Report to Cabinet

November 2020

Update on the Medium Term Financial Strategy

Report by Director of Finance and Support Services

Electoral division(s): All

Summary

This report provides an update on the progress to updating the Medium Term Financial Strategy and to developing a balanced budget proposal ahead of the Council's budget setting meeting in February 2021.

This update is presented in recognition that the Comprehensive Spending Review for 2021/22 will take place on 25th November 2020, which will clarify material matters regarding the funding of local government for the next financial year. The implications of the Comprehensive Spending Review and the subsequent publication of the Local Government Settlement will be key to determining how the remaining budget gap for 2021/22 can be addressed.

The ability of the county to encourage growth in the economy, the number of businesses operating from within the county and the level of employment within the county directly impact upon the finances of West Sussex County Council. The amount of council tax and business rates income collected directly contributes to the funding of services provided by West Sussex County Council. The latest developments in relation to the Covid-19 pandemic have the potential to add to the financial risks facing West Sussex County Council, depending upon how long the restrictions are required and their consequent impact upon the economy and employment within the county. In a similar manner, the end of the Brexit transition period in January 2021 and the uncertainty as to whether the UK can agree a trade deal with the European Union, also have the potential to affect the financial outlook of West Sussex County Council.

West Sussex County Council is required to set a balanced budget for each financial year by statute. The current budget gap for 2021/22 is £23.4 million. This gap represents the difference between the level of anticipated funding available to the Council, versus the anticipated levels of expenditure after taking account all identified savings and budget pressures.

This report sets out the savings proposals that require a Member decision, in recognition that the impact of the proposal will have a direct impact upon the service offer to the public. The report is seeking Cabinet endorsement to progress the development of the proposed savings proposals. Details of those proposals are set out in Table 3, with further detail provided within Appendix A.

Recommendations

It is recommended Cabinet

(1) agree to progress the proposed savings set out in Table 3.

(2) note that the Comprehensive Spending Review for 2021/22 will take place on 25th November 2020 followed by the Finance Settlement, which will directly impact the final decisions required of Members in setting a balanced budget for 2021/22.

Proposal

1 Background and context

1.1 The Medium Term Financial Strategy (MTFS) has been under review since the summer of 2020, culminating in the second Members Budget Workshop held on 22nd October 2020. This is an annual process, which has been delayed this year as a consequence of the impact of the Covid-19 response during the national lockdown earlier in the year and the on-going uncertainty about future funding levels for local government nationally.

1.2 West Sussex County Council faces a particularly challenging set of circumstances this year, not least of which is the financial impact arising from the pandemic, both in 2020/21 and in terms of any on-going impact in future years, but also in terms of the scale of the pressures for growth in the budget and the continued uncertainty about the outcomes of the Comprehensive Spending Review, the Fair Funding Review, the Review of Business Rates and the future funding of adult social care.

1.3 One of the responses to the impact of the pandemic has been to develop a Reset Plan, in conjunction with partners, details of which are contained within a separate item on this agenda, however it is important to recognise the key priorities that form part of that plan and which inform the development of the MTFS.

There are four distinct priorities that will be focused upon, underpinned by climate change. These priorities provide a framework for West Sussex County Council to focus on the most important things for our communities and within each sit a set of clear outcomes. Use of resources is the fourth priority and addresses the importance of ensuring the available resources, including finances, are structured to enable deliver of the council's priorities.

1.4 The principles underpinning the approach to setting the budget over the medium term are as follows:

- The budget will be sustainable in future years
- There will not be an on-going reliance of reserves
- Any use of reserves to balance the budget will be repaid
- The budget will support the priorities of the developing West Sussex reset plan and reflect the need for comprehensive service improvement and redesign over the medium term
- The council's financial planning will cover a period of at least four years

- Estimates will be used for pay and price inflation and additional costs to provide services due to demographic changes
- Any future loss of specific government grant will result in the stopping of expenditure on outcomes previously financed by the grant
- The budget process will seek to ensure the council is providing value for money increased productivity and is clear about return on investment

National Context and MTFS Assumptions

1.5 Delays in national decisions about the future of local government financing have continued, primarily because of the dramatically changing circumstances arising from the Covid-19 pandemic, requiring the Government to respond in a more agile and reactive manner, which has been reflected in the various funding streams made available to local authorities at different times since March 2020.

1.6 The changing circumstances arising from the pandemic have longer term impacts upon the fiscal outlook nationally and consequently the Comprehensive Spending Review, originally planned to provide certainty about public sector expenditure and funding for the medium term, will now only cover 2021/22. The economic impact of leaving the European Union in January 2021, following the transition period, has also yet to be factored into the Comprehensive Spending Review, reflecting the on-going uncertainty about whether a trade deal will be struck, which will also have a material impact upon public finances.

1.7 The Government has announced the one year Comprehensive Spending Review will be on Wednesday 25th November, with the intention of providing a focus on the following areas;

- *providing departments with the certainty they need to tackle Covid-19 and deliver our Plan for Jobs to support employment*
- *giving our vital public services enhanced support to continue to fight against the virus alongside delivering first class frontline services*
- *investing in infrastructure to deliver our ambitious plans to unite and level up the country, drive our economic recovery and Build Back Better."*

This will underpin the publication of the Local Government Settlement that will provide the detail of the funding of local government in 2021/22, including whether the existing grant funding, for example for social care, will be maintained in 2021/22 and whether local authorities will be provided with any further flexibility in relation to increasing council tax.

1.8 In addition the Fair Funding Review, which will determine how central funding should be distributed amongst local authorities to ensure equity, and the Business Rates Review, which will determine the level of funding that will be raised and how this will be distributed amongst local authorities, have also been pushed back until the fiscal outlook is clearer.

1.9 In addition to the delays in these broad policy areas, there is continued uncertainty about the future funding of adult social care, pending the publication of a national policy and plan to address this issue for the longer term. Currently, there are significant funding streams that are not currently guaranteed to be available in 2021/22.

1.10 Unfortunately, the continued uncertainty about the funding of local government makes the task of reviewing the MTFS more challenging and means that the announcement of the Local Government Finance Settlement, scheduled for early December 2020, has become an even more critical element in developing a balanced budget for 2021/22 and updating the MTFS for the following three financial years.

1.11 The County Council Network (CCN) published its analysis of the CCN Autumn Budget Survey in November 2020. It reflected that in 2021/22,

"CCN member councils face a pre-Covid underlying funding gap of £1.4bn. As a result of potential losses in unrecoverable council tax and business rates, this gap could increase to £2.2bn next year. A separate survey of County Treasurers shows councils have identified £485m of savings so far to fill this gap."

The report went onto state that,

"Only one in five CCN member councils are 'confident' they can deliver a balanced budget next year without 'dramatic' reductions to services."

These findings, along with the recent issuing of a s114 notice by the London Borough of Croydon, emphasise the scale of the financial challenges currently facing local authorities and the importance of longer term clarity about local government funding arrangements.

1.12 What is clear is that there has been a significant adverse impact upon businesses and employment within West Sussex as a consequence of the pandemic. As the national furlough scheme and other national support approaches come to an end and evolve, there is the possibility that the economic outlook will continue to deteriorate, at least for the short-term, which could result in lower levels of both council tax and business rates being collected, which directly impact upon the financial resilience of West Sussex County Council.

1.13 Throughout the review of the MTFS assumptions have been made about the outcome of these and other issues that impact upon the financial outlook for the MTFS. These assumptions are summarised in Table 1 below.

Table 1 – Assumptions Underpinning the Review of the MTFS

Assumption	**Financial Implications**
Government funding will be the same as in 2020/21	That the funding gap will not worsen as a consequence of reduced funding streams.
Covid-19	Any service costs relating to the pandemic will be met by the Government.
Council Tax	That the current cap on increases in Council Tax (1.99%) will be maintained.
Taxbase	That there will be no growth in the taxbase, i.e. that the level of income derived from council tax will not increase as a consequence of an increase in households.

Business Rates	That there will be no growth in the level of business rates income in 2021/22.
Inflation	Pay will increase by approximately 2.5%, offset by a reduced employer pension contribution. Goods & Services costs will increase in line with September 2020 inflation indexes.
Social Care Funding	That this will be maintained at the same level as in 2020/21.

Budget Gap

1.14 The MTFS has been refreshed to reflect the assumptions outlined above but also to reflect updated information in relation to anticipated levels of growth, for example increased demand arising from demographic or other changes, income, for example as a consequence of revised charges for services, and savings, including updated estimated savings that had already been included within the MTFS and the addition of new proposals for inclusion.

1.15 All local authorities are required by statute to set a balanced budget each financial year, consequently any budget gap between the available funding and the proposed level of expenditure needs to be bridged.

1.16 The current budget gap for 2021/22 is set out within Table 2. below.

Table 2. Budget Gap for 2021/22 to 2024/25

	2021/22	**2022/23**	**2023/24**	**2024/25**
	£m	**£m**	**£m**	**£m**
Opening funding	593.9	588.5	584.6	607.2
Changes:				
Council tax increase	9.7	14.9	15.4	15.8
Settlement Funding Assessment	1.6	-17.2	7.2	7.4
Business rates	-5.9	0	0	0
New Homes Bonus	-2.1	-1.6	0	0
Collection fund	-8.7	0	0	6.7
Revised funding	**588.5**	**584.6**	**607.2**	**637.0**
Opening expenditure	593.9	588.5	584.6	607.2
Inflation	9.7	12.2	14.0	14.0
Reserves	-3.0	8.0	8.0	8.0
Corporate/budget adjustments	-5.9	3.2	1.2	1.2
Revised expenditure	**594.7**	**611.8**	**607.8**	**630.3**
Budget Gap	**6.2**	**27.3**	**0.6**	**-6.7**
Additional pressures	37.4	16.6	16.6	12.6
	43.6	43.9	17.2	5.9
Estimate of savings being offered	-20.2	-8.3		
Budget Gap net of savings	**23.4**	**35.6**	**17.2**	**5.9**

1.17 Table 2 highlights that changes to funding streams and existing expenditure plans left a budget gap of £6.2 million however, despite £20.2 million of savings proposals being identified, the additional pressures identified of £37.4 million means that the budget gap has increased to and remains at **£23.4** million at this point in time.

1.18 The impact arising from the impact of the Covid-19 pandemic will materially affect the council tax and business rates funding streams, the assumptions applied are that there will be no growth in the income received from these sources in 2021/22, which reflects the adverse economic impact upon business generation and employment within the county.

1.19 In February 2020, when the MTFS was updated as part of setting the budget for 2020/21, the assumption was that increases in council tax would add £52.6 million to the level of funding available to WSCC across the period 2021/22 to 2023/24, currently it is estimated that, over the same period, council tax income will only rise by £40 million, a reduction of £12.6 million. This reduction reflects the loss of growth in the tax base and the potential increase in the number of people applying for council tax relief because they are now experiencing financial hardship.

1.20 Events are clearly still evolving in relation to the pandemic, but it is anticipated that there will be an adverse impact upon business rates collection arising from the recession, particularly in relation to the Gatwick Diamond but also in relation to the hospitality economy along the coastal region of the county. Currently it has been assumed that the baseline of Business Rates will be maintained, however this would mean a reduction in funding available to WSCC in 2021/22 of £5.9 million relative to the MTFS forecast funding levels at the time the 2020/21 budget was set in February 2020.

1.21 The pandemic has also adversely affected the collection fund. The collection fund is the repository for the income derived from both council tax and business rates. If the level of income collected falls below the assumed collection rate, the collection fund incurs a deficit which has to be repaid. It has been estimated that the collection fund will incur a deficit in 2020/21 as a consequence of the Covid-19 pandemic. The government has recognised this and consequently decided for local authorities to repay this deficit across three years rather than as a single sum in the following financial year. This arrangement eases the burden, but the total value of the burden continues to require funding through the budget process. The total deficit to be funded across the three years 2021/22 to 2023/24 is estimated to be £20 million, resulting in reduced funding of £6.7 million in each of the three years.

1.22 Combined, the reduction in funding arising from the impact of Covid-19 upon council tax, business rates and the collection fund in 2021/22 is estimated to be £25.2 million (council tax £12.6 million, business rates £5.9 million and collection fund £6.7 million).

1.23 The Government has provided additional funding to support the loss of income experienced by local authorities in 2020/21 as a consequence of the Covid-19 pandemic, announcing in July 2020 that;

"Where losses are more than 5% of a council's planned income from sales, fees and charges, the government will cover them for 75p in every pound lost."

The Council currently estimates that it will lose £9.6 million in 2020/21, which would be in addition to any loss incurred on the Collection Fund, referred to previously in paragraph 1.21. The government announced a proposed sharing of business rates and council tax losses when announcing the support of income losses, but the details have not yet been announced.

1.24 Looking ahead beyond 2021/22, the estimated budget gap in 2022/23 increases to £35.6 million and across the whole of the MTFS represents a gap of £82.1 million. This reflects a growing risk to the financial resilience of the County Council across the MTFS period and the need to make material changes to the way in which the statutory responsibilities of the Council are delivered.

2 Proposal details

2.1 The options for savings presented to Members for decision as part of the Budget Workshop held on 22nd October amount to £4.593 million in 2021/22 and a further £2.553 million in 2022/23. If these options are not approved, the budget gap will widen to £28.0 million for 2021/22. For reference these options are summarised in Table 3. below, with more detail provided within Appendix A.

Table 3. Savings Proposals Requiring Member Approval

Savings Proposals	2021/22 £000	2022/23 £000
Cabinet Member for Adults and Health		
1. Review of in-house residential services	640	-
2. Review of Shaw day services	250	-
3. Review of Lifelong services day services	1,120	1,120
4. Public Health Grant	370	88
Sub-total	2,380	1,208
Cabinet Member for Children and Young People		
5. National House Project		1,000
6. Increase in Council's top slice of Early Years DSG to compensate for lost Central DSG grant funding used for wider benefit of children and young people	450	-
7. Delayering work on management layers in the children's services department	-	tbc
Sub-total	450	1,000
Cabinet Member for Economy and Corporate Resources		
8. IT service redesign	500	-
Sub-total	500	0
Cabinet Member for Education and Skills		
9. Not reopening the Public Cafe (removal of budget pressure)	-	-
Sub-total	0	0
Cabinet Member for Environment		
10. Introduce measures to reduce the amount of DIY waste presented at Household Waste Recycling Sites (HWRS)	250	250
11. Review of the HWRS network	95	95
Sub-total	345	345
Cabinet Member for Fire & Rescue and Communities		

12. Working with parish councils in specific areas to review the library service offer available in communities	70	-
13. Removal of Community Initiative Fund (CIF) and amendments to CLC arrangements	248	-
Sub-total	318	0
Cabinet Member for Highways and Infrastructure		
14. Reduction in discretionary bus passes	200	-
15. Ending community highways schemes	50	-
16. Review highway and transport fees and charges	200	-
17. Reduce public transport support	150	-
Sub-total	600	0
Cabinet Member for Finance		
18. Review of the Property Estate	tbc	
Grand Total	**4,593**	**2,553**

2.2 The remaining savings options identified to date total £15.5 million (Appendix B) and comprise of second year savings of options already decided and efficiency savings that do not lead to a reduction in service delivery.

2.3 Due to where we are in the calendar, it is imperative that officers can begin the process of developing these proposals as soon as possible, in order to avoid the possibility that the saving identified cannot be fully delivered in 2021/22, since this would potentially mean that the Council's budget would be out of balance and prompt consideration of the need for a s.114 notice.

2.4 The purpose of the s.114 notice is to make it clear to members of the council it faces a serious financial situation and all expenditure beyond the statutory minimum level of service for vulnerable residents will stop. In line with the revised guidelines issued by CIPFA following the commencement of the pandemic, prior to issuing the s.114 the Director of Finance and Support Services will first have a dialogue with the MHCLG to try to find a solution.

2.5 The continuation of the existing grant funding has been assumed within the MTFS budget gap, meaning that if this is not confirmed there will be an additional budget pressure of approximately £17 million.

2.6 If additional flexibility is provided in relation to the potential increase in council tax, this could provide a material benefit to the MTFS, recognising that each 1% increase in council tax represents approximately £4.9 million in additional income. To raise council tax levels above the cap set by government would require a referendum. It would not be possible to hold a referendum in the time available before agreeing the budget and therefore if a referendum is agreed by residents, adjusted bills would need to be issued to residents or the increase would not take place until 2022/23. There are considerable costs associated with holding a referendum.

2.7 It is also possible that the Government could consider introducing a degree of public sector pay restraint, which could have the effect of reducing the budget pressures, recognising that currently the budget gap includes an assumption that pay will increase by 2.5% in 2021/22, each 0.5% reduction in this assumption would reduce the budget gap by approximately £1 million.

2.8 Any remaining budget gap can be bridged by a combination of a number of factors, albeit some of them are dependent upon the outcome of the Local Government Settlement;

a) Use of reserves – which by definition would be a one-off option, meaning that the budget gap for 2022/23 would widen, as the reserves would need to be replenished, but that there would also be less flexibility available in a financial year when the budget gap is estimated to be even wider.

b) Revising down pressures – re-examining the basis for the estimated growth and/or taking a different approach to the level of risk that should be managed within the budget. If a higher degree of risk is accepted in order to support approval of a balanced budget, there would need to be an explicit recognition that officers and Members would need to accept responsibility for managing within the budget agreed.

c) Identifying further savings – at this stage of the process any savings identified would probably only provide a part-year effect, since there would be little opportunity to develop a costed proposal and implement it ahead of April 2021. There is a potential advantage nonetheless in exploring this further as a precursor to the exercise to bridge the budget gap for 2022/23 onwards.

d) It is possible, but difficult to predict with any confidence, that the Local Government Settlement may provide additional flexibility, whether via additional direct funding, via grants, or by relaxing the council tax cap or removing it altogether. Every 1% increase in Council Tax would potentially deliver £4.9 million in additional income.

2.9 A combination of all of these options would be ideal, providing a balance between effective risk management and maintenance of financial resilience and sustainability. In the longer term, options are being explored and considered that would reflect the learning derived from the enforced working from home arrangements arising from the Covid-19 pandemic. This will include a review of working arrangements and the consequent impact upon the Council's accommodation requirements, as well as the potential income generating opportunities for investment.

2.10 Lobbying government is critical to ensure the financial challenges facing the council are clear. Communication is undertaken through multiple channels including:

- The Leader is engaging regularly with West Sussex MPs to seek their support in raising matters of concern with Government, including the significant financial challenge the County Council is facing, with an in-depth conversation taking place on 13 November.

- The Leader has written to Cabinet Ministers, most recently on 20th October, highlighting the specific financial challenge faced by West Sussex County Council – and the impact COVID-19 is having.

- The Chief Executive is one of 9 regional CEOs who represent Local Government and have a direct route to Ministers and Senior Officials in the Ministry of Housing Communities and Local Government.

- As part of the South East 7, the Leader is working with other Leaders to make the case for the South East as Government develops recovery thinking.

- Through the County Councils Network we are seeking to make the case for additional funding for authorities who are facing particular challenges with demand-led services such as adults social care and children's social care.

- Officers are working through their professional representative organisations (the Association of Directors of Adults Social Services, the Association of Directors of Children's Services, the Society of County Treasurers, etc) to lobby on service-specific issues.

2.11 The following steps will be undertaken to progress the budget:

3rd December 2020	Performance and Finance Scrutiny Committee (PFSC)
Mid December 2020	Ministry of Housing, Communities & Local Government Finance Settlement
January 2021	Scrutiny Committees to review proposals as developed
14th January 2021	Member Day on the budget proposals including the capital programme
20th January 2021	PFSC review of the budget proposals including the capital programme
27th January 2021	Public Cabinet presentation of the budget proposals including the capital programme
12th February 2021	County Council to agree the revenue budget and capital programme

3 Consultation, engagement and advice

3.1 Plans for formal public consultation will be formulated in relation to those options confirmed for further consideration which trigger a requirement for such consultation. The Forward Plan will set out which proposals will lead to formal consultation arrangements. Stakeholder and specific customer engagement may also be considered important to provide the fullest information base for future decisions in specific areas and those proposals will also be suitably identified within the Forward Plan.

3.2 All proposals will be available for further Member scrutiny in line with the usual arrangements prior to the final consideration by the Cabinet Member.

4 Finance

4.1 As this is a Budget Report the financial consequences are covered within the body of the report.

5 Policy alignment and compliance

5.1 The approach set out above is in alignment with the Reset Plan for West Sussex County Council and supports the delivery of a balanced budget for 2021/22 in accordance with statutory duty.

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Appendices:

Appendix A - Strategic Decisions supporting information
Appendix B - List of Business as usual savings

Background papers

None