

Performance and Finance Select Committee

22 November 2018

Update on the Medium Term Financial Strategy 2019/20 to 2022/23

Report by Director of Finance, Performance and Procurement

Executive Summary

The Committee received a report on the Medium Term Financial Strategy (MTFS) at its previous meeting, which outlined the budget shortfall facing the County Council over the next four financial years.

As we approach setting the budget for 2019/20, this paper provides an update on the MTFS and the work underway to balance the budget for 2019/20.

It should be noted that this report reflects our position at this point in our budget preparation process and these numbers will change as the budget develops over the next two months.

This year the Forward Plan has included all major Cabinet level service budget decisions allowing preview by the relevant Select Committee so that effective and timely scrutiny is available prior to any decision being taken by the Executive. This will also apply to any additional major proposals which may still need to be considered prior to the final budget to be presented for approval by the County Council.

Focus for Scrutiny

The Committee is asked to review, comment on or make any recommendations to the Cabinet Member for Finance and Resources on this update to the County Council's Medium Term Financial Strategy (2019/20 – 2022/23).

Background

1. This paper updates the Committee on changes to the Medium Term Financial Strategy (MTFS), previously reported on 5 October 2018. This paper will provide an update to that report, the highlights from the recent national budget announcement, the approach of the MTFS and the projected funding gap over the four years, 2019/20 to 2022/23, and the work underway to balance the 2019/20 budget.

Medium Term Financial Strategy

National Context Update

2. The MTFS reported in October to this Committee highlighted the challenges facing the authority to produce a sustainable budget that would support the aims and aspirations of the West Sussex Plan. It also highlighted the uncertainty with local government finances after 1 April 2020.
3. We had an unusually early budget announcement by the Government on 29 October. The key areas for local government included:
 - £650m additional grant funding for adult social care in 2019/20. This consists of £410m for both Adults and Children's Social Care and £240m for Adults, the latter sum being a repeat in 2019/20 of an allocation made for 2018/19 to assist with 'winter pressures' and the issue of bed blocking.

With regard to the £410m, the Budget states that "where necessary, local councils should use this funding to ensure that adult social care pressures do not create additional demand on the NHS. Local councils can also use it to improve their social care offer for older people, people with disabilities and children."
 - £84m on children's service programme, over five years, to be payable to 20 authorities (yet to be named) and targeted at helping more children stay home with their families.
 - £450m in 2018/19 for potholes that will be allocated to highways authorities, resulting in an additional £6.083m for the County (just announced).
 - Schools: £475m in-year increase in capital funding to each school, averaging £10,000 for primary and £50,000 for secondary schools.
 - An additional £55m for Disabled Facility Grant in 2018/19, which is a sum that benefits Districts and Boroughs, for home aids and adaptations for children and adults on low income.
4. We await full details, including the allocations made to West Sussex CC, and the conditions set by Government, about the funds announced above.
5. The table below shows the additional funding that has been announced nationally in recent years from the various specific social care grants:

Table 1: Adult Social Care Funding

ITEM	2017/18 £m	2018/19 £m	2019/20 £m
Improved Better Care Fund (original allocation)	105	825	1,500
Improved Better Care Fund (Autumn Budget 2017)	1,010	674	337
Additional Social Care Grant 2017/18 (LG Settlement Feb 2017)	241		
Additional Social Care Grant 2018/19 (LG Settlement Feb 2018)		150	
Additional Social Care Grant 2018/19 (Conservative Party Conference Oct 2018)		240	240
Additional Social Care Grant 2019/20 (Autumn Budget 2018)			410
Total Funding	1,356	1,889	2,487

6. Although these sums are significant, the major concern is their long term future, as the sums have no guarantee of continuation into the next Spending Review and are often announced in the context of 'one-off' sums.
7. The Chancellor said nothing about any continuation of the Adults Social Care council tax levy after 2019/20, though he did highlight the intention that, in the longer term, the government will set out options for the future financing of Social Care in the pending Green Paper.
8. One of the messages in the Budget was that austerity is coming to an end. This can only be known for certain for local authorities once the longer term decisions on overall local government funding are made in the 2019 Spending Review. We do know that our fixed settlement for 2019/20 continues to reduce the core funding provided to West Sussex CC by £13.1m, as stated in the MTFS report seen by this Committee in October.
9. Paul Johnson, the head of the Institute for Fiscal Studies (IFS), in his analysis of the budget stated that "many public services are going to feel squeezed for some time to come. Cuts are not about to be reversed". Until there is firm evidence to the contrary, the MTFS will continue to assume reduced funding resources from Government will apply year-on-year, and plans will be made accordingly.

10. The Office for Budget Responsibility (OBR) published a report alongside the Chancellor’s statement and made interesting comments about local authority reserves. The OBR stated that “although the aggregate picture for the level of reserves held by English authorities appears healthy, this masks considerable variation across individual authorities, with pressures most significant for those with social care responsibilities”.

Budget Gap

11. The budget gap identified in the October report was £92.3m over the next 4 years to 2022/23 assuming a council tax rise of 4.99% in 2019/20 (part of which is the 2% for the Adults Social Care Levy) and 1.99% from 2020/21 onwards.
12. Table 2 sets out the budget gap reported to PFSC at its October meeting. If the council tax rise were not applied, the overall gap would amount to £145.1m over the next four years.

Table 2: October – Summary Budget Gap

	19/20	20/21	21/22	22/23	Overall Gap
	£m	£m	£m	£m	£m
Budget Gap including Council Tax increase *	28.9	29.5	18.4	15.6	92.3

** note figures are rounded*

13. The detailed assumptions were outlined in the previous report, but in summary the major assumptions were:
- (1) On funding:
 - a. The figures for Government support as detailed in the provisional finance settlement for 2019/20 were applied.
 - b. A tax base rise of 2.0% next year, followed by 1.7% thereafter.
 - c. Real terms growth in business rates of 2% per annum.
 - (2) On spending:
 - a. Inflationary uplift both for wages and services amounts to £43.4m over the four year period. Inflation has applied RPI and CPI figure predictions and wage inflation assuming a 2% uplift next year.
 - b. Additional funds of £36.0m over the 4 years of the life of the MTFS on Adult Social Care mainly reflecting demographic pressures and the National Living Wage policy.
 - c. £16.6m additional over the four years for Children’s Services reflecting the higher numbers of children being supported including those Looked After.

14. These spending pressures and funding assumptions are under regular review as we draft the 2019/20 budget. Accordingly, a number of changes have been made to the MTFS projections, as new information has been presented. The total gap, before savings, remains broadly the same over the four year MTFS time horizon, £91.5m compared with £92.3m previously report (see table 3 below).
15. The gap before savings for 2019/20 is now £23.8m, slightly improved on the previously reported position. This is the position assuming a council tax rise of 4.99% for 2019/20 (including 2% for the Adults Social Care levy) and 1.99% thereafter.

Table 3: November - Budget Gap: Updated

	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
Gap (per MTFS at 5th October and as per table 1)	28.9	29.5	18.4	15.6	92.3
Net Impact of Changes since 5 October	-5.1	4.1	0.1	0.0	-0.9
UPDATED BUDGET GAP (before savings)	23.8	33.6	18.5	15.6	91.5

** note figures are rounded*

16. The changes since October for 2019/20 include:
- Additional funding of £0.5m on the New Homes Bonus.
 - Some amendments to council tax base estimates for 2019/20 and
 - A review of budget demand pressures: with reductions in Adults (£2m), and Children's demand plus Education reductions (£1.6m).
17. The budget management reserve can and will be used to assist with any shortfall compared with our funding assumptions. However, the planning assumptions are as realistic as possible, using past experience, to avoid any intentional use of this reserve.
18. All areas of funding and of budget pressure remain under review, to ensure estimates reflect the most up to date and robust position.
19. The Local Government Finance Settlement is expected significantly earlier for 2019/20 than in previous years, with Government aiming for a 6 December announcement. The settlement should verify the core funding from Government, confirmation that negative RSG will be removed and the sum allowable for a council tax rise before a referendum, currently assumed at 2.99%.

Balancing the Budget

20. The savings proposals have been considered in the light of the aims and goals set out in the West Sussex Plan and to minimise the impact on residents. However, meeting the savings challenge in 2019/20 and the future MTFs period is proving increasingly challenging.
21. The up to date position of the budget gap after assumed savings is given in the table below:

Table 4: The Budget Gap

	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
UPDATED BUDGET GAP (table 3)	23.8	33.6	18.5	15.6	91.5
LESS: Savings plans	-13.6	-9.4	-1.1	-1.1	-25.2
Net surplus(-)/ deficit(+)	10.2	24.2	17.4	14.5	66.3

22. The position outlined above in table 4 compares with a four year budget gap of £52.9m previously report and a gap for 2019/20 of £8.3m (after savings). Hence this update shows the gap has increased to £66.3m over four years.
23. Significant work has been done recently to include only robust savings with a strong degree of confidence they are deliverable in the draft budget and this is reflected in the savings figures in table 4. Many other saving plans and proposals are still being worked on with the aim of bringing these forward to assist with the gap, especially for 2019/20.
24. Savings for 2019/20 have changed from those reported in the October report (at £20.6m) to £13.6m in table 4 above. A large part of this is due to the announcement made at County Council recently to delay the proposed saving on Supported Housing.
25. A number of the major areas to be decided, as set out in the forward plan, are being consulted on and have been discussed at other Select Committees. Appendix 1 provides an overview summary list of these 'strategic areas' where a Cabinet Member level decision is expected.
26. The position of such a significant budget gap for 2019/20 as £10.2m at this stage of the budget process is far from ideal, but does indicate the difficulty of the challenge being set with continued funding reductions from Government at a time of strongly rising demand pressure for many services. It also reflects the strong challenge to only include savings plans in 2019/20 which have a high degree of expectation of delivery, with more work underway before other savings proposals can be included.

27. Work is on-going by the Cabinet and the Corporate Leadership Team to close the gap to enable a balanced budget to be presented to Council on the 15th of February 2019. The aim will be to bring forward proposals to help close the budget gap for 2019/20 and 2020/21. This year the Forward Plan has included all major Cabinet level service budget decisions allowing preview by the relevant select committee, enabling effective and timely scrutiny prior to any decision being taken by the Executive. This will also apply to any additional major proposals which may still need to be considered prior to the final budget to be presented for approval by the County Council.
28. Appendix 2 updates the budget timeline.

Reserves Policy

29. Though reserves can be used to assist with the budget gap for 2019/20, the approach adopted is the same as taken for 2018/19 i.e. avoiding a reliance on deliberately using reserves due to the short term nature of the solution. One of the criticisms in the independent review of Northamptonshire Council was that one-off resources had too readily been used to fund on-going budget commitments thereby masking underlying problems.
30. The move to 75% funding via business rates, also means in future the County Council will become more reliant on business rates, which is historically a very volatile source of funding. This indicates reserve levels need to be strong to accommodate significant fluctuations in funding, when influenced by the economic cycle. A part of our budget strategy is to ensure that the County Council maintains robust reserves to cater for this uncertainty and that a sound financial buffer is therefore available.
31. The Director of Finance, Performance and Procurement has a legal requirement to ensure the budget plans include adequate reserves for the County Council, which entails considering future risks and an ability to cover savings if they fail to be delivered to the expected time frame or scale assumed in budget plans. To assist managing budget risks the County Council has set aside £26.7m within its budget management reserve (as at 31 March 2018).
32. An update on reserves will therefore be provided to the Committee in the draft budget papers in January.

Issues for Consideration by the Select Committee

33. This report updates the MTFs and work to ensure a balanced budget for 2019/20. Comments are invited on the update.

Consultation

34. Savings proposals will be consulted on where needed

Risk management implications

35. Risk will be considered in the draft budget papers, and how this will be mitigated by adequacy of reserves and contingency to provide for a robust budget for 2019/20 and beyond.

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Background Papers

None

Appendices

Appendix 1 High level Summary of 2019/20 key strategic decisions on savings
Appendix 2 Budget Timetable Summary