# Medium Term Financial Analysis (MTFA)

## Purpose of the Report

1. The purpose of the Report is to:

   - provide Members with details of the forecast financial position of the Council for the next 4 years, and;
   - recommend the approach to budgeting and business planning that will be necessary to achieve a balanced budget position over the medium term.

## Executive Summary

2. The Medium Term Financial Analysis (MTFA) sets out the Council's latest financial forecast for the period 2020/21 to 2023/24. Over the next 4 years, our current view is that the Council's cumulative overall budget gap will be circa £34.6m by 2023/24, as shown in Figure 1 below. This takes account of changes to the Council's main sources of income (i.e. central government grant and local taxation), corporate expenditure (e.g. capital financing costs) and pressures on services (arising from inflation, demand or legislative changes such as the increase to the minimum wage).

Figure 1 – Summary of Projected Budget Gap for the 4 years to 2023/24

| | 2020/21 £m | 2021/22 £m | 2022/23 £m | 2023/24 £m | cumulative £m |
|---|---|---|---|---|---|
| **Increase in RSG** | -0.7 | 0.0 | 0.0 | 0.0 | -0.7 |
| **Business Rates & Council Tax Income** | -15.3 | 0.5 | -7.8 | -7.9 | -30.5 |
| **Spending Round Social Care Grant** | -10.0 | 0.0 | 0.0 | 0.0 | -10.0 |
| **Corporate Expenditure variations** | 2.1 | 6.0 | 4.4 | 3.7 | 16.2 |
| **Social Care pressures*** | 42.6 | 16.8 | 15.3 | 13.3 | 88.1 |
| **Other service pressures** | 5.0 | 4.1 | 3.9 | 3.9 | 16.9 |
| **Overall Budget Gap** | **23.7** | **27.3** | **15.9** | **13.1** | **80.0** |
| Proposed Savings / Mitigations | -19.7 | -11.8 | -6.9 | -6.9 | -45.4 |
| **Net Gap Still to Find** | **4.0** | **15.5** | **8.9** | **6.1** | **34.6** |

*2020/21 Social Care pressures include brought forward pressures of £15.9m

3. The Council's Social Care services are experiencing significant cost and demand pressures which, even with additional social care funding announced

in the 2019 Spending Round, completely outstrip growth in local taxation. Estimated total pressures on services are £105m over the four year period from 2020/21 to 2023/24, of which £88.1m (84%) relates to Social Care. Even after taking in to account £25.0m of corporate improvements and the additional £10m of Social Care funding for 2020/21, the cumulative position is a £80.0m overall budget challenge before mitigations by the end of 2023/24.

4. After significant proposed portfolio savings and mitigating actions totalling £45.4m, the net gap still to find stands at £34.6m over the MTFA period. The net gap reduces by year four (2023/24) to £6.1m, but this position is subject to considerable uncertainty, particularly in relation to the low level of pressures included and the uncertainty over Government funding from 2021/22 onwards.

5. The MTFA is recommending a continuation of the current approach to business planning which will focus on savings which support the Council's strategic priorities of economic growth, prevention and making the most effective use of our resources.

## Recommendations

6. It is recommended that Members:

- Note the forecast position for the next 4 years;
- Note, as planning assumptions, Core Council Tax increases of 2% per annum. The actual increases will be set at Full Council each March.
- Note additional flexibility was announced in the recent Spending Review for 2020/21 for a further 2% increase for the Social Care Precept. A decision to take this precept at Full Council would result in a balanced budget for 2020/21;
- Note the information contained in the capital sections of this report (paragraphs 30-39) and that decisions relating to the programmes mentioned below (paragraphs 36-39) will be sought in due course; and
- Agree the approach to budgeting and business planning.

## MTFA Contextual Information

### Background

7. Every year the Council is required by law to set a balanced budget. The approval of the Council's budget in March is the culmination of the annual business planning process. This report seeks Cabinet endorsement of the proposed approach to this year's business planning process. For further details please see section on 'Balancing the Budget'.

8. The first step in the business planning process for 2020/21 is to estimate the gap between the Council's resources and expenditure.

9. For the first time since 2010/11 the Council is anticipating a real terms increase in the amount of funding it receives from Central Government. The Spending Round announced on the 4th September 2019 highlighted an increase on baseline funding in-line with CPI inflation and new monies to support adult and children's social care.

10. Additional resources are also forecast in terms of expected increases to Council Tax and Business Rates revenues.

11. Our estimates also reflect expenditure variations such as:

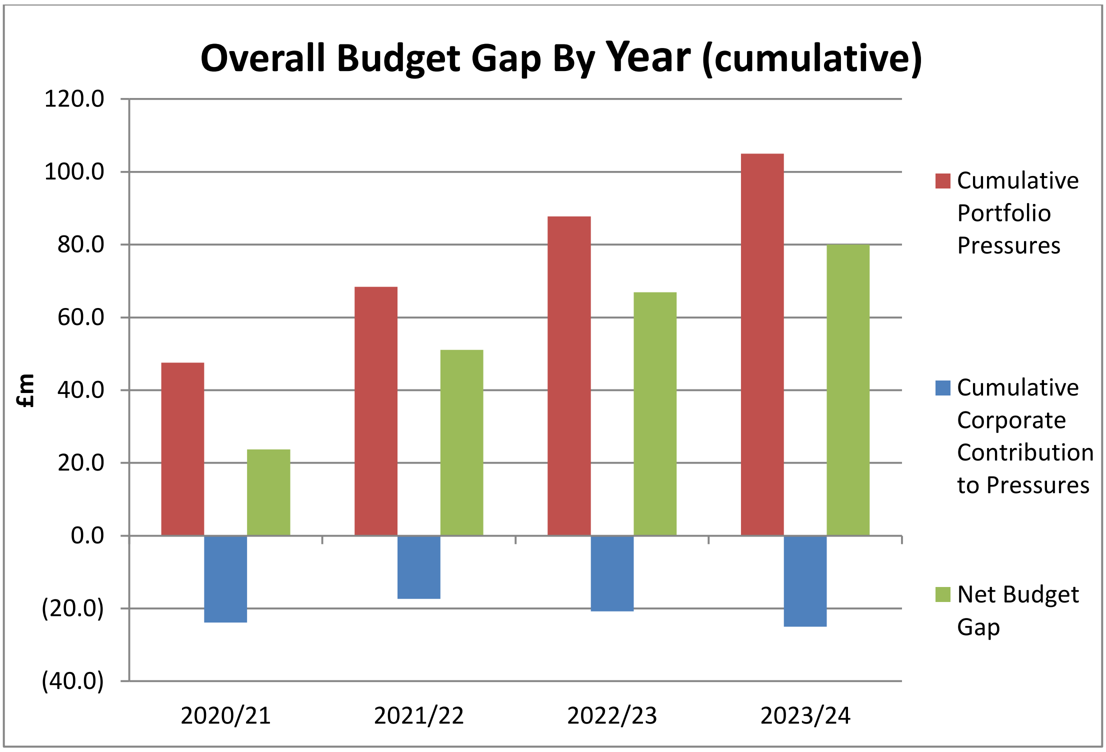
    - Capital financing requirements for economic development projects in the city, including Heart of the City;
    - the estimated cost of pay awards; and
    - contractual inflation on the Streets Ahead contract.

12. The budget challenge before mitigations also takes into account pressures on services arising from inflation, demand or legislative changes such as increases to the minimum wage. These pressures are currently forecast at £47.6m for 2020/21 (includes £15.9m of unresolved budget pressures from 2019/20).

13. Further details on the overall budget challenge before mitigations of £80.0m for 2020/21 to 2023/24 are detailed in **Annex 1** and **2**.

14. The chart below (figure 2) shows how the forecast cumulative gap increases over the next 4 years from 2020/21 to 2023/24 to £80.0m.

Figure 2 – Projected Budget Challenge before mitigations for the 4 years to 2023/24 (including an estimate of pressures in future years)



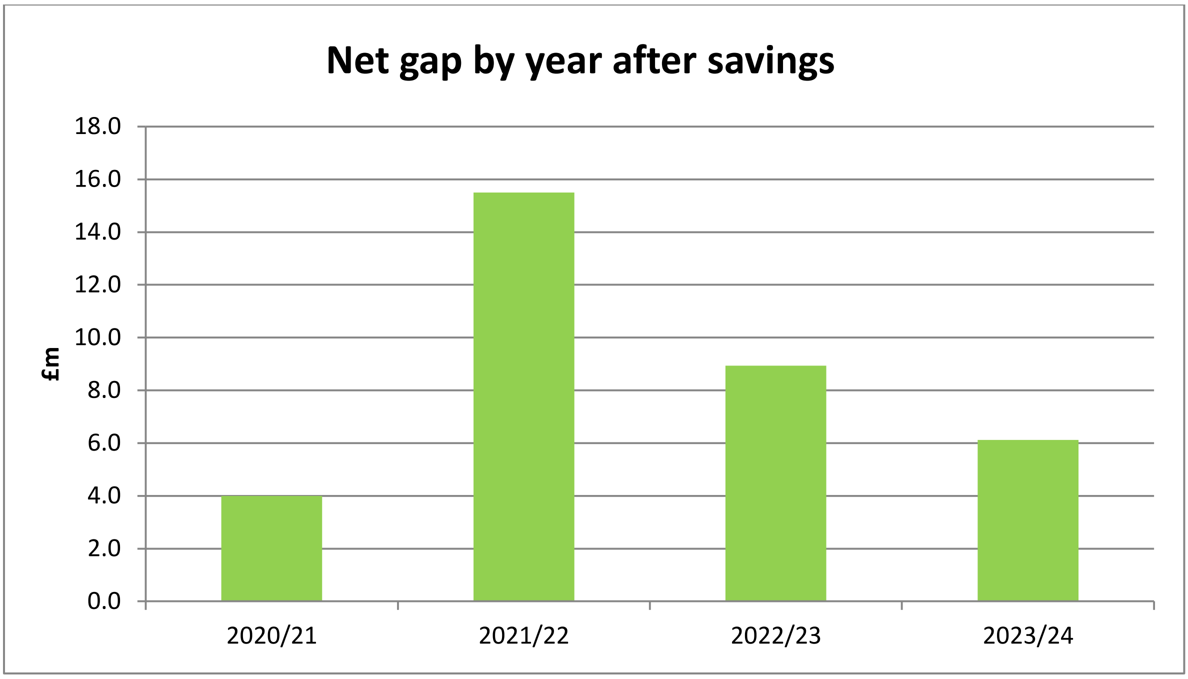

15. The net gap (the budget gap after planned mitigations) still to find for 2020/21 to 2023/24 now stands at £34.6m (see figures 1 & 3). The 2020/21 net gap is currently forecast at £4.0m despite forecast increases in core council tax and business rates income, additional funding from Government and portfolio mitigations. However, this forecast excludes the additional council tax income that could be generated by the Council choosing to implement the Social Care Precept, afforded by Central Government under the recent Spending Round. Member's agreement to adopt this precept would generate an additional £4.4m of income and close the 2020/21 gap.

16. The net gap figure increases, and peaks at £15.5m in 2021/22 partly as the result of the removal of a one-off Collection Fund surplus totalling £8.2m built into 2020/21 budget income.

17. Over 4 years, a net gap of the £34.6m is significant but is felt to be manageable over the medium term. Solutions will have to involve the identification of additional savings, demand management controls and the effective and prudent utilisation of the Council's reserves.

18. It has to be acknowledged that the net gap assumes the successful delivery of the £45.4m of planned mitigations over this MTFS period. This is a substantial ask given the amount of savings already delivered by the Council over the last 10 years of austerity. The successful delivery of this medium term financial strategy and implementation of the management solutions highlighted above will deliver a sustainable ongoing position for the Council. However failure to deliver these mitigations will leave the Council in a vulnerable position.

Figure 3 – Projected Net Gap for the 4 years to 2023/24




## Reform to Local Government

19. The Council's medium term financial planning continues to be hampered by short term Spending Review announcements by Government. The 2019 Spending Round announced on the 4th September 2019 is no different as it only confirms funding for 2020/21. There was welcome news that previous years one-off funding will be added to the baseline and additional funding for social care has been allocated, but effective planning beyond 2020/21 is not possible and this approach is not conducive to delivery of long-term value for money solutions.

20. The previous MTFA published alongside the 2019/20 revenue budget in February 2019 assumed retention of business rates by Local Authorities would increase from 50% to 75% from 2020/21. Due to the current national political turbulence and the announcement of a 2019 Spending Round to cover 1 year (2020/21), increased retention has been delayed until 2021/22 and, on current plans, will be included in the 2020 Spending Review.

21. The Council continues to assume that any growth in retained rates would be matched by reductions in Government grants – in effect; the net increase in finances would be nil. This was echoed by public commentators such as the 'Public Finance' publication, and by Government comments that the change will be "fiscally neutral".

22. For the reasons set out above, and given the uncertainty of any future deals around business rates retention, we continue to assume 75% retention will be fiscally neutral, and that the impact will simply slip by one year to 2021/22.

Therefore no increase to central government funding has been assumed from 2021/22 onwards. This assumption is a key uncertainty and risk for the Council going forward.

23. In addition, the Ministry for Housing, Communities & Local Government (MHCLG) is still reviewing the formula that determines baseline funding levels for all local authorities, the Fair Funding Review. This review was also due for completion during 2019, and should have formed part of the Council's settlement for 2020/21. For the same reasons as those affecting the implementation of changes to Business Rates Retention Schemes set out above, the Fair Funding Review has also been delayed to 2021/22.

24. The results of this Review are uncertain for the Council and further consultations are expected in autumn 2019. There are potential downsides 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 recognise better our funding needs (i.e. our social care pressures and level of deprivation).

25. There is also still a 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. Officers are continuing to represent the Council during the phases of consultation and support Members to lobby Ministers and prominent Government influencers.

26. Due to the uncertainty surrounding the outcome of this Review, the MTFA takes a neutral position and assumes there will be no impact on the Council's overall funding. In the event that this position becomes clarified and the Council is materially impacted, either positively or negatively, by its outcome, then we will revise our forecasts to highlight the changes.

# Assessing the Budget Gap

## Budget Gap

27. As shown in Figure 1, the scale of the budget gap is affected by changes in the Council's resources (Revenue Support Grant - RSG, Business Rates, Council Tax and other specific grants) and expenditure, as well as one-off and exceptional items. **Annex 1** provides a more detailed breakdown of these changes.

28. **Annex 2** details all the assumptions applied in reaching the numbers in figure 1 in detail but the key assumptions in summary are:-

- **Revenue Support Grant (RSG)** - Grant reduced by £15.5m in 2019/20 as per the 2017/18 Local Government Finance Settlement, but following the 2019 Spending Round announcement, it will be expected to rise in line with inflation and deliver an increase in funding of approximately £0.7m in 2020/21. No further reductions in RSG are assumed in the MTFA in future years. This is because we anticipate the grant being rolled in to a wider change in settlement linked to the proposed move to 75% Business Rates Retention resulting in a broadly cash neutral effect at point of transfer in 2021/22.
- **Business Rates** - A business rates growth model to analyse potential growth has been developed by a multi-disciplinary team of Council officers. This model pulls information from a variety of sources in order to quantify growth in our business rates base. We have assumed relatively prudent growth in the model. A potential major retail development has been delayed and is currently under consultation. This delay has resulted in the reversal of a forecast decline in business rates whilst the development was expected to be under construction. This reversal has led to an uplift of £4m in the business rates base for 2020/21. It is possible that the development may still go ahead, which will have a negative impact on the business rates base whilst under construction, but would cause significant increases in business rate income in the longer-term (outside of the period of this MTFS).
- **Inflation** on the business rates multiplier is based on the forecasts made by the Office for Budget Responsibility as at April 2019 - CPI (e.g. 2.0% for Q3 2019/20). From 2019/20 the inflation figure changed to CPI from RPI in line with the policy announced by the former Chancellor in the 2015 Autumn Statement. Top-up Grant to compensate for this change is forecast to rise in line with Government announcements.
- **Council Tax** - The Government has announced a 4% referendum trigger for Council Tax for 2020/21. This is composed of a 2% Adult Social Care precept and 2% for Core Council Tax. The MTFS has a planning assumption of a 2% per annum rise in Core Council Tax from 2020/21 to 2023/24, although the actual Council Tax level will be set by members each year including any decision to take the 2% Social Care Precept in 2020/21. The tax base for Sheffield is growing and provides us with enough confidence to forecast an increase of 1,000 new Band D equivalent properties for 2020/21 and 1500 for each of the remaining 3 years. We assume that the number of properties claiming discounts/reliefs in future years and Local Council Tax Support Schemes will stay the same.

- **Pension Contributions** – a triennial review of the amounts to be paid to South Yorkshire Pensions Authority for years 2020/21 to 2022/23 is expected later this year. It is anticipated that the amounts paid in relation to the past service deficit will reduce following improved Fund performance over the last 18 months. This reduction is likely to be partly offset by increases to the Future Service Rate resulting from stock market uncertainty surrounding Brexit and increased pension liabilities resulting from legal challenges to public sector pensions such as the recent McCloud case.
- **Adult Social Care Grant –** For the purposes of this MTFA the Council is assuming these new monies are distributed nationally in line with 'adults social care RNF formula' and will not carry any new burdens on service delivery. This assumption is highlighted in the Financial Risk Annex 3 but is felt to be secure enough for inclusion.
- **Pay Inflation** - 2% pay inflation year on year in line with the recently agreed national pay award. This inflation is to be absorbed by portfolios.
- **Pay Strategy** – An estimated £8.4m of pay and reward costs has been included over the period of this MTFA to reflect the overall funding envelope which the Council believes is affordable given its current financial pressures. 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.
- **Portfolio Pressures** - By far the largest component of the pressures the Council faces relates to Social Care. The Government has provided some specific additional Social Care funding for the past three years. The baselining of this funding, along with an additional £1bn nationally for social care, were announced in the recent 2019 Spending Round. Whilst additional funding is welcome, with pressures of around £42.6m for 2020/21 and only £10m of ongoing additional social care funding provided, the increased funding is clearly insufficient to enable ongoing delivery of current services. The challenge is compounded over the medium term, with a further £45.5m of social care cost pressures for 2021/22 to 2023/24.

29. The budget gap has been assessed on a relatively neutral basis. Our 'base case' has some upsides (e.g. we hope our pensions' deficit payments will fall from 2020/21 when the actuary completes our next triennial valuation), but also some financial risks that, should they materialise, would have a significant impact on the Council's ability to achieve a balanced budget position. See **Annex 3** for the details of the main financial risks. Some examples include:

- **Change in Forecast Pressures** - Figure 1 highlights a significant reduction in the level of pressures from 2021/22 onwards when compared to 2020/21 (even when the brought forward £15.9m pressure is removed). Given the size of the current forecast Budget Gap and against a net revenue budget of around £400m, any ability to deal with any adverse change in forecast pressures, when resources are severely constrained, will be a key challenge.
- **Non-delivery of savings** - The base case assumes all the savings we have declared will be achieved, or alternative sources of savings will be found.
- **Local Government Reform** - As mentioned in the previous sections, the possible impact of 75% local retention of Business Rates and the Fair Funding Review have not yet been reflected in the table due to uncertainty around any transfer mechanisms and financial impacts on the Council.

## Capital Programme

30. Capital spending pays for buildings, roads and council housing and for major repairs to them. It does not pay for the day-to-day running costs of council services. Therefore for budgetary purposes, the Capital Programme is kept separate to the General Fund revenue budget. The revenue consequences of capital expenditure, in terms of interest payments and allowances for the consumption of capital assets (known as the Minimum Revenue Provision or MRP) have been included however. The next update to the Capital Programme will be presented to Cabinet in February 2020.

31. The largest forecast area of capital expenditure is the Heart of the City Two (HotC2) project, which aims to revitalise the City Centre with additional high quality office, retail and residential spaces. This project is timetabled to occur over the next six years, and incur up to £470m of capital expenditure, which should be largely recouped by the sale of the redevelopments. This scheme will require cash-flowing by the Council however, with the revenue consequences forecast as peaking at £2.3m in 2022/23. We have allowed for this sum in this MTFA. If the forecasts of asset sales fail to reach expectations, then additional revenue impacts will occur, and consequent reductions in services will have to be made to compensate. This remains a key area of financial risk for the Council.

32. As at July 2019 the budget for the Capital Programme for 2019/20 totalled £187.1m and the five year programme to 2023/24 is £636.9m. Through the Strategic Commissioning exercise Cabinet members have identified key

projects (both existing and new) for their respective portfolio areas with lead officers. This is intended to inform the short, medium and long-term demands on the future Capital Programme.

33. There are four key programmes that, in due course, Members will be asked to provide a more detailed steer on. Getting a steer on these four projects will enable us to move on to the next stage of Strategic Commissioning and refine our priorities and begin the process of financial planning.

34. Longer-term, our strategic approach on the Corporate Estate needs separate review and discussion. The status quo position severely limits our ambitions and the timescales over which they can be delivered. Conversely, disposal of assets can provide income for further investment in strategic priorities. Identifying a route that will help us agree some general principles we can then apply to the estate and help with individual decision making needs to be part of the overall approach.

35. The four key programmes are as follows:

**Town Hall**

36. A number of longstanding essential compliance and maintenance works (ECM) have been identified and require attention. The future role and function of the building needs review before agreeing the investment required. A full reconfiguration would require commitment to a significant investment programme. Our approach needs to be aligned to the wider city centre vision and the Central Library.

**Central Library & Graves Art Gallery**

37. Options range from ECM to a major redevelopment with estimated costs varying significantly dependent upon preferred option and agreed specification.

**John Lewis Partnership**

38. How does JLP feature in the long term plans for the city centre redevelopment and HOTC2? Stated ambition of JLP is to remain in their current location. SCC currently lease the site to JLP on a peppercorn rent with a 40 year term remaining.

**Sheffield International Venues (SIV)**

39. Options to be explored range from ECM to investments in the entire SIV estate. We need to decide on its operating model and the strategic vision for the city’s leisure offering.

## Housing Revenue Account

40. The Housing Revenue Account (HRA) is the statutory financial account of the Local Authority as landlord. The Council owns approximately 39,700 homes that are home to around 45,400 tenants, together with their families or other occupiers. In addition, 4,500 leaseholders also receive housing services from the Council. It is the Council's current and future tenants and leaseholders who are impacted by the decisions made in the HRA Business Plan.

41. For budgetary purposes, the HRA is kept separate to the General Fund revenue budget, hence any proposed changes to the HRA business plan are not expected to have any impact on the MTFA. The next update to the HRA Business Plan will be presented alongside the HRA revenue budget for 2020/21 to Cabinet in February 2020.

## Approach to Balancing the Budget for 2020/21

42. Following nine years of the Government's austerity programme and given the scale of the year-on-year reductions we have faced, it is becoming increasingly difficult to balance our budget whilst protecting our front-line services. We are therefore seeking to focus activities on the Council's key priorities of economic growth, prevention and making effective use of our resources.

43. These priorities are supported by a refresh of the four-year transformative strategic change programmes intended to release savings, along with a Council-wide continuing search for lower level "tactical" reductions in expenditure, where we have identify that there is scope for further efficiencies in individual services.

44. Current savings and pressure mitigations proposals identified by this approach, supported by forecast increases in council tax and business rates revenues and additional social care funding, should result in a balanced budget position for 2020/21. To achieve balance requires real focus on the delivery of proposed savings and adoption of the Social Care Precept. If the precept is implemented this would afford Members and service managers time to consider the impact of the longer term pressures on priorities and service delivery, to enable the delivery of a more sustainable medium term strategy.

## Reserves

45. The Medium Term Financial Analysis is prepared against a backdrop of uncertainty and potential risk. There is nothing new in this, and whilst some of the risks have been managed by the Council for many years, it is important that the Council has adequate financial reserves to meet any unforeseen expenditure. For an organisation of the size of Sheffield City Council, relatively small movements in cost drivers can add significantly to overall expenditure.

46. The Executive Director of Resources and Section 151 officer has reviewed the adequacy of reserves and feels the short-term potential impacts on reserves would be sustainable provided services were able to deliver proposed mitigation plans.

# Implications and Alternative Options

## Implications

47. Financial & Commercial Implications

- This is a revenue & capital financial report, as such all financial and commercial implications are detailed in the main body of the report.

48. Legal Implications

- There are no specific legal implications arising from the recommendations in this report.

49. Equal Opportunities Implications

- There are no specific equal opportunities implications arising from the recommendations in this report.

## Alternative Options

50. A number of alternative courses of action are considered as part of the process undertaken by Officers before decisions are recommended to Members.  The recommendations made to Members represent what Officers believe to be the best options available to the Council, in line with Council priorities, given the constraints on funding and the use to which funding is put within the Revenue Budget and the Capital Programme.

# Annex 1- Forecast Revenue Position 2020 - 2024

| | | 2020/21 | 2021/22 | 2022/23 | 2023/24 |
|---|---|---|---|---|---|
| | | **£m** | **£m** | **£m** | **£m** |
| **Grant variations:** | | | | | |
| - | Revenue Support Grant (RSG) | **-0.7** | **0.0** | **0.0** | **0.0** |
| | Adult Social Care Funding | **-10.0** | **0.0** | **0.0** | **0.0** |
| | Business Rates Grants | **-3.4** | **0.0** | **0.0** | **0.0** |
| **Business rate income:** | | | | | |
| | Inflation on business rate multiplier | **-2.0** | **0.0** | **0.0** | **0.0** |
| | Growth in Business rate base | **-4.0** | **-1.0** | **-1.0** | **-1.0** |
| **Council Tax income:** | | | | | |
| | Growth in Council Tax Income | **-5.9** | **-6.7** | **-6.8** | **-6.9** |
| | Social Care Precept | **0.0** | **0.0** | **0.0** | **0.0** |
| **Collection Fund surplus:** | | | | | |
| | 2020/21 Council Tax surplus paid in 2021/22 | **0.0** | **8.2** | **0.0** | **0.0** |
| **Expenditure variations:** | | | | | |
| | Pay Strategy | **3.5** | **2.5** | **1.2** | **1.2** |
| | Streets Ahead contract | **1.8** | **1.8** | **1.8** | **1.8** |
| | MSF ongoing increase | **0.5** | **0.5** | **0.5** | **0.5** |
| | Heart of the City | **0.5** | **0.5** | **0.7** | **0.0** |
| | Pensions | **-6.0** | **0.0** | **0.0** | **0.0** |
| | Other | **1.8** | **0.7** | **0.2** | **0.2** |
| **TOTAL** | **Year on year movement (excluding service pressures)** | **-23.9** | **6.5** | **-3.4** | **-4.2** |
| | Social Care Pressures | **42.6** | **16.8** | **15.3** | **13.3** |
| | Other Service Pressures | **5.0** | **4.1** | **3.9** | **3.9** |
| | add bf position | **0.0** | **23.7** | **51.1** | **66.9** |
| | **Overall Budget Gap (before savings / mitigations)** | **23.7** | **51.1** | **66.9** | **80.0** |

# Annex 2 – Key Assumptions

| Assumption / Scenario | **Base Case** |
|---|---|
| **Income Variations** | |
| RSG | Inflation on RSG as per the Spending Round:<br>• £0.7m (2020/21)<br>• Total grant rolled into 'Rebaselining' of government funding from 2021/22 |
| Business rates | • A business rates growth model has been developed by a multi-disciplinary team of Council officers to analyse potential growth. This model pulls information from a variety of sources in order to quantify growth in the business rates base. Any forecasts of potential growth need to be treated with caution as there may be reductions in business rate income elsewhere as businesses relocate or have their rate liability re-assessed by the Valuation Office Agency (VOA).<br>• A potential major retail development has been delayed and is currently under consultation. This has resulted in the reversal of a forecast decline in business rates whilst the development was expected to be under construction. This reversal has led to an uplift of £4m in the business rates base for 2020/21. It is possible that the development may still go ahead which will have a negative impact on the business rates base whilst under construction although it should lead to business rates growth outside of the period of this MTFS.<br>• 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.<br>• 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. It is estimated that the total value of these reliefs and deductions will be approximately £46.7m.<br>• Inflation on business rates multiplier is based on the forecast model increasing with CPI at 2%.<br>• Top-up Grant is forecast to rise in line with Government announcements.<br>• Business Rates growth – We have assumed relatively prudent growth in line with the Business Rates Growth Model. |
| Council tax | • The tax base for Sheffield is growing at a consistent pace and provides us with enough confidence to forecast an increase of 1000 new Band D equivalent properties for 2020/21 and 1500 for each of the next 3 years.<br>• The tax base for 2019/20 assumes that 38,731 properties would be eligible for discounts and exemptions. At the present time, it is assumed that the number of properties claiming discounts/reliefs in future years will remain the same. However, this figure is subject to fluctuations throughout the year, particularly as a result of student homes exemptions.<br>• 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 |

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|---|---|
| | 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 2020/21.<br>• The Government has announced a 4% referendum trigger for Council Tax for 2020/21. This is composed of a 2% Adult Social Care precept and 2% Core Council Tax. The MTFS has a planning assumption of a 2% rise per annum in Core Council Tax from 2020/21 to 2023/24, although the actual Council Tax level will be set by members each year including any decision to take the 2% Social Care Precept in 2020/21.<br>• In-year collection rate remains at 95.5%: for budgeting purposes, the practice has been to set a prudent in-year collection rate as part of the tax base calculations, although eventually the Council recovers up to 99% of council tax. The introduction of CTSS has also had an impact on the collection rate. The forecast level of council tax income for 2020/210 assumes an in-year collection rate of 95.5% (unchanged from 2019/20).<br>• No change to reliefs & discounts. |
| Collection Fund surplus/ deficit | • £8.2m of collections fund surplus is played into the 2020/21 budget but creates a pressure in 2021/22 due to its one-off nature. Not futures years surpluses are anticipated within the MTFA. |
| Specific grants | • Improved BCF grant is rolled into baseline funding from 2020/21<br>• Winter pressure and 2019/20 ASC grant roll into the baseline<br>• Adult and Children's social Care funding of £10m; new for 2020/21 |
| Other Income | • Rental income from the Heart of the City Development of approximately £3.0m per year for 2019/20 to 2020/21. This reduces during 2021/22 after the anticipated sale of part of the development. This income along with the anticipated additional business rates mentioned above offsets the majority of capital financing costs relating to the development highlighted in the expenditure variation section below. |
| Public Health | • Based upon the latest available information from the Spending Round, we are of the view that the Public Health grant will increase by 3.4% for 2020/21, after which point it is likely to form part of the exchange of grant for an increased share of business rates. This increase in funding will go some way to alleviating the financial pressures that have resulted from the previous years of grant cuts. |
| **Expenditure Variations** | |
| Pay inflation | 2% per annum from 2029/21, to be absorbed by portfolios |
| Pay strategy | The estimate of £8.4m of pay and reward costs over the period of this MTFA reflects the overall funding envelope which the Council believes is affordable given its current financial pressures. This is above the 2% that portfolios have added to their pressures. It also allows for the cost of spinal increments to be taken corporately rather than by portfolios. |
| Employers' national insurance | No further changes to NI anticipated. |
| Pension Contributions | A triennial review of the amounts to be paid to South Yorkshire Pensions Authority for years 2020/21 to 2022/23 is expected later this year. It is anticipated that the amounts paid in relation to the past service deficit will reduce following improved assets performance over the last 18 months. This reduction is likely to be partly offset by increases to the Future Service Rate resulting from stock market uncertainty surrounding Brexit but also increased liabilities resulting from legal challenges to public sector pensions such as the recent McCloud case. |

| | |
|---|---|
| Streets Ahead Contract Inflation | The Council investment in the Streets Ahead contract will result in the required amount increasing by approximately £1.8m per annum from April 2017, as planned, taking the total cost in 2020-21 to £86m. |
| MSF | Corporate support for Sheffield City Trust (SCT) debt charges: The additional costs shown against the 'MSF ongoing increase' line in Annex 1 |
| 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 be approximately £4.6m for 2019/20, increasing to £5.6m by 2021/22, before reducing by £3.5m in 2021/22 following the sale of some of the development. As mentioned above, this additional capital financing requirement is significantly offset by the additional rental and business rates income the scheme is anticipated to generate. |

# Annex 3 – Key Financial Risks

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|---|---|
| Business rates | Key sensitivities relate to:<br>• If the retail development does proceed, we could see a drop in the business rates baseline of between £4-£6m per annum. Any potential uplift in business rates income is unlikely to be realised before 24/25.<br>• 2020/21 reset – no indications presently available, but could have a significant impact on the Council's top-up grant<br>• Appeals – highly volatile; the Council seeks to mitigate fluctuations in appeals by regular monitoring and communications with VOA. |
| Council tax | • The increasing level of Council Tax may mean that collection rates fall amongst more disadvantaged and vulnerable residents.<br>• The current MTFS assumes a 2% rise in 2020/21 and 2% thereafter. Failure to act on this increase would have a material impact on our delivery of services. It will be for Council to decide the policy regarding future Council Tax increases. |
| HoC2 | This scheme will require cash-flowing by the Council however, with the revenue consequences forecast to reach £1.8m by 2022/23. We have allowed for this sum in this MTFA. If the forecasts of asset sales fail to reach expectations, then additional revenue impacts will occur, and consequent reductions in services will have to be made to compensate. This remains a key area of financial risk for the Council. |
| Better Care Fund | The Council currently receives circa £4.5m from the CCG towards the funding shortfall on the Better Care Fund. Pressures elsewhere in the health sector might create budget issues for the CCG and therefore impact upon their ability to provide this funding. |
| Fair Funding | The MTFA assumes the impact of the Fair Funding review will be net nil on the Council. However, 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 is also the question of the amount, rather than split, of funding. If the government attempts to reduce the amount of funding available to Local Government as part of the review government spending, this could impact on Sheffield. |
| Spending Reviews | National policy announcements affecting the future of local government funding, in particular the Chancellor's Budget due in late November each year, could have a profound effect on all sources of Central Government funding, including RSG and specific grants such as Public Health. There is only a limited level of certainty surrounding the 2020/21 announcement given the current turbulent political landscape. Future Governments may not even honour current commitments. |
| 2019/20 budget savings | Any risk of further non-achievement of agreed savings in the 2019/20 budget will be reported in monthly budget monitoring reports and could increase the 2020/21 pressures. |
| Social Care Funding | The MTFA assumes the funding announced is distributed using the adults social care RNF formula and comes with no 'new burderns' on service delivery. Should either of these assumption proved to be incorrect, it would have a significant impact on the Council's ability to balance the 2020/21 budget. |