

## **Performance and Finance Select Committee**

**3 October 2019**

### **Medium Term Financial Strategy (MTFS) Update 2020-21 and 2021-22**

#### **Cabinet Member for Finance and Resources**

#### **Summary**

This report summarises the current situation following the Chancellor's delivery of the 2019 Spending Round setting out the Government's spending plans for 2020-21. The Spending Round has provided more funding and stability for next year, however, the implementation of Business Rates Retention and Fair Funding is delayed until April 2021 delaying any certainty in funding beyond 2020-21.

The report also summarises additional budget pressures since the July report and summarises identified savings options. Over the summer, the Council reviewed its budget pressures for 2020-21 in the light of growing pressures in 2019-20 and other costs required for implementation of the improvement plans for Fire and Rescue and Children's Services. In addition, estimates for potential savings options have been included for 2020-21 and 2021-22.

This means, if the Council achieves its available savings and manages pressures to within assumed levels, then the Council would be able to achieve its ambition to balance its 2020-21 and 2021-22 budgets. In addition, additional savings would be available to replenish any call on reserves required to fund the anticipated 2019-20 outturn position.

#### **West Sussex Plan: Policy Impact and Context**

The Spending Round 2019 impacts on the extent to which the Council can deliver against West Sussex Plan priorities, through the availability of funding. Proposals regarding the prioritisation and allocation of available funding will be developed in line with the West Sussex Plan, through the budget.

#### **Financial Impact**

The purpose of the report is to provide and update on the Medium Term Financial Strategy (MTFS) for the years 2020-21 and 2023-24 therefore there is no financial impact as a result of the recommendations in this report.

#### **Focus for Scrutiny**

Members to review the impact of Spending Round 2019 on the budget gap for the period 2020-21 to 2023-24.

## **1 Introduction**

- 1.1 The Cabinet Report dated July 2019, showed the Council had a budget gap of £75.5m for the financial years 2020-21 to 2023-24. This gap included known pressures at that time and the savings presented as part of the Budget papers for the February 2019 County Council meeting.
- 1.2 Since the July Cabinet meeting the budget pressures have been reviewed and updated to reflect the costs required to implement the Fire and Rescue and Children's Services improvement plans and other known pressures. Savings options have also been updated to reflect the latest assessment of deliverability.
- 1.3 Since 2010, West Sussex County Council has had to make savings of £239m. This has severely constrained the Council's ability to maintain the range and level of services we provide to residents and to make progress against key priorities within the West Sussex Plan.
- 1.4 On 4th September the Chancellor presented his Spending Round 2019 (SR19). SR19 only covers the 2020-21 financial year. SR19 clarified some of the assumptions we had already included in the MTFS and introduced some new funding the MTFS had not assumed (for example additional social care funding and the continuation of support for Troubled Families, both of which the Leader and Cabinet have lobbied MPs and Ministers hard for). However, it did not set out individual councils' funding allocations, so this update includes some estimates for the proposed grants for Social Care and for SEN pupils. The distribution methodology should be clarified in a technical consultation expected in the early autumn. The Chancellor's Budget for 2020-21 will follow later in the autumn and the Ministry of Housing, Communities and Local Government (MHCLG) will provide individual councils' details in the Local Government Provision Financial Settlement in December.

## **2 Spending Round 2019**

- 2.1 The Spending Round 2019 outlined a £13.8bn rise in Government spending in 2020-21. Of this, SR19 allocated £3.5bn to local government, including continuation of 2019-20's one-off grants. From SR19, the main growth in local authorities' funding is £1.5bn increase in social care funding (over and above maintaining £2.5bn existing social care grants) comprising:
  - £1bn grant for adult and children's social care; and
  - a proposed 2% Adult Social Care (ASC) precept increase, which could raise £0.5bn nationally.

- 2.2 The proposed ASC precept is welcomed to help deal with the increasing pressures in providing social care needs for vulnerable adults. The increase in the precept is restricted to funding Adult Social Care pressures only and cannot be used to fund any pressures arising elsewhere, including Children's social care.
- 2.3 In addition, SR19 announced: £7.1bn increase in funding for schools by 2022-23, including: £0.7bn to support children and young people with special educational needs; a 3.4% increase in the Better Care Fund; continued funding for the Troubled Families Programme; and a real terms increase in Public Health Grant after several years of reductions.
- 2.4 These funding increases match the lobbying focus the Council, West Sussex MPs and other partners have applied to the Government over recent years, particularly in relation to social care, funding for pupils with special educational needs, public health funding and support for troubled families. West Sussex County Council will continue to seek to lobby MPs and Ministers ahead of the next Spending Review and final decisions on Fair Funding, to ensure that the interests of our residents are understood by Government.
- 2.5 The one year funding increases announced in SR19 gave totals at national level only, with some indications of how the Government would allocate the funds among local authorities. Where reasonable, the Council has assumed individual grants continue at 2019-20 levels (e.g. £5.6m Social Care Support Grant). For new grants and funding, it has estimated amounts on a realistic, but prudent basis.
- 2.6 For example, the basis used for estimating the Council's share of grant in the £1.5bn increase in social care funding is to determine the Council's share of the £1.5bn total on a relative needs basis (£20.6m) and then to deduct the amount the Council could raise from the maximum 2% Adult Social Care precept flexibility (£9.3m). This method estimates the grant at £11.3m.
- 2.7 A full, multi-year Spending Review will follow in 2020, affecting 2021-22 onwards. The Business Rates Reform and Fair Funding reviews have also been deferred and are scheduled to take effect from April 2021. The outcome of the reviews will become clearer as MHCLG commences its consultation on the proposed policies, which we expect by the beginning of October 2019. The delay in the policies means that the anticipated impact associated with the business reset (where growth from business rates is removed from the settlement figures) is postponed by a year. We have continued to assume that we are no better or worse off in funding terms from any policy changes resulting from these reviews.

- 2.8 Additional funding for schools will increase national funding rates for mainstream schools in 2020-21 by 4% in real terms and increase the Minimum per Pupil Funding levels for secondary schools from £4,800 to £5,000 in 2020-21, and for primary schools from £3,500 to £3,750, with a further increase to £4,000 in 2021-22. The funding also includes an additional £66m nationally for Early Years and £700m for High Needs in 2020-21. The High Needs funding formula will ensure every local authority will receive an increase of at least 8% per head of population aged 2 to 18 through the funding floor. For West Sussex this would equate to at least £6.4m.
- 2.9 Provisional allocations at both local authority and school level have yet to be published but early modelling suggests that in 2021-22 over 60% of our secondary schools and 80% of our larger primary schools could benefit from the Minimum per Pupil Funding levels. The modelling shows aggregate funding could increase by around £19m across all West Sussex schools. However, due to the way this is calculated very few of our 53 small primary schools will attract any of this additional funding.

### **3 Review of Demand Pressure**

- 3.1 Over the summer 2019, the Council has reviewed its budget pressures. The outcome of the review shows an increase in service pressures of £21.4m in 2020-21. These include significant one off amounts in 2020-21 of a £7.0m increase in the Children's Services Improvement Plan and £0.3m for the Fire & Rescue Services Improvement Plan.
- 3.2 In addition to the budget pressures for the improvement plans we are providing for changes in other areas, including the following:
- £11.2m additional pressure in services for Children and Young People from increases in placements, residential review and undeliverable savings;
  - £2.7m additional pressure in Corporate Relations due to increase in demand for human resources, corporate feasibility studies, Crawley PFI and undeliverable savings;
  - £0.9m additional pressure in Environment due to increases in energy and insurance prices; and
  - Reduction of £0.7m in other changes.
- 3.3 Beyond 2020-21, unprecedented levels of uncertainty remain for national public spending prospects and within that, the level of Government funding the Council can expect. The long-awaited and still undecided local government finance reforms have been deferred for a year with no more clarity on what will follow. On top of the medium term funding uncertainty,

cost and volume demands for critical statutory services such as social care continue to grow.

## **4 Proposed Savings**

- 4.1 The proposed savings are classified in three groups - savings presented in the February 2019 Council papers, business as usual decisions developed during the 2020-21 budget process and the Strategic Budget Options presented at the July 2019 Cabinet meeting.
- 4.2 The savings scheduled for 2020-21 presented in February 2019 were reviewed and revised down from £16.1m to net £10.4m due to deliverability in Children's and in other services.
- 4.3 The current total for identified savings for 2020-21 is now £31.3m through the addition of £9.4m Strategic Budget Options and £11.5m business as usual decisions.
- 4.4 Taken over the two years 2020-21 and 2021-22 as shown in Table 1, the net savings have risen from £10.6m to £44.5m through the addition of £15.6m Strategic Budget Options and £18.3m business as usual decisions. The Council is developing the Strategic Budget Options proposals agreed for further consideration. Following any required consultation and scrutiny by select committees, the Cabinet Meeting scheduled for 26<sup>th</sup> November 2019 will consider the outcomes of the proposals. An estimated £9.4m of the available £15.6m Strategic Budget Options proposals have been included for 2020-21 for modelling purposes and the remaining £6.2m included for 2021-22. The total £18.3m business as usual savings the Council has identified and included reflect savings resulting from procurement and commissioning activities, staffing restructuring and a review of administration budgets. Appendix B outlines the savings in more detail.

## **5 Update on the Budget Gap**

- 5.1 Appendix A sets out the proposed required budget and available funding over 2020-21 and 2021-22, showing movements on how that gap has changed since the Medium Term Financial position was presented to Council in February 2019. The budget is calculated after considering known increases in demand pressures since February and assumes an annual core Council Tax increase of 1.99%, plus 2.00% ASC precept rise in 2020-21 only.
- 5.2 The table also includes the anticipated impact on the Council's budget position of the recently announced Spending Review outlined in section 2 and potential impacts resulting from changes to the Business Rates Retention and Fair Funding policies. Appendix A includes all current identified savings

projections, which exceed the current gap creating opportunity for the Council.

5.3 The net gap detailed in Appendix A for the four year period to 2023-24 is summarised in Table 1 below.

Table 1 – Savings and Budget Gap 2020-2024

	<b>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Budget Gap</b>	<b>18.0</b>	<b>11.2</b>	<b>15.7</b>	<b>13.8</b>
Savings:				
February County Council – net	-10.4	-0.2		
Strategic Budget Options - Presented in July	-9.4	-6.2		
Business as Usual Decisions	-11.5	-6.8		
<b>Total identified savings</b>	<b>-31.3</b>	<b>-13.2</b>	<b>0.0</b>	<b>0.0</b>
<b>Net Gap</b>	<b>-13.3</b>	<b>-2.0</b>	<b>15.7</b>	<b>13.8</b>

5.4 Given the net one year only benefit to the Council of SR19, it is exploring a mitigation plan for future years' pressures, which considers:

- taking all of the benefits of SR19 in 2020/21 and increasing the scale of budget challenges in future years;
- spreading the benefits of SR19 over future years, given the uncertainty in those years; and
- spreading the benefits of SR19 over future years, and implementing a front line service investment programme to mitigate future pressures.

5.5 In addition the Council's financial planning will need to incorporate any effects of the 2019-20 financial position.

5.6 Final decisions on the next MTFs including the 2020-21 Budget, savings, investment and Council Tax will be presented to County Council in February 2020 for approval.

## **6 Financial Consequences**

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

## **7 Legal Implications**

- 7.1 The County Council is required to set a balanced budget. The legal implications relating to the specific service proposals and other budget plans will be assessed through the development of business cases for each proposal. This will include advice on the need for public or more focused consultation in relation to specific proposals.

## **8 Risk Assessment Implications and Mitigations**

- 8.1 Brexit presents a significant risk in a number of service areas due to the uncertainty of what could happen and when. The Council is planning on the working assumption that the UK will leave the EU with no deal on 31<sup>st</sup> October 2019. All members received a briefing in September 2019, which highlights planning under way to prepare for possible eventualities.
- 8.2 The national political focus and effort devoted to Brexit means the Civil Service has limited capacity for delivering on other domestic policy agenda issues, such as the Adult Social Care Green Paper and implementing Business Rates Retention and Fair Funding. This, coupled with a minority Government in the House of Commons, means there is an increased likelihood of a General Election at some point in the not too distant future creates uncertainty of the final outcome of SR19 and the timetable of anticipated policy changes.
- 8.3 The delay to implementing Business Rates Reform and Fair Funding shifts the point of impact for this risk back a year, which gives more time for risks related to changes in Government to crystallise. The Council has adopted a neutral position in terms of the outcome, matching the net cost of increased responsibilities and loss of grant with revenue from business rates. To help anticipate risks to the Council's funding, we gather intelligence through research and specialist memberships and model funding and spending scenarios. To mitigate the risk, we respond to Government consultations and lobby consistently to help MPs and Government understand our position.
- 8.4 The Council uses the Office for Budget Responsibility's Economic and Fiscal Outlook to inform our inflation forecasts. We manage inflation risk by applying limited inflation uplifts to specific groups of costs such as pay and high value contracts. Low priority items receive no inflation uplift. Services receive cash limited budgets and manage the impact of inflation on their costs. Interest rates are currently low and are expected to rise very gradually. As such there is expected to be little volatility. To help mitigate these risks, the Council: has an Interest Smoothing Reserve (current balance £1.078m); updates its Treasury Management Strategy annually; and takes professional treasury management advice.

- 8.5 The outcome of Commissioner's review on Children's services is due at the end of September. A potential outcome is the Council no longer manages Children's Services in West Sussex, but still retains the responsibility and accountability. This outcome would damage the Council's reputation and bring significant cost risks. The Council has worked and continues to work extremely hard to mitigate this risk by transforming its Children's Services through its Children First Improvement Plan and is hopeful of a satisfactory outcome.

## **9 Equality and Human Rights Assessment**

- 9.1 The public sector equality duty will be applied during the development of any proposal identified for further consideration.

## **10 Social Value and Sustainability Assessment**

- 10.1 The Council's sustainability policy and the social value impact of each proposal will be applied during the development of any proposal identified for further consideration.

## **11 Crime and Disorder Reduction Assessment**

- 11.1 Implications for the Council's responsibility in relation to crime prevention and reduction will be assessed in the development of business cases for each proposal.

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### **Appendices**

Appendix A – Updated funding and net expenditure budget 2020-24

Appendix B – List of identified savings 2020-21 and 2021-22

## Appendix A – - Updated funding and net expenditure budget 2020-24

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
<b>Funding</b>				
Council Tax income	477.6	503.7	521.4	539.7
Adult Social Care Precept	9.3	0.3	0.3	0.3
Settlement Funding Assessment (75% from 2021/22)	79.6	106.9	103.4	101.0
New Homes Bonus	2.8	1.8	0.9	0
Business Rates growth	4.8	1.0	1.0	1.0
Social Care Support Grant - rollover	5.6			
Additional Social Care Funding	11.3			
Additional funding for SEN	6.4			
<b>Total Funding</b>	<b>597.4</b>	<b>613.7</b>	<b>627.0</b>	<b>642.0</b>
<b>Expenditure - opening amount b/fwd</b>	<b>556.3</b>	<b>584.2</b>	<b>611.7</b>	<b>627.0</b>
<b>Demand Growth</b>				
Adults and Health	6.9	5.4	5.3	5.3
Children and Young People	14.5	0.0	2.7	2.0
Children's Improvement Plan - one off	6.9	-6.9	0.0	0.0
Children's Improvement Plan - ongoing	5.1	0.0	0.0	0.0
Corporate Relations	3.7	0.0	0.0	0.0
Education and Skills	7.8	0.0	6.4	6.4
Environment	0.9	0.0	0.0	0.0
Finance and Resources	1.2	0.0	0.0	0.0
Highways and Infrastructure	0.7	0.0	0.0	0.0
Leader	0.0	0.0	0.0	0.0
Fire and Rescue and Communities	1.1	0.2	0.2	0.2
Fire Improvement Plan - one off	0.1	-0.1	0.0	0.0
Fire Improvement Plan - on-going	1.2	0.0	0.0	0.0
Inflation	11.5	11.6	12.2	12.2
Non Portfolio - capital financing	-2.4	3.1	4.2	2.7
Non Portfolio – Additional Responsibilities for 75%		27.4		
<b>Net Expenditure requirement</b>	<b>615.5</b>	<b>624.9</b>	<b>642.7</b>	<b>655.8</b>
<b>Budget Gap</b>	<b>18.0</b>	<b>11.2</b>	<b>15.7</b>	<b>13.8</b>
<b>Savings:</b>				
February 2019 - net adjusted position <sup>1</sup>	-10.4	-0.2		
Strategic Budget Options	-9.4	-6.2		
Business as Usual Decisions	-11.5	-6.8		
<b>Total Savings</b>	<b>-31.3</b>	<b>-13.2</b>	<b>0.0</b>	<b>0.0</b>
<b>Net Gap</b>	<b>-13.3</b>	<b>-2.0</b>	<b>15.7</b>	<b>13.8</b>

## Notes

All figures include roundings.

1 The savings scheduled for 2020-21 presented in February 2019 were reviewed and revised down from £16.1m to net £10.4m due to deliverability in Children's and in other services.

## Appendix B – List of identified savings 2020-21 and 2021-22

Portfolio	Savings Description	2020-21 £000s	2021-22 £000s	Total £000s
<b>February County Council</b>				
Adults & Health	Review options for in house provided services	180		180
	Housing Related Support (second year)	2,328		2,328
	Staffing Review - across Children, Adults, Families, Health and Education (CAFHE)	175		175
	Reform of Lifelong Services	500		500
	Reprocurement of the Integrated Sexual Health Service (ISHS) contract	250		250
Children & Young People	Early intervention reducing demand for high cost services	400		400
	Reform of Lifelong Services	1,000		1,000
	Lifelong Services - review of high cost placements	500		500
Corporate Relations	Centralisation of Learning & Development	50		50
	Review of Staff Terms and Conditions	500		500
	Closer management of the Capita Contract	200		200
Education & Skills	Developing additional Specialist Support Centres	829		829
	Improve School Trading Offer	275		275
Environment	Move to 100% diversion from landfill via Refuse Derived Fuel (RDF) Contract	300		300
	Further savings on Viridor contract through negotiation	200		200
	Expansion of solar installation programme	100		100
	Reduce waste going to landfill through further variations to MBT facility	75		75
	Disposal savings as a result of Adur & Worthing decision to move to 2-Weekly collection	200		200
	Waste Disposal - Non Resident Restriction/Charge	250		250
	Interest Income	100		100
	Income Generation - Investment Opportunities	500		500
Finance & Resources	Asset Strategy - reduction in business rates payable		100	100
	Facilities Management - associated services		50	50
Fire and Rescue & Communities	Reduced Partnership & Comm Team	45		45
	Reduction in Community Safety Team	50		50
	Revised arrangements to deliver Command and Mobilisation services	1,000		1,000
	Procurement of contract for Fire Uniform	100		100
Highways & Infrastructure	Cost Recovery (Street Works Permit Scheme)	20		20
	Staffing changes	100		100
	Planning fee income	150		150
<b>February County Council total</b>		<b>10,377</b>	<b>150</b>	<b>10,527</b>
<b>Strategic Budget Options</b>				
Adults & Health	Review of In-house Residential Care	300	300	600
	Limit inflationary increase in fees paid to care providers	4,200	3,400	7,600
	Manage demand pressure - Older People	970	1,260	2,230
	Local Assistance Network (LAN)	100		100
Education & Skills	Reduction in the Post-16 Support Services	190	290	480
	Creation of Additional Special Support Centres in Schools - phases 2 & 3	936	875	1,811

<b>Portfolio</b>	<b>Savings Description</b>	<b>2020-21 £000s</b>	<b>2021-22 £000s</b>	<b>Total £000s</b>
Environment	Household Waste Recycling Sites - Mobile Service		50	50
	Reduction in funding for Recycling Credits	2,100		2,100
Finance & Resources	Review of Fees and Charges	429		429
Fire and Rescue & Communities	Review of Library Offer	175		175
	<b>Strategic Budget Options total</b>	<b>9,400</b>	<b>6,175</b>	<b>15,575</b>
<b>Business as Usual</b>				
Adults & Health	General 1% reduction in staffing budgets	300		300
	Additional savings from Lifelong Services	1,400		1,400
	Joint working with NHS		750	750
	Direct payments/review of assessments/support to self-funders	1,150		1,150
Corporate Relations	Review of salary sacrifice schemes	100	100	200
	Whole Council Design	5,300	3,200	8,500
	Reduction in IT licence costs	100		100
	Management of Capita Contract	300		300
	Reduction in print and post costs	100		100
Education & Skills	SEND Transport Review	200		200
	Woodlands Meed Special School		140	140
Environment	Solar Farms/Battery Storage	100	900	1,000
Finance & Resources	Management of amazon business accounts	200		200
	Charging for use of WSCC Frameworks	100		100
Fire and Rescue & Communities	Insourcing of fleet maintenance	100		100
	Community Hubs	150	300	450
	Increased income from Registrars Services	150		150
Highways & Infrastructure	On street parking	300	1,400	1,700
Non Portfolio	Actuarial review of pension contributions	1,500		1,500
	<b>Business as Usual total</b>	<b>11,550</b>	<b>6,790</b>	<b>18,340</b>
	<b>Overall total</b>	<b>31,327</b>	<b>13,115</b>	<b>44,442</b>