## Performance & Finance Scrutiny Committee

## 28 November 2022

# Council Plan and Medium Term Financial Strategy

## Report by Interim Director of Finance and Support Services

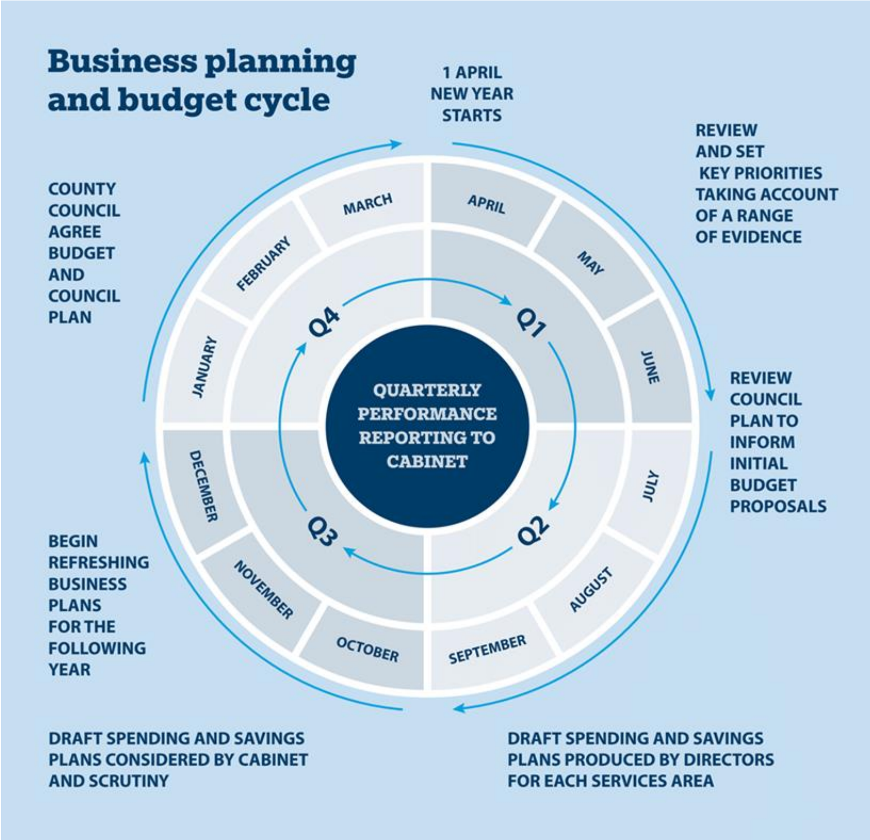

### Summary

This report sets out the Council's integrated council planning and budget setting for 2023/24. It provides a comprehensive update on the position and progress towards delivering a balanced budget for 2023/24 as well as reporting the future years' budget gap and challenges over the Medium Term.


### 1 Integrated Council planning and budget setting

1.1 Our integrated business and financial planning process has been running for two years, bringing together business planning, financial planning and risk management processes. It provides the framework for the County Council's decision making and planning to ensure we are focused on priority outcomes, making the best use of the resources available and able to track delivery and value for money. The Council Plan, revenue budget and capital programme are fully integrated through our business planning process. This ensures that the implications of choices that need to be made in the face of changing national policy and operating environment, resource and demand challenges and other uncertainties can be considered together.

1.2 The annual process is as follows:




1.3 The process for 2023/24 started with a stocktake on the Council Plan in the context of the anticipated operating environment and a refresh of the Medium Term Financial Strategy. From this, work has been going on over the Summer to review the Council's strategic ambitions and priorities and identifying areas for improvement, change and savings.

**The context for 2023/24**

**Internal Context**

1.4 When the Council Plan was first agreed in early 2020, the major focus for West Sussex County Council was a significant improvement challenge on several fronts. Two years on we have made considerable progress and will need to continue to do so:

- Children's Services is three years into its Children First programme, with significant progress demonstrated by the Government's decision in March 2022 not to require the Council to create a Trust and positive feedback from 6-monthly OFSTED monitoring visits. The next full inspection is expected in early 2023. The focus over this year will be on embedding new practices and delivering the benefits and savings.
- The Fire & Rescue Service is three years into its improvement programme, with significant progress shown in the most recent inspection report published in July 2022. The Community Risk Management Plan agreed in February 2022 confirms the service's future operating model and provides the framework for continuing improvement.

- Adult Social Care is shaping up its improvement programme, with the foundations of a new Strategy agreed in February 2022 and significant plans which are being progressed ahead of an anticipated CQC inspection.
- In parallel with service-specific improvements, the Council has transformed its governance, strengthened its partnerships and corporate capacity and started to improve corporate processes and culture – all while continuing to respond agilely to the global pandemic and other unforeseen events.

1.5 Currently, as well as delivering and embedding improvements, our services are working to adapt to a range of potential Government policy and legislative changes over the coming years, notably:

- in adult social care the timing of the introduction of the proposed cap for self-funders remains as October 2023, with CQC inspections of local authorities expected to start late in 2022 and implementation of various White Papers impacting directly on our services and on working with the NHS as the new Integrated Care Systems (ICS) beds in;
- in children's services and education, the implementation of the plans set out in Education and SEND White Papers, as well as the Independent Review of Children's Services Social Care and White Paper that is expected to follow this;
- implementation of the Fire & Rescue White Paper;
- the enacting of separate food waste recycling requirements in the Environment Act 2021;
- the policy direction established in the Levelling Up White Paper being followed through in further policy and funding decisions and the move towards County Deals in all areas that want them by 2030 and understanding the impact of the recently announced Growth Plan, particularly the implementation of Investment Zones;
- the anticipated significant adverse consequences for the County Council when the Funding Review is progressed – though this is now expected to be delayed for at least two years.

1.6 There remains significant uncertainty around which of these reforms will be maintained by the new Prime Minister and which will change as policy thinking of the new government develops.

1.7 The County Council will also be delivering several major corporate change programmes in 2022/23:

- SmartCore – moving our finance, HR, payroll, procurement and contract management systems from SAP to Oracle, supporting greater self-service, automation;
- The Capita Support Services Outsource (SSO) contract has concluded and we are delivering a range of consequential business change programmes on IT, customer services, website and intranet; and
- Our Smarter Working programme will move the organisation to a post-pandemic model of hybrid working that prioritises business needs while enabling us to offer more flexible working options to support recruitment and retention, staff wellbeing, reducing emissions from commuting and enable us to rationalise our estate and reduce business overheads. We are exploring if this work can be expedited in light of the continued high cost of energy.

**External context**

1.8 It is unclear yet how significantly the change in Prime Minister and Government will impact on central government's priorities and funding. Early announcements have included funding in response to energy price increases for public sector organisations as well as schools and a £500 million Adult Social Care Discharge Fund. The proposed reversal of the National Insurance rise has been confirmed but the government has also announced it will be working with local government to deliver the 'cap and means test' reforms by October 2023, that the NI raise was due to fund. The Chancellor delivered a "mini budget" on 23 September setting out the Government's plans for growth and announced a number of changes to tax rates. A further statement is anticipated later this month (date still to be confirmed) which will set out details of the Government's Medium Term Financial Plans.

1.9 The cost of living has been rising across the UK since early 2021. Rising prices particularly for food, energy and fuel are already affecting households. The Office of Budget Responsibility expects household incomes after tax and adjusted for inflation to start falling in Q2 2022 and not recover until Q3 2024. Whilst growth in employees average total pay increased by 5.5% in the period May – July, in real terms over the year total pay fell by 2.6%.

1.10 The post-pandemic economic conditions have been exacerbated by the war in Ukraine and inflationary pressures. On 14 September it was announced that UK inflation rose by 9.9% in the 12 months to August, slightly down from 10.1% in July. The fall in fuel prices was the main reason behind the decrease from 10.1% seen in July with rising food prices being the main reason the overall inflation figure has remained high. The Bank of England Monetary Policy September Report forecasted inflation to be just under 11% in October and remain over 10% for the following few months before starting to fall back.

1.11 Inflation is being driven by rises in energy prices. Government predicts the interventions announced to reduce the impact of spiralling cost of energy could reduce inflation by 4-5% but currently there is limited detail on how the interventions will be delivered and funded. Inflation places significant pressure on the County Council's finances, as well as on residents, businesses and the local economy as money does not go as far as costs rise. The County Council continues to focus spend on those areas that contribute to the delivery of the County Council's priority outcomes.

1.12 Growing recruitment and retention challenges over recent years are expected to continue and may be further exacerbated by the wider job market conditions. Particular areas of pressure are social workers, care workers and occupational therapist; planners, property, transport and development experts; and lawyers. Cost of living pressures and tighter job market means that there is significant competition in roles across services, which is having impact on our ability to recruit to or retain – and we expect this will only get more challenging in the short to medium term.

1.13 Data from the 2021 Census shows that the West Sussex population increased by 9% between 2011-2021, to 882,700. This is a higher increase than for our neighbours: Brighton & Hove 1.4%, East Sussex 3.6%, Hampshire and Surrey

6.3%. The county has a higher proportion of over 65-year-olds than the national and regional averages, making up 23% of the population, up from 20% in 2010. Our population is currently forecast to grow to 924,000 by 2030, at 11.7% at a higher rate than England (9%) or the Southeast (7.6%). Over 65s will continue to see the highest growth rates.

1.14 The COVID-19 pandemic continues to have an impact. In March 2022, Professor Sir Chris Whitty's expectation was that the virus would become, over time, steadily less dominant but probably remain with seasonal, interspersed, flare ups due to new variants for the next 2-3 years. Vaccines are expected to continue to make the likelihood of further stringent restrictions low, but we will be continuing to adapt to living with Covid, with a further booster programme for various groups rolled out in the autumn of 2022. The knock-on impacts will be felt including pressures on health and care services due to heightened demand from the virus, backlogs and the longer-term implications on mental health, isolation, etc. Other post-pandemic factors will also continue to unfold, such as the move to more home/hybrid working and increased use of digital ways of connecting and accessing services.

1.15 The government have announced a review of Net Zero, chaired by Chris Skidmore MP which is focusing on ensuring that delivering the 2050 target does not unduly impact on businesses, consumers or economic growth, to report by the end of 2022. COP27 will take place in Egypt in November 2022. At COP26 governments were asked to 'revisit and strengthen' their 2030 national emission reduction targets for this, which the UK has committed to do. Any implications for local authorities will emerge during this year. In the meantime, the impacts of the climate change agenda in West Sussex will continue to grow including on the delivery and maintenance of infrastructure, the delivery of new homes and developments particularly given water neutrality requirements, the need to respond to more serious weather events and flooding, increased risks to vulnerable people e.g. through more extreme hot weather events, and in differing ways to our economy e.g. salad or wine growing, tourism and the potential for new green businesses and jobs.

1.16 The next General Election will need to be called no later than December 2024. In May 2023, there will be elections in all West Sussex Districts and Boroughs except Adur and the next County Council elections will be in May 2025.

1.17 Many of our partners will also be facing significant changes over the coming year especially in relation to demand and cost of providing services. Borough and District colleagues are facing particular challenges in relation to Homelessness and Temporary Accommodation. The first year of the Sussex Integrated Health & Care System (ICS), the changing role of LEPs in the light of the Levelling Up White Paper and reduced funding are also important.

## 2 Our Council Plan – refresh proposals

2.1 Our Council Plan 2021–2025 sets out four priorities, with an underlying commitment to climate change action:

- Keeping people safe from vulnerable situations
- A sustainable and prosperous economy
- Helping people and communities fulfil their potential

- Making best use of assets.

2.2 These have remained unchanged since the plan was created in 2021, although for 2022/23 the narrative in the plan and some of the key performance indicators (KPIs) and associated targets were updated.

2.3 By the end of 2021/22, we have seen progress in many key service indicators, hitting or exceeding a number of targets including on adult social care assessments, the quality of education in our schools, emergency response times for fires, digital library services, support provided through the Community Hub, carbon emission reductions, recycling, reducing the size of our operational estate, creating new cycle paths, supporting businesses, increasing gigabit-capable connectivity and uptake of flu vaccines. Many other areas are showing progress, even if we are not yet at the level of performance that we have set ourselves.

2.4 The start of 2023/24 will be the halfway point in this Council Plan. The combination of the progress we have made so far and are expecting to make this year on our improvement programmes and against our performance targets, together with the wider developments in our operating environment (particularly inflationary pressures) and challenges and opportunities these create, make the time ripe to take stock more fully of whether our Council Plan is still appropriately focused.

2.5 The driving focus behind the work in the first two years of our Plan has been to deliver and embed improvements in services that improve outcomes and deliver better value for our expenditure. While this work will not be complete and will continue to require commitment, our track record of progress increases our credibility and confidence and provides an impetus to review our narrative and aspirations.

2.6 Keeping a rigorous and relentless focus on our own service responsibilities, ensuring they remain responsive to needs particularly in the face of changing demands and requirements and making best use of our resources, must remain our top priority. This is especially important as we seek to prioritise our spending as inflation increases our costs, and to ensure that our services respond flexibly and appropriately to cost of living and energy price pressures.

2.7 The Levelling Up White Paper set expectations about a move towards County Deals for most counties by 2030, as well as signalling a range of challenges for our county as government focus and funding is deliberately shifted away from the South East. Given the change in Prime Minister, it remains to be seen how the levelling up agenda and the approach to funding choices will evolve, particularly given the recently announced Growth Plan.

2.8 The first County Deals have been signed, but it is not yet clear whether further waves will be progressed as originally planned. New low-tax low-regulation investment zones have been trailed, with more information needed to clarify how these will fit into the new government's growth agenda. The County Council will continue to work with district and borough partners to develop and deliver an economic strategy to deliver growth in the County, building on existing collaboration through Growth Deals and pooled business rates. We are also collaborating at a pan-Sussex level on a number of economic issues, where it makes sense to do so – notably on skills and the visitor economy, as well as more widely on transport and infrastructure through Transport for the South

East. This work will provide a sound basis for conversation with government about a possible County Deal or other opportunities – when the time is right.

2.9 While our Council Plan needs to be updated to reflect these changes in national policy and our planning needs to reflect inflationary pressures, and the impact of the cost of living and energy price rises on our residents, businesses and communities, we are not proposing changes to the four overarching Council Plan priorities and underlying commitment to climate change. These are still relevant strategic focuses and continuity provides valuable clarity for our stakeholders, partners and staff.

2.10 We are planning to update economy objectives that sit within the priorities to reflect the current economic challenges and will review other objectives and KPIs to ensure alignment with our latest strategies and improvements (e.g. Adults Social Care Strategy, Fire & Rescue's Community Risk Management Plan). We will also review targets to ensure they remain relevant and reflective of our ambitions, capacity and resources, given the impacts of inflationary pressures. This will include making relevant comparisons to other councils where possible.

2.11 The challenging operating environment and change in Prime Minister means that effective lobbying will also continue to be important, working with local MPs, South East 7, County Councils Network and others as relevant.

## 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 current projected budget gap for 2023/24 and the factors that are impacting further financial planning, whether local or national, ahead of proposing a balanced budget in February 2023.

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 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 same level reduction in 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 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.

3.4 Throughout the last few months, the key assumptions underpinning the 2022/23 MTFS have been kept under review but there remains significant uncertainty around these as detailed below.

**Inflation**

3.5 Inflation continues to run at elevated levels and the inflation rate is well in excess of the estimates made in the February 2022 budget, which were based on October 2021 Office for Budget Responsibility (OBR) forecasts of 3.7% for the 2022/23 financial year. In recognition of the cost of living crisis and its continuing impact the following updates have been reflected in the MTFS:

- **Price inflation**: Additional provision has been included to reflect increased costs for high value contracts (for example, street lighting and waste) in 2022/23, based upon the latest rates for the specific indexing included within the contract. For 2023/24, in recognition of expectations that inflation will remain high, the MTFS includes a provision for price inflation based upon the Bank of England forecasts set out in the August 2022 Monetary report.

  An inflationary increase is also expected for business rates and currently this assumption is also based on Bank of England forecasts. Should government apply a lower level of inflation, this is likely to result in increasing the budget gap. Confirmation of funding will be published in the Local Government Settlement later in the year.

- **Pay inflation**: The local government national employers announced their final pay offer for NJC staff as an increase of £1,925 per FTE on all NJC pay points. A high-level calculation estimating the potential financial impact of the NJC employer proposal and assumed similar stance for other pay bodies has been undertaken. It is anticipated a further £4.5m will be required for 2022/23 and this is assumed in the current budget figures, however the actual value will be dependent on the outcome of the current pay negotiations taking place and number of staff within each cohort. For 2023/24 the current pay inflation assumption is 4%.

- **Fees and Charges**: Services are currently reviewing the individual fees and charges to assess the inflationary increase that can be applied. Following these reviews, the general level inflationary increase will be confirmed as part of the budget report.

Based on the above there is currently a provision of £52.7m for pay and price inflation. Over the coming months inflation will be monitored and a further update will be undertaken following the release of the OBR economic forecasts which are expected as part of the Government statement on the Medium Term Fiscal Plan later this month.

3.6 Aside from inflation, there are a number of other key financial risks facing the Council:

- Dedicated Schools Grant (DSG) Deficit – in March 2023, the DSG statutory override, which has required local authorities to separate DSG deficits from local authority reserves, is due to cease. Whilst we await clarity on the future accounting treatment, it is expected that the statutory override will be extended, and this is assumed within the MTFS position. Should the statutory override cease in March 2023, there is no solution, as of now, other than the Council funding the historical DSG deficit and the ongoing shortfall being built into the MTFS. The deficit reported at the end of 2021/22 was £25.5m which would need to be funded from reserves and the current assumption is that the deficit will continue to grow by around £12.0m each year which would increase the current budget gap by some £48.0m across the MTFS period.

- Adult Social Care Reform – the Government's reforms are due to take effect from 1st October 2023. Since the cost of these will be significant, they create substantial financial risk for all local authorities with adult social care responsibilities because Government has not committed to fund the additional spending in full. At this stage too little is known about the factors that will drive expenditure, particularly in relation to the new means test, to make it possible to produce an accurate cost estimate. For 2023/24 the County Council's broad order forecast is £30m to £35m. The level of funding that Government will provide is not expected to be confirmed until the Local Government Financial Settlement is announced. Based on options that were recently the subject of consultation, the range in outcomes spanned cost neutral in a best-case scenario to a shortfall of around £9m in a worst-case scenario. Given the scale of that variation, none of this is helpful in a planning context, so this is the approach on which the MTFS is currently based:

    - An assumption that costs will be met fully from government;

    - Alongside this the Adult Social Care Risk Reform Reserve was increased to £20m through a decision made in the June PRR. The purpose of this is to mitigate the immediate funding risk that the County Council faces and to allow the MTFS response to the reforms to be based on an informed understanding of the financial impact that they bring.

- Government Funding 2023/34: funding remains very uncertain. Current assumptions assume the funding for 2022/23 will be rolled over into 2023/24 and an inflationary increase for business rates is assumed as detailed in paragraph 3.5. Additionally, it has been assumed that the 2022/23 Services Grant of £5.5m will continue until the Fair Funding Review is implemented. This sum will be at risk if government chose to distribute this funding differently. Government funding and Council Tax flexibilities for 2023/24 will be confirmed as part of the provisional local government settlement in mid-December (a 1% increase in Council Tax would generate an estimated £5.4m).

- Fair Funding Review: our funding assumptions have been updated to assume the fair funding review is further delayed to 2025/26 and the funding for 2022/23 will be rolled over into 2023/24 and 2024/25. From 2025/26, a baseline reset is assumed and business rate growth and s31 cap compensation is redistributed nationally. This is also a high risk assumption and will be updated as the picture becomes clearer.

3.7 Given our continuing demand pressures, the level of uncertainty in future funding and the absence of multi-year settlements from the Government, effective lobbying with local, regional and national partners to ensure the Government understands the needs of West Sussex residents, businesses and communities will be key.

3.8 Table 1 below outlines the current basis of the key funding streams and also the inflation assumptions for pay and price increases:

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

| Key Assumption | Financial Implications |
|---|---|
| Government funding will be the same as in 2022/23 | That there will not be additional unfunded financial burdens placed upon local government. |
| Fairer Funding – Settlement Funding Assessment | Pressures resulting from the implementation of changes to the distribution methodology move from 2023/24 to 2025/26. |
| Business rates / s31 compensation grant | Business rates assumed as per 2022/23 forecasts from districts and boroughs and S31 compensation grant reflects an assumed uplift in line with Bank of England forecasts. |
| 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. For 2023/24 and 2024/25 an additional 1% adult social care precept is assumed. |
| Collection Fund | Any future deficits will be funded through the Business Rates and Collection Fund Smoothing Reserve |
| Taxbase | That the number of households will grow by 1.5% for the duration of the MTFS |
| Social Care Funding Grant | That this will be maintained at the 2022/23 level £25.8 million. |
| Services Grant | That this grant will continue at the 2022/23 level of £5.5m until the funding review takes place (assumed 2025/26) |
| New Homes Bonus | One-off sum of £1.0m |
| Financial Implications of Our Plan for Health and Social Care | It is assumed that further costs associated with implementing the process changes and financing additional |

| | |
|---|---|
| | costs will be met by government funding. In addition, the Adult Social Care Risk Reform Reserve is available to mitigate any immediate funding risk. |
| Pay Inflation | Assumes pay inflation for 2022/23 in line with latest offer for NJC staff, 4% for 2023/24 and 2% thereafter. |
| Price Inflation | Additional inflation has been included for high value contracts for 2022/23 based on the latest rates for the specific indexing included within the contract. For 2023/24 onwards, inflation is assumed in line with Bank of England forecasts. |

3.9 The MTFS has been refreshed to reflect the assumptions as outlined above and the projected budget gap for the years of the 2023/24 MTFS is set out in Table 2 below. This shows a total gap before further savings of £43.5m, which is a decrease of £19.9m when compared to the total gap of £63.4m presented to the County Council in February 2022. The movement reflects savings and efficiencies as well as changes to assumptions for funding streams, inflation and service pressures.

**Table 2 – Budget Gap for the years of the 2023/24 MTFS**

| | **2023/24 £m** | **2024/25 £m** | **2025/26 £m** | **2026/27 £m** |
|---|---|---|---|---|
| **Funding** | | | | |
| Council Tax | 556.8 | 582.0 | 602.5 | 623.7 |
| Settlement Funding Assessment/ Business rates | 101.4 | 102.4 | 93.9 | 90.5 |
| Non-Portfolio Specific Grants | 26.8 | 25.8 | 25.8 | 25.8 |
| Services grant | 5.5 | 5.5 | | |
| **Total Funding** | **690.5** | **715.7** | **722.2** | **740.0** |
| | | | | |
| **Opening Expenditure** | 648.3 | 690.5 | 715.7 | 722.2 |
| Inflation | 52.7 | 20.5 | 14.6 | 15.1 |
| Service Pressures | 17.3 | 16.8 | 12.2 | 12.2 |
| Other corporate changes | -6.0 | 6.5 | 5.3 | 4.8 |
| **Total Expenditure** | **712.3** | **734.3** | **747.8** | **754.3** |
| | | | | |
| **Budget Gap (before any savings)** | **21.8** | **18.6** | **25.6** | **14.3** |
| Savings proposed | -16.2 | -7.5 | -10.0 | -3.1 |
| **Budget Gap (net of savings)** | **5.6** | **11.1** | **15.6** | **11.2** |
| **Cumulative Budget Gap** | **5.6** | **16.7** | **32.3** | **43.5** |

*Note: numbers have been rounded within Table 2*

3.10 The 2023/24 budget gap previously reported at February County Council was a budget gap of £25.7m, a summary of the movement in the budget gap is shown in table 3:

**Table 3 – movement in budget gap**

| | **£m** |
|---|---|
| **Budget gap as reported at February County Council** | **-25.7** |
| *Funding changes:* | |
| Tax base change 1.0% to 1.5% | 2.7 |
| Baseline Funding (Fair Funding rolled forward a year) | 5.3 |
| S31 grant - updated to reflect current inflation indices | 22.1 |
| Services Grant - continued until FFR | 5.5 |
| New Homes Bonus - additional 1 year allocation | 1.0 |
| *Inflation:* | |
| Pay inflation | -9.6 |
| Price inflation | -24.9 |
| To be managed by contingency in 22/23 | 2.9 |
| Service Pressure changes | -1.1 |
| **Updated Budget Gap** | **-21.8** |
| Savings identified | 16.2 |
| **Current Budget Gap** | **-5.6** |

## 4 Service Pressures and Savings

4.1 The current budget position for 2023/24, as outlined in the previous section, includes provision for service pressures of £17.3m:

**Table 4 - Service Position 2023/24**

| **Portfolio** | **Service Pressures £m** |
|---|---|
| Adults' Services | 12.1 |
| Children & Young People | 3.2 |
| Learning & Skills | 1.5 |
| Support Services & Economic Development | 0.4 |
| Other | 0.1 |
| **Total** | **17.3** |

4.2 As shown in table 4 above, the pressures are predominately within Adult Social Care and Children, Young People and Learning. These services are experiencing challenges that are being felt nationwide and contribute to the broader context of risks being managed within the MTFS. Further detail is provided below to demonstrate the local context of these challenges.

4.3 **Adult Social Care**: A growing population and rising complexity of needs are increasing demand for adult social care as well as making it more expensive to meet care needs. In addition, delivery of prior year savings have been reprofiled due to the impacts of the pandemic and other market related factors.

Plans are in place to deliver these in the current year but the main risks to these plans are the speed at which the savings can be achieved and the impact of market pressures, including workforce shortages across the whole care sector which may cause savings to be delayed beyond the current timeframe.

4.4 The reforms to adult social care that are scheduled to take place in October 2023 expose the County Council to significant financial risks. In part this is because of the additional expenditure that they will bring. There is also a possibility that the formula which Government will use to allocate funding will target insufficient resources towards local authorities in relatively wealthier areas of the country, since this is where the cost impact of the reforms will be greatest. Although this will only become apparent in time, at this stage it would be premature to assume that they will necessarily add to the MTFS shortfall in 2023/24. Given this, it is currently assumed that the reforms will be fully funded.

4.5 **Children's Services**: 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. Additional investment is required in order to develop the Family Safeguarding model through employing Domestic Abuse Perpetrator Practitioners, Substance Misuse Workers & Adult Mental Health Practitioners to provide intensive support to the adults in the families.

4.6 Further continued investment in fostering services will also be required to enable the service to manage budgets more effectively and control costs with the expectation that by 2027/28 the annual investment in the service will be offset by the annual savings arising. In addition, while the MTFS allows for additional £1.9m budget for Children We Care For demand, current modelling suggests the situation has deteriorated and the risk may be significantly higher. As this risk remains very uncertain, it is not currently reflected in the current MTFS position but it will be closely monitored over the coming weeks and pressures may need to be increased accordingly.

4.7 **Dedicated Schools Grant**: Due to the increase in our High Needs Budget deficit the County Council has been identified for the DfE programme 'Delivering Better Value in SEND'. This new programme aims to support local authorities to improve delivery of SEND services for children and young people while ensuring services are sustainable. The programme will provide dedicated support and funding to 55 local authorities with less severe deficits than those in the Safety Valve programme. The local authorities were selected based on those with the highest deficits (as a percentage of their annual DSG allocation) as at the end of 2020/21, below those in the existing Safety Valve programme.

4.8 Newton Europe, in collaboration with the Chartered Institute of Public Finance and Accountancy (CIPFA), will work with the DfE to deliver the programme, which is split in to two phases:

- Phase 1 (6 months from January 2023) - The DfE will provide project management and change management capacity, alongside SEND financial and practice advisers, to support the County Council in engaging with its key stakeholders and conducting a comprehensive diagnostic process to identify the underlying cost drivers of its high needs system and potential reforms to manage/mitigate these cost drivers more effectively.

- Phase 2 – The DfE will work with the County Council to determine which identified reforms to fund and will provide grants directly to the Council to enable us to implement and embed these reforms, with ongoing support and challenge by DfE officials.

## 5 Capital Programme

5.1 The current approved capital programme covering 2022/23 to 2026/27 is £755.8 million (table 6).

**Table 5 - Current Capital Programme**

| CAPITAL PROGRAMME (Expenditure) | 2022/23 £m | 2023/24 £m | 2024/25 £m | 2025/26 £m | 2026/27 £m | Total £m |
|---|---|---|---|---|---|---|
| Adults Services | 0.1 | 0.8 | 1.9 | 4.0 | 4.4 | 11.2 |
| Children and Young People | 5.2 | 3.4 | 2.5 | 0.0 | 0.0 | 11.1 |
| Community Support Fire and Rescue | 9.7 | 22.1 | 4.5 | 7.2 | 4.0 | 47.5 |
| Environment and Climate Change | 4.0 | 14.8 | 22.1 | 22.3 | 28.0 | 91.2 |
| Finance and Property | 8.7 | 22.9 | 31.7 | 25.7 | 20.8 | 109.8 |
| Highways and Transport | 49.8 | 55.8 | 50.6 | 23.9 | 66.5 | 246.7 |
| Leader | 3.0 | 9.0 | 16.8 | 5.5 | 0.0 | 34.2 |
| Learning and Skills | 30.8 | 40.6 | 27.6 | 34.3 | 34.8 | 168.1 |
| Support Services and Economic Development | 9.1 | 15.6 | 7.3 | 3.0 | 1.0 | 36.0 |
| **TOTAL CAPITAL PROGRAMME** | **120.4** | **185.0** | **165.0** | **125.9** | **159.5** | **755.8** |

| FINANCING | 2022/23 £m | 2023/24 £m | 2024/25 £m | 2025/26 £m | 2026/27 £m | Total £m |
|---|---|---|---|---|---|---|
| Capital Receipts | 9.0 | 6.5 | 6.0 | 5.7 | 1.0 | 28.2 |
| External Contributions including S106 | 5.7 | 11.7 | 12.0 | 7.9 | 41.4 | 78.7 |
| Ringfenced Government Grant | 3.5 | 7.8 | 9.2 | 1.2 | 5.5 | 27.2 |
| Non-Ringfenced Government Grant | 51.3 | 22.2 | 22.0 | 21.8 | 21.6 | 138.8 |
| Revenue Contributions to Capital Outlay | 2.3 | 0.5 | 2.8 | 3.0 | 2.5 | 11.2 |
| Revenue Contribution to Capital Outlay – Business Rates Pilot | 4.6 | 8.9 | 0.0 | 0.0 | 0.0 | 13.5 |
| Core Borrowing | 34.9 | 105.2 | 84.4 | 67.2 | 55.0 | 346.8 |
| Economic Development Borrowing | 9.1 | 22.2 | 28.7 | 19.1 | 32.5 | 111.5 |
| **TOTAL PROGRAMME** | **120.4** | **185.0** | **165.0** | **125.9** | **159.5** | **755.8** |

5.2 The revenue cost of financing the capital programme for 2022/23 is £29.7m. Based upon the Capital Programme set out in paragraph 5.1 above, revenue costs will increase for 2023/24 onwards as set out in table 6 below (accounting for 4.5% of the Net Revenue Budget in 2023/24).

**Table 6 - Revenue cost of Current Capital Programme**

| | 2023/24 £m | 2024/25 £m | 2025/26 £m | 2026/27 £m |
|---|---|---|---|---|
| Revenue impact of capital programme | 1.6 | 5.5 | 4.8 | 2.2 |

5.3 Inflationary pressures are also impacting on the Capital Programme; however, the impact varies by project and is dependent on the stage of each scheme and the type of material required. In-flight projects have contingency or inflation provision built-in to their agreed funding allocation and there is a corporate provision of £7m to help manage other costs such as inflationary increases. The ongoing impact of this is being kept under regular review given the current cost of living crisis.

5.4 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.

## 6 Next steps

6.1 As detailed in the report, the position remains very uncertain and the current projected budget gap could increase further. All assumptions will need to remain under close review over the coming months as further details become available. Work will continue to explore further opportunities to close the remaining gap and to lobby with local, regional and national partners to ensure the Government understands the needs of West Sussex residents, businesses and communities and supports with additional funding to help manage the cost of living crisis.

6.2 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 2024/25 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 2023. There is a potential advantage nonetheless in exploring this further as a precursor to the exercise to bridge the budget gap for 2024/25 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 £5.4 million in additional income.

The timeline for the Council Plan and Budget for 2023/24 is:

**Table 7 - Budget Timeline**

| | | |
|---|---|---|
| 18th October | Cabinet | Review MTFS, finalise budget gap/savings, priorities and Council Plan update |
| 19th October | Member Day | Council Plan and Revenue Budget update |
| 16th – 28th November | Scrutiny Committees | Scrutiny of any proposed changes to Council Plan and of overall MTFS by P&FSC |
| 29th November | Cabinet | Update MTFS and Council Plan, comments from Scrutiny Chairmen as advised |
| 20th January | Member Day | Council Plan and Revenue Budget 2023/24 and possible separate scrutiny focus if required |
| 25th January | Performance and Finance Scrutiny Committee | Council Plan and Revenue Budget 2023/24 |
| 27th January | Stakeholder engagement | Council Plan and Revenue Budget stakeholder consultation |
| 31st January | Cabinet | Council Plan and Revenue Budget for recommendation to Council. Feedback from P&FSC and Scrutiny Committee Chairmen. |
| 17th February | County Council | Council Plan and Revenue Budget 2023/24 |

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