

## Policy Committee Decision Report

**Title of Report:** 2025/26 Budget Update

**Date of Decision:** 16<sup>th</sup> December 2024

**Report To:** Finance and Performance Committee

**Report Of:** Philip Gregory, Director of Finance & Commercial Services

**Report Author:** Kerry Darlow, Assistant Director of Finance Business Partnering

**Executive Summary:** This report outlines the progress to date in delivering a balanced budget for 2025/26. The report sets out the current budget gap along with the associated assumptions, risks and opportunities to be considered in setting a balanced budget.



### **Council Plan outcomes:**

[A place where all children belong and all young people can build a successful future](#)

[Great neighbourhoods that people are happy to call home](#)

[People live in caring, engaged communities that value diversity and support wellbeing](#)

[A creative and prosperous city full of culture, learning, and innovation](#)

[A city on the move – growing, connected and sustainable](#)

### **Policy Committee remit:**

This report is to be considered by the Finance & Performance Policy Committee as its remit covers decisions in respect of the Finance and Property matters: [Part 3C - 3.3 Matters Delegated to Committees May 2024.pdf \(sheffield.gov.uk\)](#)”

### **Does the report contain confidential or exempt information? Yes**

Appendix 1 is not for publication because it contains exempt information under Paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended).”

## Recommendations:

Finance and Performance Committee is recommended to:

1. Note the current budget gap stands at £1.7m for 2025/26.
2. Note the budget gap will likely change following the publication of the Local Government Finance Settlement (LGFS) on or before the 19<sup>th</sup> December 2024.
3. Note the pressures, savings and investments proposals set out in the closed appendix 1 of this report.
4. Note for consideration the ongoing budget assumptions, financial risks and opportunities set out in the report that will play a role in determining the future actions required to balance the 2025/26 budget.

**Financial Implications:** Yes – Kerry Darlow

**Legal Implications:** Yes - Nadine Wynter

**Equality and Engagement Implications:** Yes - Ed Sexton

**Climate Change Implications:** N/A

**Background Papers:** [Sheffield City Council Plan 2024-28 | Council Plan](#)  
[Medium Term Financial Analysis](#)

**Appendices:** Appendix 1 (Closed) - Business Planning Proposals

## 1. Background to the issue

Each financial year the Council is required to set a balanced budget. This report outlines the progress made to date in delivering a balanced 2025/26 budget and sets out the budget pressures and mitigation plans for the Finance and Policy Committee in the closed Appendix 1.

## 2. Proposal

The Council is facing a challenging financial position. The Strategy and Resources Committee on 24th July 2024 received the Council's Medium-Term Financial Strategy (MTFS), highlighting the financial pressures facing the Council over the coming 4 years and the potential gap of £68.9m in resources. The gap stood at £31.4m for 2025/26.

The process of balancing the 2025/26 has been directed by the Council's priorities set out in the Council Plan. Investments and savings proposals set before the city's councillors for decisions, highlight their strategic alignment to the priorities, along with assessments of deliverability and sustainability. This more focused approach aims to ensure the Council invests in services that offer best value for money in achieving the agreed outcomes for city.

As part of this process, Policy Committees have been briefed on all savings, pressures and investments affecting their remit of delivery and given the chance to help shape and influence the final proposals.

### 2025/26 Budget Position December 2024 – General Fund

#### Current Position

**At this stage of the year, there has been some really good progress but there is still a budget gap of £1.7m.**

#### Pre Local Government Finance Settlement (LGFS)

	2025/26 Budget Gap
	£m
Inflation & Pre Agreed items	34.9
Corporate Items	-3.1
Additional Funding	-28.1
<b>Budget Gap (before additional pressures / mitigations)</b>	<b>3.6</b>
Demand / Growth Pressures	22.3
Investments	6.6
<b>Budget Gap (before mitigations)</b>	<b>32.5</b>
Mitigations (including Fees & Charges increase)	-30.8
<b>Net Budget Gap</b>	<b>1.7</b>

Following Policy Committee briefings in November and support by political groups in the Council, the current budget gap stands at £1.7m.

This figure includes items announced in the Government's Autumn Budget and subsequent policy statement, which provided enough certainty for inclusion.

**These figures are likely to change following the LGFS expected on or before the 19<sup>th</sup> December**

It is worth noting at this stage, financial announcements about the level of Government funding are not known and are likely to affect the budget gap. We anticipate this detail will be provided in the Local Government Financial Settlement (LGFS) on or before the 19<sup>th</sup> December.

Details of the changes since the published MTFS, our ongoing budget assumptions, potential funding risks and opportunities to support the budget are out in the following sections.

The confidential appendix 1 of this report sets out the budget implementation proposals in more detail.

## Movements Since the MTFS

**The 2025/26 Budget Gap has improved by £29.7m since the publication of the MTFS**

As can be seen from the table below, there have been a number of movements since the estimated budget gap for 2025/26 of £31.4m was established in the MTFS. There has been a significant improvement of £29.7m over the last few months

	2025/26 Budget Gap £m	MTFS 25/26 Budget Gap	Variance
Inflation & Pre Agreed items	34.9	32.5	2.4
Corporate Items	-3.1	2.6	-5.7
Additional Funding	-28.1	-13.7	-14.4
<b>Budget Gap (before additional pressures / mitigations)</b>	<b>3.6</b>	<b>21.3</b>	<b>-17.7</b>
Demand / Growth Pressures	22.3	16.5	5.8
Investments	6.6	2.0	4.6
<b>Budget Gap (before mitigations)</b>	<b>32.5</b>	<b>39.8</b>	<b>10.4</b>
Mitigations (including Fees & Charges increase)	-30.8	-8.4	-22.4
<b>Net Budget Gap</b>	<b>1.7</b>	<b>31.4</b>	<b>-29.7</b>

However, total pressures have increased over this period by £12.8m. Of this, £2.4m related to inflationary increases and changes to pre-agreed items, £5.8m as a result of growth &

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demand pressures and £4.6m of requests for further investment in services.

### ***Inflation and Pre-Agreed***

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**Inflation increases of £5.7m mainly within Adults Social Care linked to greater than expected National Living Wage increases**

The key movements within the category of inflation pressures and pre-agreed items relate to adults social care and a change in funding source for green initiatives. Adult social care services are estimating an additional £5.7m of fee increases and contract inflation when compared to the MTFS assumptions. This is predominantly the impact of a higher than anticipated increase to the National Living Wage (NLW) announced in the Autumn Budget. Offsetting this increase is a reduction in the pre-agreed pressure to support Green Initiatives approved in the 2024/25 budget amendments. The funding available has not been reduced but has instead been earmarked within reserves to help support multi-year investments.

### ***Growth and Demand Pressures***

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**Increased demand for services such as SEN transport, Children with disabilities and Safeguarding Hubs**

Growth and demand pressures have increased by £5.8m since the publication of the MTFS. The significant movements are within adults and children's social care services and include items such as additional pressure in SEN home to school transport, additional support for families with no recourse to public funds (NRPF), increase costs of children with disabilities and a greater demand for services provided by our Multi Agency Safeguarding Hubs (MASH).

### ***Investments***

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**Total of £6.6m of investment across all 5 Strategic Outcomes and 9 of the Council's priorities.**

£4.6m of additional investments have been requested since the publication on the MTFS, bringing the total investments to £6.6m. These investments are spread across all five Strategic Outcomes set out in the Council Plan, and 9 of the 20 Council's priorities. Examples of these investments include the development of accommodation to house Children in Care to provide better outcomes for children and more affordable placements, investments in adult social care to improve capacity and services with view to delivery of long-term savings, investment to encourage more events in the city, support for green initiatives and additional resources to support transport planning. Full details can be found in appendix 1 of this report.

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### ***Corporate Items and Additional Funding***

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**Anticipated Corporate contributions to the Leisure Strategy have been reduced by £6m following the retender of services.**

Corporate items in the MTFs included a planned contribution to the ongoing costs of the Leisure Strategy. However, following the recent tendering process and assessment of the capital investment required, a reduction in the planned contribution of £6m pa has been possible and played a significant part in helping close the budget gap.

**Additional Social Care, RSG and Business Rates income helped close the budget gap by £14.4m**

Additional Funding of £14.4m has also been included following the recent Local Government Finance Written Statement and confirmation of the September CPI figures. The Statement confirmed councils will receive a share of £680m of additional Social Care Grant and £250m for a new Children's Social Care Prevention Grant. Our estimate of Sheffield's share is £8.7m and £2.5m respectively but is still subject to confirmation. In addition, Council income from Business Rates and RSG are to be indexed to CPI in September. This figure was confirmed at 1.7% and will yield approximately £3.2m of additional funding for 2025/26.

### ***Savings and other mitigations***

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**Additional mitigations identified total £22.4m**

Additional savings and mitigation of £22.4m have been identified since the publication of the MTFs. These mitigations are split into three categories: cost reductions, fees and charges and grant income.

Cost reductions account for £15.3m of the additional mitigations, fees and charges total £5.7m and additional grant income is £1.4m. Full details of mitigations are provided in the closed appendix 1 of this report.

## **Assumptions, Risks & Opportunities**

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### ***Assumptions***

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**MTFS assumptions continue to be applied in reaching the current budget gap.**

The MTFs report to S&R committee set out a number of assumptions around funding increase via Council Tax, Business Rates, Govt Grants etc. These assumptions are still being applied in the delivery of the current budget gap but are subject to approval by Members and/or confirmation in the LGFS. The main assumptions were:

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- Core Council Tax increases of 2.99% for 2025/26 is supported.
  - Adult Social Care Precept increases of 2% for 2025/26 is supported.
  - Business rates and government core funding allocation will raise in line with September 2024 CPI.
  - the Council's current level of reserves provides a very limited amount of time for action to be taken strategically in response to the financial position and current budget gap.

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### **Risks**

**There is still unknowns and risk in this budget which will need to be managed and reviewed on a regular basis.**

There are a number of risks still associated with this budget; these include but are not limited to:

- Inflation linked contracts such as Waste and Highways are indexed to January RPIX. Recent forecasts are suggesting a slight upward trend in early 2025, which will not be known until late in the budget process and could result in additional pressures.
- Employers National Insurance contributions will affect the Council both directly and indirectly. The direct impact is to be funded following the Autumn Budget, but we still await confirmation of the origin, allocations and mechanisms for distribution. The more concerning issue is the impact this increase is set to have on the Council's supply chain, especially in the social care sector. The Council has already received representation from the sector voicing concerns about issues of sustainability and viability. There is a real risk this issue will drive cost inflation the Council is not funded to support.
- As part of the Autumn Budget, the Government set Departments a 2% productivity target. This included the Ministry of Housing, Communities & Local Government. It is unclear how or when this target will be allocated to Councils but is very likely to result in a reduction in funding.
- Pay awards are built in at a 3% increase for 2025/26. Unions are likely to request increases above this level. The average increase for the 2024/25 pay award was 3.7%. This issue could be further exacerbated if inflation is not maintained around the Bank of England target of 2%.
- There are a number of time limited grants due to come to an end in 2024/25. Extensions to some were confirmed in the Autumn Budget and recent Written Statement such as the Household Support Fund and the UK Shared Prosperity Fund



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(UKSPF). However, the Council is awaiting information on others, including Building Successful Families, Substance Misuse Treatment Grant and Start for Life to name a few. The cessation of any of these grants will create a financial pressure whilst services take action to reduce / stop the related activity.

- In 2024/25 the Council is forecasting a £34m overspend currently which is partly mitigated by an £8m corporate contingency. Some of this overspend is addressed in 2025/26 Business Planning but the majority is reliant on the delivery of the recovery plans in place, a failure to do so will impact on the assumptions made in 2025/26 and risk putting the Council's sustainability at risk.

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### ***Opportunities***

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**The LGFS might provide much needed additional funding depending upon distribution methodologies, and our responsibilities around the Government's 2% Public Sector productivity target.**

The LGFS might provide greater funding than currently assumed in business planning. The recent Written Statement from MHCLG announced an additional £600m of one year 'Recovery' funding has been set aside for Councils in 2025/26. This is in addition to the £680m for Social Care funding announced in the Autumn Budget and included in the budget gap. At this stage, allocations have not been announced, nor the detailed proposed mechanism for distribution or if any new burdens could be attached to the funding. This coupled with the risk around the allocation of the 2% productivity targets, means we are yet to reflect any of this potential income within business planning. The LGFS will provide clarity around these grants, allowing the better reflection of the likely income to the Council for 2025/26.

**Sales Fees and charges review could provide access to addition income**

A thorough review of sales, fees and charges is underway with the view to identifying areas where additional income can be generated by the Council. The focus of the review is ensuring full cost recovery is being achieved and paid for services are not subsidised.

**Savings plans are still being formulated**

Teams across the Council continue to work on identification of savings opportunities to ensure the Council can set a balanced budget. Any new saving will be presented to Members over the coming weeks for approval. Savings arising from the Future Sheffield Programme have not been included as they are expected to be delivered from 2627.

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## Reserves Position

**The Council has very limited reserves to mitigate the gap in current proposals** There are likely to be very limited reserves available to support the remaining 2025/26 budget gap. During the 2022/23 to 2025/26 MTFS process, £70m of Reserves were identified to support budget pressures. However, if current in-year forecast overspends are not mitigated only £1m will remain as per the table below.

<b>Reserves Usage</b>	<b>£m</b>
2021/22 Overspend	20
2022/23 Budget Balancing	14
2022/23 Overspend	5
2023/24 Overspend	16
2024/25 Top up of Reserve	-12
2024/25 Current Overspend	26
<b>Unallocated</b>	<b>1</b>
<b>Total</b>	<b>70</b>

Based on current analysis the remaining reserve would be insufficient to enable a balanced budget to be set for 2025/26

## Next Steps

**We may need to take a cross-Council approach to complete the process of balancing the Budget.** If all the proposals in this report are supported, we are still £1.7m below the required target to set a balanced budget for 2025/26 subject to any funding changes in the LGFS.

Depending upon the outcome of the LGFS, Members and Officers will need to work together to develop options to bridge any remaining gap.

## Timetable from here to Strategy and Resources and recommendations to Full Council

**Full Council need to approve the General Fund Budget and Capital Programme** The timeline for approving the 2025/26 General Fund budget is tight, and the following steps need to happen.

- Consultation on budget proposals.
- Further budget balancing options will need to be developed.

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- Finance Brief in late January to finalise the 2025/26 budget figures and agree the report structure to go to Strategy & Resources on the 19th February
  - Strategy & Resources 19th February meeting recommended the 2025/26 General Fund and Capital Programme to Full Council, 5th March 2025
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### **3. How does this decision contribute to the Council Plan?**

#### 3.1 Council Plan outcome

There are no decisions to be taken as the report it to provide an update only. However, as noted in the sections above, the proposed investment and savings, if supported, will affect the delivery of all five outcomes in the Council Plan.

#### 3.2 People – Prosperity - Planet

N/A

#### 3.3 City Goals

N/A

### **4. What community or partner engagement has been undertaken and how has it informed the proposal?**

Although not directly relating to this update report, consultation on the Council Budget is scheduled and, where required, consultation on specific proposals will take place.

### **What alternative options did we consider?**

The Council is required by law to deliver a balance budget and therefore each Committee needs to delivery savings to achieve this. No alternatives have been considered at this stage.

### **5. How has equality, diversity and inclusion been actively considered?**

There are no direct equality implications arising from this report. However, each individual proposal will be subject to a separate Equality Impact Assessment (EIA). These will inform the development of a full Budget EIA.

## **6. Financial and Commercial Implications**

*There are no direct financial implications from this report. For information only.*

## **7. Legal Implications**

By the law, the Council must set and deliver a balanced budget, which is a financial plan based on sound assumptions which shows how income will equal spend over the short- and medium-term. This can take into account deliverable cost savings and/or local income growth strategies as well as useable reserves. However, a budget will not be balanced where it reduces reserves to unacceptably low levels and regard must be had to any report of the Chief Finance Officer on the required level of reserves under section 25 of the Local Government Act 2003, which sets obligations of adequacy on controlled reserves.

## **8. Climate and Environmental Implications**

There are no direct equality implications arising from this report. It is expected that individual Committees will consider climate implications as they develop their budget proposals in due course.

## **9. Reasons for decision**

**N/A**