66)	(66)	-
Contribution to Capital Programme	15,059	20,629	(5,570)	(6,293)	723
Total	0	0	(0)	(0)	0

The cause of the variance remains unchanged from that reported in Months 3 and 6 reports. Disruption from the Covid pandemic has created a backlog of home repairs due to social distancing measures restricting access for all but essential repairs and inspection e.g. gas compliance checks, and, reduced rental income as the number of unlet houses has increased due to restricted access.

In the last two months the forecast has improved by £0.7m particularly due to lower anticipated staff costs.

10 **Collection Fund Account**

This is showing a satisfactory position. As at the end of September, the local share of the Collection Fund income stream is forecasting an overall in-year deficit of £19.5m deficit (£0.1m better than Month 6). There is a small projected surplus of £3.5m on Council Tax (£0.5mB from Month 6), and a deficit of £23m on Business Rates (£0.4m worse than Month 6) due to Collection Fund accounting regulations in respect of the Retail and Nursery discount scheme to support businesses during the pandemic. The Council will receive grant funding to compensate for this deficit. The overall Collection Fund position will have no impact on the Council's 2021/22 financial position and will be accounted for within future years' budgets. This position is discussed in more detail within Appendix 1**.**

11 **Capital Summary**

The approved capital programme budget for 2021/22 at 30th November 2021 was £267.1m. The forecast outturn of expenditure against this approved budget is £184.5m, a variance of £82.5m (31% of the programme). This is a significant movement of £38m on the Month 6 position which forecast a shortfall of £44.5m or 15.9% of the programme. £22m of the change is in the Heart of the City and Housing Investment programmes.

The Capital programme is being disrupted by the turbulence in the construction industry caused by labour and materials shortages as well as price increases as global economies restart after Covid lockdowns. This is resulting in schemes not being delivered to the original schedule creating delay which creates slippage or requires the project delivery schedule to be reprofiled.

Cause of Change in Forecast M6 to M8	£m
Re- Profile	-24.0
Slippage	-16.2
Cancelled Schemes	-8.2
Additional Approvals	8.1
Cost Increases	2.8
New Schemes	0.2
Other	-0.8
	-38.0

Further information on the Capital Programme, including variations on significant projects, is reported in **Appendix 3**.

12	**Financial implications**	The primary purpose of this report is to provide Members with information on the City Council's Budget Monitoring position for 2020/21.
13	**Equality Opportunities Implications**	There are no specific equal opportunity implications arising from the recommendations in this report.
14	**Legal Implications**	There are no specific legal implications arising from the recommendations in this report.
15.	**Property Implications**	There are no other property implications arising from the recommendations in this report this report.

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Recommendations

It is recommended that Members

1. Note the updated information on the latest Outturn position and management actions provided by this report;
2. In relation to the Collection Fund Report, note the Outturn position described in **Appendix 1**;
3. Approve the write off of £1.04m of uncollected debt in respect of the People portfolio activities at Appendix 2; and
4. In relation to the Capital Programme, note the Outturn position described in **Appendix 3.**

Collection Fund Monitoring
As at 30th November

Summary

1. In 2021/22 approximately £334.5m of SCC net expenditure was forecast to be financed directly through locally collected taxation. This taxation is initially collected by the Council and credited to the Collection Fund.

2. As at the end of November, the local share of the Collection Fund Income Stream is forecasting a £19.5m deficit. As below, this is mainly due to the timing of the announcement to continue retail relief in a modified form into 2021/22 and a countervailing improvement within Council Tax. It is not a reflection on the performance of the Council in collecting debt.

3. The Council will be fully compensated for the deficit relating to the business rate discount for 2021/22, so while the deficit is an alarming and large number, it is important to note that there is no overall cash impact to this element of the deficit.

4. Moreover, this deficit position will not affect this year's outturn position, due to the specific set of rules governing the accounting of the Collection Fund. The deficit must be reconciled within future General Fund budgets and cannot impact on the wider General Fund position for this 2021/22.

5. This is an estimate that is subject to considerable uncertainty in what continues to be an unusual year. At time of writing, 'Plan B' Covid infection control measures have come into effect and additional Treasury support to the hospitality sector has been announced. The assessment of the Collection Fund outturn position below is on a medium-to-worst case basis.

6. It is possible that there may be improvement in the Collection Fund position before 31/3/2023 if the situation is closer to 'normal' than the cautious case assumed below. Any surplus against the Collection Fund this year will credit future years in a one-off rather than ongoing way, so offers only temporary relief to the Council's current revenue budget pressures referred to in the main body of the monitoring report.

Income Stream, retained by SCC (all figures £m)	**Budget 21/22**	**Forecast Year End Position**	**Variance**
Council Tax	(235.0)	(238.5)	(3.5)
Business Rates	(99.5)	(76.5)	23.0
Total	**(334.5)**	**(315.0)**	**19.5**

Council Tax

7. The forecast year end position for Council Tax is a £4.0m surplus. The Council's share of this surplus, £3.5m, will be released into future years' budgets.

8. This is mainly due to a much-reduced level of revenue foregone due to Council Tax Support (CTS). The demand for CTS in 2021/22 was assessed at a time when CTS claims were growing due to the economic disruption caused by Covid, and therefore was set on the assumption that these levels would continue to grow. For several reasons, this has not happened, creating a favourable variance against the budget.

Collection Fund - Council Tax (all figures £m)	**Budget 21/22**	**Forecast Year End Position**	**Variance**
Gross Council Tax income yield for 2021/22	(398.7)	(398.3)	0.4
Revenue foregone due to Council Tax Support	50.1	43.5	(6.6)
Other discounts and exemptions	58.6	60.5	1.9
Net Collectible Council Tax	**(290.0)**	**(294.3)**	**(4.3)**
Losses on collection and increase/(decrease) to bad debt provision	14.5	14.9	0.4
Council Tax Income	**(275.5)**	**(279.5)**	**(4.0)**
Allocation of Council Tax Income *(%age share in brackets)*			
Sheffield City Council *(85.5%)*	**(235.0)**	**(238.5)**	(3.5)
South Yorkshire Police and Crime Commissioner *(10.7%)*	**(29.4)**	**(29.8)**	(0.4)
South Yorkshire Fire & Rescue *(3.8%)*	**(10.5)**	**(10.6)**	(0.1)
Transfers to Precepting Parishes	**(0.6)**	**(0.6)**	-
Total Allocations	**(275.5)**	**(279.5)**	**(4.0)**

9. This will likely result in a surplus position at year end. As above, this will feed into future year's budgets as a one-off surplus payment.

Business Rates

10. The forecast year end position for the local share of Business Rates is a £23.0m deficit. This deficit is mainly driven by the function of the 2021/22 version of the retail and nursery discount, which has an estimated value of £45.9m across the Fund. Viewing reliefs as a whole, there is an effective overspend of £44.7m as claims for other reliefs have not been made at the levels anticipated resulting in a £1.2m offset.

11. Since the Month 6 position, there has been decline in the underlying gross rates payable, and it is prudent to forecast that this position will continue to decline. There remains much uncertainty, and as above, this reflects the worst-to-medium case assumption. There is a £2.3m deficit against gross rates, which has worsened by £1m since the Month 6 report.

12. Taken together, these factors drive a £47.0m deficit, of which the Council's share will be £23.0m.

Collection Fund - Business Rates (all figures £m)	Budget 21/22	Forecast Year End Position	Variance
Gross Business Rates income yield for 2021/22	(270.7)	(268.4)	2.3
Estimated Reliefs	51.0	95.8	44.7
Losses on collection, appeals and increase/(decrease) to bad debt provision	15.2	15.2	(0.0)
Net Collectable Business Rates	**(204.5)**	**(157.5)**	**47.0**
Transitional Protection Payments due from Authority	1.6	1.6	0.0
Cost of Collection allowance	0.7	0.7	-
Designated amounts	2.3	2.3	(0.0)
Non Domestic Rating Income	**(199.9)**	**(152.9)**	**47.0**
Allocation of net business rates *(%age share in brackets)*			
Sheffield City Council (49%)	**(97.9)**	**(74.9)**	**23.0**
SY Fire Authority (1%)	(2.0)	(1.5)	0.5
Central Government (50%)	(99.9)	(76.4)	23.5
Total Allocations	**(199.9)**	**(152.9)**	**47.0**
Share of disregarded amounts			
Sheffield City Council	**(1.6)**	**(1.6)**	**0.0**
South Yorkshire Mayoral Combined Authority	(0.7)	(0.7)	(0.0)
Sheffield City Council NNDR Income	**(99.5)**	**(76.5)**	**23.0**

Additional support announced in December

13. At time of writing, £12.1m of Covid Additional Relief Funding (part of £1.5bn nationwide) and an additional £1bn nationwide have recently been announced. The former must be allocated as business rates reliefs, and while detailed announcements have not yet been made on the latter, it is expected that these will be distributed by local authorities as grant payments. So both schemes have the potential to affect business rates yield, by reducing liability or by supporting businesses to remain trading and meet their liabilities.

14. The impact of these schemes on the Collection Fund is likely to be positive, and intervention from the Treasury is therefore welcome. As details of these schemes are not yet fully clear, the effect of them has not yet been included in the above numbers.

Conclusion

15. The above forecast of a £19.5m deficit position rests on several assumptions – detailed above. For avoidance of doubt, it must be remembered that any eventual deficit at year end does not affect the 2021/22 General Fund outturn and will be accounted for within future revenue budgets.

16. Due to the size of the Collection Fund, a small percentage variation in income or expenditure over the coming months will have a significant impact on the forecast outturn. Monthly monitoring of the Collection Fund position is conducted to ensure that we are fully aware of any changes and the potential budget impacts.

Appendix 2

Adult Social Care Service –Request for approval to Write Off of uncollected accounts

Background

Each month SCAS (Social Care Accounts Service) generate invoices on behalf of ACM (Assessment & Care Management) charging for non-residential contributions, residential contributions and third-party top ups. Invoices are also raised on an ad hoc basis for residential recovery loans, overpayments made to provider's and monies owed from Health groups.

On average around 4,350 invoices with a value of £2.25m are generated every month.

The Process

Inevitably, some invoices that are raised are not paid. Best accounting practice requires that an appropriate sum of money is set aside to cover potential non-payment of debts and that there should be an independent review of any write-offs.

Each month SCAS pass invoices for write off to the Council's central debt collection team (ICAM) who provide the independent review of the proposed write -off, coding the invoices "to write off pending" in the accounting system.

Once an invoice is coded "to write off pending" it is excluded from the system generated Bad Debt Provision on the expectation that the write off will be approved promptly in the system and the resulting charge will hit the accounts at the same time as the money set aside is removed to leave a net nil effect.

The Problem

Due to a change in personnel across the portfolio, and the pandemic hitting the city, the invoices that have had their status changed to "write off pending" have not been approved promptly and subsequently have not been written off although the provision has been removed once ICAM changed the status. In addition to correcting this, the portfolio wishes to take the opportunity to clear the legacy debts whose write off has not been actioned over many years.

There are 2,245 invoices with a value of £1.04m requiring write off. Although this is not included in the Bad Debt Provision a separate provision has been made from Month 6 and included in the current Month 8 Outturn forecast which will not change as a result of the approval of this proposal.

95% of the invoices with a value of £1.01m date from pre 1/4/2020. The oldest invoice is from 2008.

Corrective Action taken

In order to ensure this does not happen in future, the SCAS team have reviewed and documented their process for writing off debt. This includes the following controls:

- Customer Accounts Team record any invoices passed for write off in a shared file / folder
- Senior Customer Accounts Officer collates list of invoices passed for write off and emails write offs to ICAM each month
- ICAM amend the query code in respective invoices in Integra (Code 98, Write Off Pending / Code 91, Write Off Awaiting Authorisation)
- Service Manager (SCAS) emails Head of Localities with a write off summary each month (includes total amount written off / breakdown what the invoices are charging for)
- Service Manager (SCAS, or anyone who is granted permission) authorises all invoices lower than £10k that have been passed for write off in Integra
- There will be a quarterly meeting between the SCAS Service Manager and Head of Localities (HOL), to discuss large invoice (higher than £10k) amount write offs. Debt recovery chronology to be provided to HOL to facilitate the decision to approve write off.
    - Write offs authorised in Integra by SCAS (SM) with any large invoices higher than £10k for the previous quarter once approved by HOL, alternatively referred to legal.

As a “fail-safe” mechanism, the Bad Debt Provision calculation is being amended to include all invoices pending write off. This means unpaid invoices will only drop out of the Bad Debt provision calculation once the actual write-off has taken place in the accounting system and should ensure no future shortfalls in provision if services fail to follow the agreed procedures.