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# Report to Performance and Finance Scrutiny Committee

November 2021

## Medium Term Financial Strategy and Council Plan

Report by Director of Finance and Support Services

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### Summary

To provide an update on the Medium Term Financial Strategy to reflect government announcements, the current economic environment and to confirm the existing priority outcomes of Our Council Plan as the basis for future planning.

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### Proposal

#### 1 Our Council Plan

1.1 [Our Council Plan - West Sussex County Council](#), approved by Members in February 2021, established an integrated business and financial planning cycle that is based on a good understanding of the local evidence base, the national and local policy context, a comprehensive understanding of the financial position (revenue and capital) and the service challenges in meeting the needs of residents, businesses and communities. Our Council Plan, underpinned by the cross cutting theme of tackling climate change, sets out four priorities:

- **Keeping people safe from vulnerable situations;**
- **a sustainable and prosperous economy;**
- **helping people and communities fulfil their potential; and**
- **making the best use of resources.**

1.2 In order to ensure that the outcomes and priorities in Our Council Plan - West Sussex County Council remain relevant and appropriate as we move forward into a new planning cycle it is important to keep them under regular review. This review has taken place for the forthcoming cycle and it is recommended that the existing priorities and outcomes remain relevant and appropriate in the new post-Covid context that West Sussex County Council is operating. We will review the KPIs as services refresh what is being delivered during 2021/2022 – and should changes be required we will update Our Council Plan.

#### 2 National and Local Context

2.1 In March 2021 the Office for Budget Responsibility (OBR) published its overview of the country's economic and fiscal outlook. The figures show that **GDP** fell 9.9 per cent in 2020, the largest decline in the G7. It is anticipated that the easing of restrictions should permit a rebound in consumption and output through the

year, partially supported by the release of extra savings built up by households during the pandemic.

- 2.2 The OBR still predict unemployment will rise by a further 500,000 to a peak of 6.5 per cent at the end of 2021, but the peak is around 340,000 less than the 7.5 per cent originally forecast in November 2020, thanks partly to the extension of the furlough scheme.
- 2.3 It remains unclear what the longer term implications will be arising from staff shortages in some industries, for example in terms of pay inflation or supply falling behind demand, both of which could directly impact upon social care.
- 2.4 **Price inflation** is also a cause for concern, partly due to the continuing impact on the economy of pandemic and Brexit but also due to the crisis that is emerging in the energy markets. Gas and electricity prices are expected to rise sharply and with August inflation at 3.2%, higher than the government's target of 2%, revised OBR forecasts are eagerly awaited at the end of October. The increase in employer's payroll costs for the new national insurance contributions and minimum wage may also lead to further price increases.
- 2.5 The most recent information provided by the Government concerns the **Building Back Better: Our Plan for Health and Social Care**, which was published on 7th September 2021. This will have far reaching implications for adult social care as well as for local government funding and financial planning. The potential implications on the provision of Adult Social Care services are not clear and further information is expected to be published in a White Paper.
- 2.6 It is hoped that the **Autumn Budget and Spending Review 2021**, announced by the Government for the 27th October 2021, will provide further clarity around local government funding, including the recent social care announcement and an update on the timeframe for implementing the business rates and fair funding review. We are anticipating a multi-year spending review which will provide some certainty for government departments to plan.
- 2.7 Core Funding from Government (**Settlement Funding Assessment**) will not be confirmed until mid-December. The Spending Review on 27th October will provide a steer on local government funding and whether it will be a one year or three year finance settlement.
- 2.8 As with the national picture, the **local economy** is still recovering from the impact of the pandemic and Brexit. Businesses have been hard hit, residents have lost their jobs and livelihoods, and the implications of the aviation industry crisis on Gatwick airport has had a significant impact. As the furlough scheme comes to an end we will better understand the impact on local businesses and residents and future demand for our services. We will continue to liaise with our District and Boroughs to understand how this may impact on council tax and business rates income.
- 2.9 The UK will host the 26<sup>th</sup> UN Climate Change Conference of the Parties (COP26) in Glasgow in November 2021. The climate talks will bring together heads of state, climate experts and campaigners to agree coordinated action to tackle climate change. There is a clear acknowledgement that local government plays a leading role in accelerating the shift towards achieving net zero carbon and that councils are well placed to support Government to meet its net zero carbon ambitions by 2050. It has been confirmed that there will be a dedicated local

government day at COP26. The resources required to support the implementation of our Climate Change Strategy will be considered as the budget develops.

- 2.10 The on-going implications of the **pandemic** will continue to be considered in the build of the budget. Government has made no promises for further funding for the costs arising from the pandemic. In September 2021 the government published the Covid-19 Response – Autumn and Winter Plan 2021. The publication outlines the government’s plan to steer the country through autumn and winter 2021/22.
- 2.11 The Covid-19 pandemic has had far-reaching impacts on society. For the foreseeable future, Government policy will be focused on addressing these impacts and ensuring the recovery of the nation’s economy, and wider society. Central to this will be the **levelling-up agenda**, through which the Government aims to level up opportunity across the country and address regional disparities. In the recently undertaken Cabinet reshuffle, defining and delivering the levelling up agenda was a key focus. Michael Gove was appointed the new Secretary of State (replacing Robert Jenrick) at the former Ministry for Housing, Communities and Local Government. The Secretary of State’s remit is wider than his predecessor, being responsible for driving cross-Whitehall efforts to deliver improvements in every part of the UK, as well as taking responsibility for UK governance (including devolution) and elections. In recognition of the Ministry’s expanded role, it has been renamed the Department for Levelling Up, Housing and Communities.
- 2.12 The Leader and Cabinet continue to **lobby** government through engaging regularly with West Sussex MPs and bodies such as the South East 7 and County Council Network (CCN), to seek their support in raising matters of concern with Government. The Chief Executive and senior officers continue to use professional channels at official level to influence policy development.

### **3 Medium Term Financial Strategy (MTFS)**

- 3.1 The Medium Term Financial Strategy (MTFS) underpins the development of the budget proposals submitted to the Full Council for approval in February each year. The MTFS looks at the financial outlook for the next four years, with a particular focus upon the next financial year, recognising that the level of uncertainty about funding and expenditure issues increases with time. This section of the report sets out the current position, including details of the budget gap ahead of 2022/23 and the factors that are impacting further financial planning, whether local or national, ahead of proposing a balanced budget in February 2022.
- 3.2 The MTFS is developed upon a foundation of **broad budget principles** which are used to set the priorities from a financially prudent perspective:
- The budget will support the priorities of the Our Council plan and reflect the need for comprehensive service improvement and redesign over the medium term.
  - The council’s financial planning for revenue and capital will cover a period of at least four years.
  - The budget will be sustainable in future years.
  - There will not be an on-going reliance on reserves.

- Any use of reserves to balance the budget will be repaid.
- Estimates will be used for pay and price inflation.
- Demographic pressure will be reflected in the budget.
- 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.

3.3 Throughout the last few months, the key assumptions underpinning the 2022/23 MTFS have been kept under review. Table 1 below outlines the basis of the key funding streams and also the inflationary assumptions for pay and price increases:

**Table 1 – key assumptions underpinning the review of the MTFS**

<b>Key Assumption</b>	<b>Financial Implications</b>
Government funding will be the same as in 2021/22	That there will not be additional unfunded financial burdens placed upon local government.
Fairer Funding – Settlement Funding Assessment	Changes resulting from the implementation of changes to the distribution methodology move from 2022/23 to 2023/24.
Covid-19	Assumes existing grant funding will provide the necessary cost resilience.
Council Tax	That the current cap on increases in council tax (1.99%) will be maintained across the years of the MTFS.
Collection Fund	Any future deficits will be funded through the Budget Management Reserve.
Tax base	That the number of households will grow by 0.5% in 2022/23 and by 1% for 2023/24 onwards
Business Rates	No growth applied - inflationary increase based upon September 2021 inflation indexes.
Social Care Funding Grant	That this will be maintained at the 2021/22 level £18.2 million.
<b>Financial Implications of Our Plan for Health and Social Care</b>	It is assumed that further costs associated with implementing the process changes and financing additional costs will be met by government funding.

	The employers NI contributions increase of 1.25% will be matched by government funding.
Pay and Price Inflation	<p>Pay will increase by approximately 2% across the years of the MTFS.</p> <p>Employers pension contributions will be reduced by a further 1% in 2022/23.</p> <p>Goods and services, subject to affordability, will increase in line with September inflation indexes. Currently August figures are applied for 2022/23 - 4.8% RPI/3.2% CPI. For 2023/24 onwards, the latest OBR forecasts have been applied.</p>

- 3.4 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 sources, such as service fees and charges, and savings as published at February County Council.
- 3.5 All 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.
- 3.6 The budget gap for the years of the 2022/23 MTFS is set out in Table 2 below. This shows a total gap before savings of £71.5 million, which is an increase of £17.6 million when compared to the total gap of £53.9 million presented to the County Council in February. The increase reflects changes to assumptions for funding streams and service pressures, plus the inclusion of the 2025/26 financial year:

**Table 2 – Budget Gap for the years of the 2022/23 MTFS**

	<b>22/23 £m</b>	<b>23/24 £m</b>	<b>24/25 £m</b>	<b>25/26 £m</b>
Council tax	522.2	537.9	554.0	570.7
Settlement Funding Assessment	87.2	69.3	71.2	73.1
Social Care funding	18.2	18.2	18.2	18.2
New Homes Bonus	0.7	0.0	0.0	0.0
<b>Funding</b>	<b>628.3</b>	<b>625.4</b>	<b>643.4</b>	<b>662.0</b>
<b>Opening expenditure</b>	<b>602.6</b>	<b>628.3</b>	<b>625.4</b>	<b>643.4</b>
Inflation	17.5	10.7	12.9	12.9
Corporate adjustments	0.4	4.0	2.9	2.9
<b>Revised expenditure</b>	<b>620.5</b>	<b>643.0</b>	<b>641.2</b>	<b>659.2</b>
<b>Budget surplus-/ +gap</b>	<b>-7.8</b>	<b>17.6</b>	<b>-2.2</b>	<b>-2.8</b>
Additional pressures	20.8	14.6	15.1	16.1
<b>Budget surplus-/ +gap including pressures</b>	<b>13.0</b>	<b>32.2</b>	<b>13.0</b>	<b>13.3</b>
Estimate of savings being offered (see appendix A)	-10.5	-2.9	-3.2	0.0
<b>Budget surplus-/ +gap net of savings</b>	<b>2.5</b>	<b>29.3</b>	<b>9.7</b>	<b>13.3</b>

<b>Total MTFS budget gap:</b>	<b>£m</b>
<b>Before savings</b>	<b>71.5</b>
<b>Net of savings</b>	<b>54.8</b>

*Note: numbers have been rounded within Table 2*

- 3.7 For 2022/23, table 2 highlights that changes to funding streams and allowances for inflation and corporate items such as financing of the capital programme, give rise to a budget surplus of £7.8 million. However, additional service pressures of £20.8 million offset in part by £10.5 million of savings, result in an unbalanced budget and a budget gap of £2.5 million at this point in time.
- 3.8 The 2022/23 budget gap previously reported at February County Council showed a budget gap of £35.8 million. The movement to the current position is as follows:

**Table 3 – movement in budget gap:**

	<b>£m</b>
2022/23 Budget gap as at February County Council	<b>35.8</b>
Council tax base revised from 1.0% to 0.5%	2.6
Fair Funding and Business Rate Review delayed to 2023/24	-18.2
Anticipated s31 grant from indexation	-5.4
Changes to specific government grants	-1.5
Collection fund deferred deficit updated for actual and funded from reserve	-6.7
Pay and price inflation – updated to reflect current levels	8.5
Removal of annual contribution to reserves	-8.0
Corporate and demand changes	5.9
<b>Budget gap before savings</b>	<b>13.0</b>
Previously highlighted savings (table 2)	-10.5
<b>Current Budget gap</b>	<b>2.5</b>

3.9 The assumptions in support of this position carry a significant level of uncertainty, particularly in the following areas:

- Core Funding from Government (Settlement Funding Assessment) will not be confirmed until mid-December. The Spending Review on 27th October will provide a steer on local government funding and whether it will be a one year or three year finance settlement.
- Confirmation of the council tax referendum limits for 2022/23 - an increase of 1.99% has been assumed, which will generate an additional £10.2 million in council tax income (£5.1 million for every 1% increase or reduction).
- Anticipated income from changes to the council tax base and business rates will not be finalised by districts and boroughs until late in January. A prudent approach has been taken for both with 0.5% increase applied for the council tax base (£0.5 million for 0.1% increase or decrease). Business rates have been increased for inflation only, no growth has been assumed.
- Collection Fund balances- at the time of the budget build for 2021/22 there was an anticipated deficit on the collection fund of £20.0 million. In line with government guidance the repayment of this deficit was spread over three years costing £6.7 million a year. The final deficit figures submitted by the districts and boroughs resulted in a deficit of £5.4 million or £1.8 million a year. The excess provision for the deficit in the 2021/22 budget will be set aside to pay for payment of the following two years deficit payment.
- The impact on council tax income due to numbers in receipt of council tax reduction relief remains uncertain and further shortfalls relating to 2021/22 will not be known until after year end. Likewise, the final impact on business rate income will not be known for a number of years as the business rates appeals process allows retrospective claims. We will continue to liaise with our District and Boroughs to understand how this may impact on council tax and business rates income.
- Pay inflation - there has yet to be confirmation of the pay award for 2021/22 and although 2% has been assumed for 2022/23 this may not be sufficient.

We also await any announcements in the Spending Review on public sector pay restraints.

- Price inflation will be subject to the September inflation release and OBR forecast at the end of October as well as affordability.

- 3.10 Whilst a prudent approach is taken when applying assumptions to the MTFS, the 2022/23 gap at £2.5 million, is conceivably on the optimistic side. With the key funding sources subject to confirmation over the coming months, the position will change. For example, a 25% reduction in the grant funding available for social care, could add a further £4.5 million to the gap. Additionally, with inflation currently running higher than the government's 2% target, this could further exacerbate the gap through increased payroll and contract costs i.e. a 1% additional pay award would add a further £2.3 million to the shortfall and a 1% increase in inflation will add about £3m.
- 3.11 Whilst we await further details on the 2021 Comprehensive Spending Review and also further announcements on the Building Back Better: Our Plan for Health and Social Care, the funding and demand assumptions along with options to balance the 2022/23 budget, will be kept under continuous review.

## 4 Revenue Growth Pressures

- 4.1 The current budget position, as outlined in the previous section, includes provision for service pressures totalling £20.8 million:

**Table 4: Service pressures**

	<b>£m</b>
Adults' services	2.5
Children & Young People	8.2
Community Support, Fire & Rescue	1.9
Learning & Skills	4.3
Highways & Transport	2.6
All other services	1.3
<b>Total</b>	<b>20.8</b>

- 4.2 In particular Children's Services and Adult Social Care are experiencing challenges that are being felt nationwide and contribute to the broader context of the risks being managed within the MTFS. Further detail is provided below to demonstrate the local context of these challenges.
- 4.3 **Children's Services** - At the heart of the improvement journey within Children's Services is the development and implementation of a Family Safeguarding model of social work practice and the second phase of the Fostering Service development. Both are intended to significantly improve the effectiveness and quality of services to vulnerable children and families, whilst also deliver financial savings from 2023/24.
- 4.4 The Family Safeguarding model is designed to improve the main statutory children's social work services for vulnerable children, support the cultural shift within Children's Services to provide effective services that also manages demand, and therefore improves outcomes and controls cost. Funding for the



introduction of the model will come from a combination of existing council funding (currently included within the Children's Services base budget) and a further £4.23m of grant funding from the Department for Education to support the model's wider application. The model will lead to future efficiencies in two key areas:

- Placement cost - a reduction in the number of children and young people that we bring into care. For those that do come into care there will be a reduction in the average number of days they are required to be in care.
- Staffing cost - a reduction in the overall number of children who are the subject of a child protection plan and reduction in the number of children that require allocation to a qualified social worker.

- 4.5 Phase 2 of the Fostering Service review will highlight how the service will increase in-house capacity and reduce reliance on placements with Independent Fostering Agencies (IFA) at higher cost. The project will deliver an enhanced fostering offer and increase sufficiency within the service to recruit, assess and support in-house foster carers and therefore reduce the demand for IFA and external residential placements. The review will also ensure that the County Council pays its foster carers the going rate and have an adequate payments scheme, providing improved advertising and recruitment process and improved fostering support.
- 4.6 **Adult Social Care** - Demographic changes are continuing to have an impact on demand for adult social care in West Sussex for both older people and for those with learning disabilities. During 2021/22 there has been a significant increase in demand for older people services as pandemic restrictions have been lifted and the numbers of people leaving hospital needing support has also risen. The numbers of providers withdrawing from the market has increased and care costs have risen as a consequence of reduced supply. There is uncertainty about whether the current pressures are the short term consequence of the pandemic or a potentially longer term future trend.
- 4.7 The uncertainty around the implications for the adult social care market and the associated need for social work capacity, arising from the Covid-19 pandemic, the announcement of the Government's plan for Adult Social Care (Build Back Better) and difficulties in recruiting care staff, mean that budgetary pressures on Adult Social Care will need to be kept under review.
- 4.8 In previous years, the Improved Better Care Fund (iBCF) has been utilised to respond flexibly to uncertainty from year to year, going forwards there is an opportunity to utilise the iBCF resources in a more strategic way across the duration of the MTFS. The pressures for Adult Social Care reflected within Table 3 above (£2.5 million) reflect one approach, but final decisions will depend upon the outcome of further work to clarify the factors impacting demand and cost of adult social care in 2022/23. This work will inform and be reflected within the Adult Social Care Strategy for West Sussex which is currently under development.
- 4.9 In addition to the pressures in Children's Services and Adult Social Care, there are pressures across other services. Within Learning and Skills portfolio, there is growing demand pressure on the SEND Home to School transport budgets, driven by increasing levels of children with an Education and Health Care Plan (EHCP). Highways and Transport has seen increased demand as a result of the highway network growing over recent years and increasing numbers of defects

being recorded. There is also a requirement for additional firefighters to deliver our responsibility to meet Fire and Rescue risks identified as part of the Community Risk Management Plan (CRMP).

## 5 Capital Programme

5.1 The current approved capital programme covering 2021/22 to 2025/26 is:

"In Flight" programme	£326.3 million
Approved "Pipeline"	£356.8 million
<b>Total</b>	<b>£683.1 million</b>

5.2 The current £683.1 million programme is financed predominantly through borrowing, grants and external funding as detailed in table 5 below:

**Table 5: Capital Programme Financing**

	<b>£m</b>
Core Borrowing	241.5
Economic Development Borrowing	117.5
Government Grant	199.6
External Contributions including S106	82.1
Capital Receipts	16.2
Revenue Contributions to Capital Outlay	26.2
<b>Total</b>	<b>683.1</b>

5.3 Additional capital requirements over the 5 year programme will be considered in the Autumn, with the main areas of focus being schools, highways and climate change. New demand on the programme can be met either from increasing borrowing or through reprioritising existing approved Pipeline projects. Any additional borrowing increases financing costs putting further pressure on the revenue budget. Every £50 million additional borrowing equates to an estimated £2.0 million additional revenue cost per annum.

## 6 Consultation, engagement and advice

6.1 Consultation about specific budget proposals will be undertaken once full appraisal has been completed.

**Table 6: Autumn / Winter Timeline**

<b>Date</b>	<b>Meeting</b>	<b>Activity</b>
19 <sup>th</sup> October	Cabinet	Review MTFS and budget gap/savings
<b>27<sup>th</sup> October</b>		<b>Autumn Budget and Spending Review 2021</b>
3 <sup>rd</sup> November	Member Day	Budget – financial position, challenges, pressures, savings required
November/December	Scrutiny Committees	Pre-decision scrutiny of savings
November/December	Cabinet	Updates to Cabinet as required
<b>Mid December</b>		<b>Provisional Local Government Settlement</b>

11 <sup>th</sup> January	Cabinet Briefing	Review Budget papers for Member Day/Scrutiny Session
25 <sup>th</sup> January	Member Day/Informal Scrutiny session	Budget - Summary/overview
31 <sup>st</sup> January	Performance and Finance Scrutiny Committee	Same papers as Cabinet on 1 Feb, as well as feedback from Member Day/Scrutiny Session on 25 Jan
1 <sup>st</sup> February	Cabinet	Endorsement by Cabinet
18 <sup>th</sup> February	County Council	Approval by Council

## **7 Finance**

7.1 The financial implications are included within the body of the report above.

Katharine Eberhart  
**Director of Finance and Support Services**

**Contact Officer:** Alistair Rush, Interim Deputy Director of Finance,  
[alistair.rush@westsussex.gov.uk](mailto:alistair.rush@westsussex.gov.uk)

### **Appendices**

Appendix A – Savings 2022/23

### **Background papers**

None