

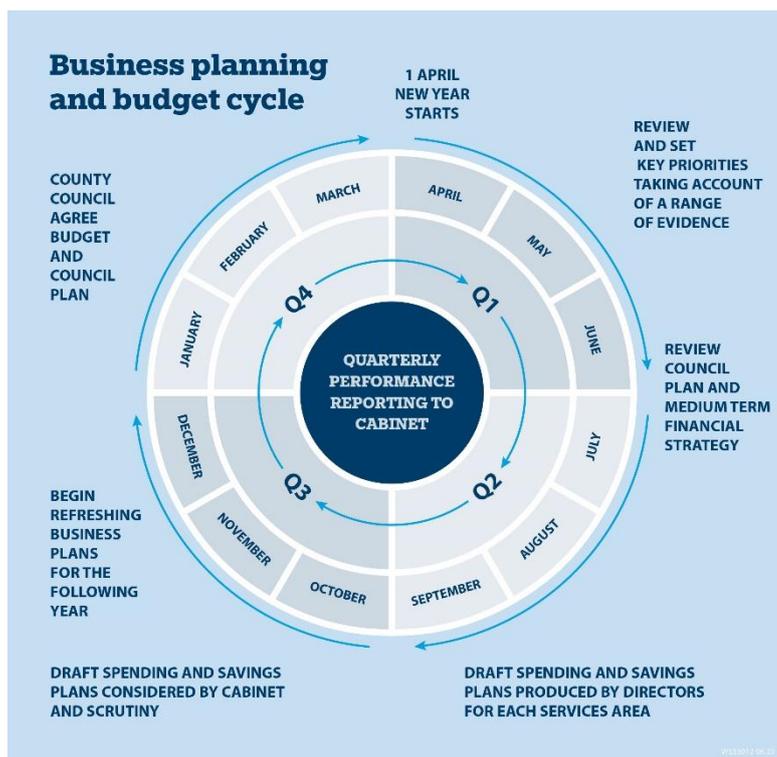
Appendix A: Update on Council Plan and Medium Term Financial Strategy

1. **Introduction**

- 1.1 The County Council will be invited to approve a new Council Plan and Medium Term Financial Strategy (MTFS) as part of budget setting in February 2024.
- 1.2 This strategy is the start of the process and supports planning over the next five years. It provides the framework for the Council's priorities to drive financial strategy and the allocation of resources. It identifies the budget gap following a review of spending, income pressures and underlying risks.

2. **Integrated council planning and budget setting**

- 2.1 The approach brings together business planning, financial planning and risk management. It informs decision making to ensure focus on priority outcomes, making the best use of resources, tracking delivery and value for money. It enables considered choices in a changing environment and against resource and demand challenges and other uncertainties. This operates within the annual cycle shown below:



- 2.2 The process starts with a stocktake on the Council Plan and a refresh of the MTFS in the context of the anticipated operating environment. A review of the council's strategic ambitions and priorities is undertaken to identify areas for improvement and change to enable plans for how the County Council balances its books next year and for the medium term.
- 2.3 The impact of internal and external factors is key to the planning and budget process and are set out in full in Annex 1 and 2:

- **Annex 1** - economic environment, government policy and demographic changes
- **Annex 2** - local priorities, our improvement and change programmes.

3. **Our Council Plan – refresh proposals**

3.1 [Our Council Plan 2021–2025](#) sets out four priorities, with an underlying theme of environmental protection and addressing the impact of climate change. The current priorities and outcomes are:

Council Plan Priority	Outcome
Keeping people safe from vulnerable situations	A timely and proportionate approach to prevention
	Support to people when they need it
A sustainable and prosperous economy	Developing and growing the local economy
	Achieving social value in West Sussex
	Sustainable growth by developing modern infrastructure
	Supporting people to develop the skills they need for the future
	A sustainable economy that adapts to climate change
	Working in partnership
Helping people and communities to fulfil their potential	Access to excellent education and learning
	Tackling inequality
	Promoting and enabling independence
	Safe, connected and cohesive communities
Making the best use of resources	Working together as one Council
	Getting the best from our people
	Maximising our income and the productivity of our assets
	Value for money
	Securing value through partnership
Protecting the Environment - addressing Climate Change	

3.2 For 2023/24, the narrative in the plan and some key performance indicators (KPIs) and targets were updated as part of the February County Council budget papers ([Appendix 8 - 2023/24 Council Plan](#)). The KPIs and targets will remain under review through quarterly monitoring to ensure they remain relevant and effective as measures of impact.

3.3 In 2022/23 progress included adult social care assessments, the quality of education in schools, fire response times, digital library services, Community Hub support, carbon emission reductions, recycling, reducing the operational estate, new cycle paths, supporting businesses, increasing gigabit-capable connectivity and uptake of flu vaccines.

- 3.4 Progress in improvement programmes and performance targets and developments in the operating environment make the time ripe to review the Plan. The first three years were used to deliver and embed service improvements and secure better value for expenditure. This increases our credibility and confidence and gives an impetus to review our aspirations.
- 3.5 Meeting service responsibilities, responsive to need in the face of changing demands and requirements whilst making best use of resources, remains the top priority. Stronger delivery and support systems enable the County Council to broaden its ambitions while retaining a focus on improving outcomes for residents, communities and places. Consideration will be given to whether the Plan's current priorities reflect the breadth of the commitment to protecting and enhancing the natural environment, or whether this should be strengthened within the Plan.
- 3.6 Joint working and collaboration will be critical, including more co-production with users and stakeholders in children's and adults' services and engagement with the Voluntary and Community Sector (VCS). A priority for 2024/25 will be working with NHS partners through the new Integrated Care System (ICS).
- 3.7 The Levelling Up White Paper suggests County Deals for most counties by 2030, but with government focus and funding away from the south east. For West Sussex it may be three to four years before a deal but we need to plan for this to support improved outcomes and grasp opportunities, increasing the chances of a valuable deal when the time comes.
- 3.8 Close working with the district and borough councils and their new administrations will continue for the benefit of our communities as well as with other partners in business, skills, tourism and other regeneration and growth spheres. There are a range of collaborative arrangements to build on, including Growth Deals and the Business Rates Pool.
- 3.9 The West Sussex Economic Collaboration work, jointly commissioned by the County and the districts and boroughs, sets out how collaboration on economic development, regeneration and growth can be effective. The County Council will work with partners in the development of the approach to economic growth.
- 3.10 The importance of this work has increased following the Government's announcement on the future of Local Enterprise Partnerships (LEPs) in March 2023. The Government intends for the functions of LEPs to be delivered by local government in the future.
- 3.11 The County Council will continue to strengthen other partnerships, such as with the VCS, to respond in a more co-ordinated way to wider social pressures including the social impacts of the pandemic, cost of living pressures and other social issues.
- 3.12 Objectives will be updated to reflect economic instability and KPIs will be aligned to latest strategies and improvement plans. Targets will be reviewed to ensure they remain relevant and reflective of ambitions,

capacity and resources, making relevant comparisons to other councils where possible.

- 3.13 The increasingly challenging operating environment makes lobbying more important. The County Council will work with district and boroughs, local MPs, South East 7, County Council Network (CCN) and others and continue to collaborate with partners to ensure priorities are advocated at a local, regional and national level.

4. Revenue Budget 2024/25

- 4.1 Developing a budget that is balanced requires consideration of a number of different factors which are summarised here and set out in further detail through the remaining report and annexes.:

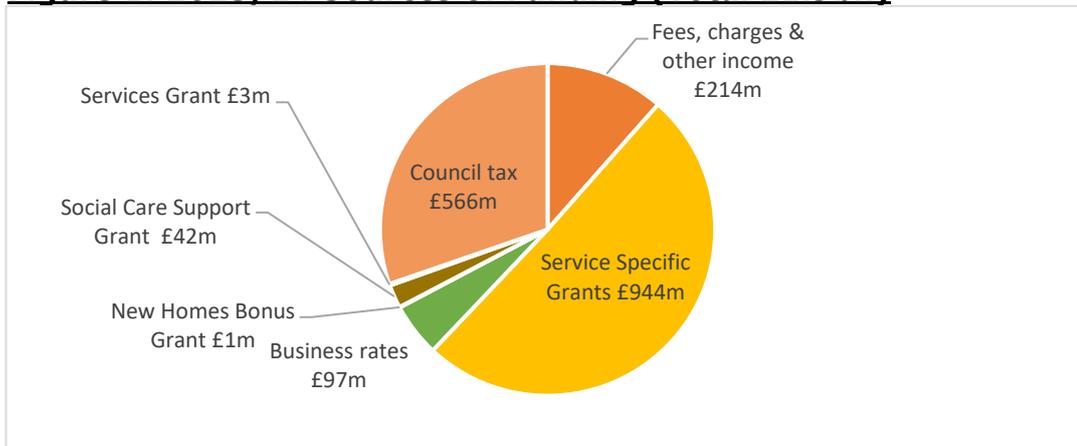
- Impact of macro-economic conditions – inflation and interest rates; the budget uses the latest forecasts from the Office for Budget Responsibility (OBR)
- Government funding through the Local Government Finance Settlement
- Other potential income sources, including, forecast Council Tax and business rates collection and fees and charges income
- Forecast increase in service demand pressures
- Savings proposals which will include reducing costs and increasing income.

- 4.2 The County Council's budget is underpinned by the following budget principles:

- To support the priorities of the Council Plan and reflect the need for service improvement and redesign over the medium term
- Financial planning for revenue and capital will cover a period of at least five 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 using data to inform assumptions
- Growth for enhanced service provision will be considered on a case by case basis
- Loss of specific government grant will result in the same reduction in related expenditure
- To ensure the council is providing value for money, increased productivity and is clear about return on investment.

Revenue Budget - Funding

Figure 1: 2023/24 Sources of Funding (Total £1.9bn)



- 4.3 The duty to set a balanced budget means income levels determine affordable expenditure. Figure 1 shows the dependency on Government funding, Council Tax and fees and charges. Full details are in **Annex 3**.

Revenue Expenditure

- 4.4 Spending patterns are volatile and each year there are new pressures. Medium term financial planning aims to review both existing pressures and understand new pressures.
- 4.5 Spending plans and pressures for next year and the medium term are outlined in **Annex 4**. Pressures include pay and price inflation, as well as continuing investment in Adults and Children's social care. The County Council are also actively considering additional investment in highways. These are based on assumptions using the latest data but remain subject to review. Assumptions for 2024/25 are more robust but across the medium term it becomes more challenging to estimate pressures accurately.
- 4.6 Financial plans assume service pressures for 2024/25 of £36m and then a further £23m per annum for 2025/26 onwards. These will remain under regular review as more information becomes available. Any increase in these numbers will increase the need for savings elsewhere to enable a balanced budget to be set in February 2024.

Capital financing charges

- 4.7 These relate to all costs of borrowing for capital investment, including external borrowing (PWLB). The Council cannot borrow to fund revenue costs. Further details are in the Capital Strategy section 8 below. The cost of borrowing included in the 2023/24 budget is £30.4m. There is currently no assumed requirement for new borrowing for 2024/25 but the Capital Programme for 2024/25 is currently being developed. Any additional external borrowing will incur a revenue cost. Currently, an additional £50m borrowing costs £3.15m per annum, based on the 35-year PWLB annuity rate (5.28%) (6 June 2023). If reserves are used for internal borrowing, this reduces cash balances and a loss of investment income.

5. The Medium Term Financial Outlook

Current Financial Position - Outturn 2022/23

- 5.1 The Medium Term Financial outlook must take into consideration the current financial position. The [outturn position](#) was reported to Cabinet in June 2023.
- 5.2 The provisional revenue outturn for 2022/23 was net spend of £654.6m, comprising portfolio budgets which overspent by £10.5m, offset by high investment income (£5.0m), £0.665m more income from the 2023/24 Financial Settlement for business rates and use of contingency and inflation reserves.

2023/24 Budget

- 5.3 The 2023/24 [budget](#) was approved by the County Council in February 2023 and will be closely monitored over the year. Many pressures from 2022/23 continue into 2023/24. Additional budget was built in based upon the available data and evidence, but this will need to be closely monitored to see if it is sufficient. Many of the pressures could continue into the medium term and the additional budget assumed in financial plans may be higher. Progress on the 2023/24 budget will be subject to quarterly reporting as part of the Performance and Resources Report (PRR).

Five year Financial Position – 2024/25 to 2028/29

- 5.4 The Council's medium term financial position is subject to the many factors already considered in this report and looks ahead five years. It is kept under continuous review.
- 5.5 Assumptions for 2024/25 onwards are based on best estimates of Government funding, demographic growth and other pressures and the latest economic forecasts. They exclude the impact from any changes to Local Government funding, the planned Adult Social Care reforms, any funding of the DSG deficit and SEND pressures after 2025/26 when the statutory override ends and any of the other policy changes Government or a new Government may introduce. All may mean significantly increasing the budget gap and the need for further budget reductions.
- 5.6 Taking in all the factors above, the County Council has a budget gap over the five years of £171m, of which £45m will fall in 2024/25. This is before any assumed increase in council tax levels.

Table 1 – Medium-Term Financial Position 2024/2025 to 2028/2029 including published savings for 2024/25

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
Opening expenditure	709	727	734	741	748
Inflation	35	13	15	11	15
Service pressures	36	23	23	23	23
Capital financing			2	3	3
Total expenditure	780	763	774	778	789
Funded by:					
Council tax – assumed 0%	574	581	588	595	602
SFA/Business Rates	102	105	105	105	105
Specific Grants	51	48	48	48	48
Total funding	727	734	741	748	755
Published savings	8				
Budget Gap: In Year	45	29	33	30	34
Budget Gap: Cumulative	45	74	107	137	171
Impact of maximum Council tax increase	28	12	13	14	14
Budget gap after Council tax	17	17	20	16	20
Budget gap: cumulative	17	34	54	70	90

- 5.7 Referendum thresholds for 2024/25, published in December 2022, provide for a general Council Tax increase of 2.99% and a further 2% for Adult Social Care. Financial Plans assume that thresholds for 2025/26 onwards will fall to 1.99% and the Adult Social Care Precept will end. If full Council Tax increases were taken in each year, this would reduce the budget gap from £171m to £90m.
- 5.8 This financial position is built on many estimates and any deviation could obviously impact on the figures. Work to close the gap, with a focus on 2024 to 2026, is underway. Further details on the overall approach are set out in Section 7 with a fuller update to be published in the Autumn.

6. Risk Management and Reserves Strategy

Risk Management

- 6.1 The financial position is based on the best known information on cost and demand. Any changes in these assumptions presents a potential risk.
- 6.2 Full details of the County Council's financial risks were reported in Section 5 of the [budget report](#) and remain largely unchanged. Others have emerged and the severity or scale of some have increased. These are set out in **Annex 5**.
- 6.3 Risks remain under review both in terms of impact and likelihood. Risks and uncertainties make planning for future years challenging and any change in assumptions underpinning the budget can have an impact on the in-year financial position. Over the summer scenario planning will allow us to consider the impact of the identified risks and help future planning.
- 6.4 The nature of risks and uncertainties means the Council must take a prudent approach to assumptions in next year's budget and medium-term financial plans to hold sufficient levels of contingency to deal with unforeseen circumstances in the short term. Reserves provide a safety net for more significant negative impacts on funding. There is no planned use of reserves to balance the budget in future years.

Contingency

- 6.5 The contingency budget helps manage unforeseen pressures in-year. For 2023/24, with uncertainty around social care costs and economic conditions, the Council increased the contingency to £13.0m (from £9.2m). Use of contingency will be subject to approval by the Director of Finance and Support Services and the Cabinet Member for Finance and will be reported in year to Cabinet through the PRR. The level of contingency from 2024/25 will remain under review but is likely to remain at a similar level. An update will be included in the draft budget proposals published in the Autumn.

Reserves Strategy

- 6.6 Reserves are not used for balancing the budget but are for one off investment or spend and to ensure there is provision to meet known future commitments or liabilities. In current circumstances it is critical that the Council continues to maintain an appropriate level of both earmarked and general reserves, recognising they can only be used once.
- 6.7 The MTFs and financial plans are key to ensuring reserves are appropriate. Specific reserves can support the delivery of services and some will need to be replenished to maintain financial resilience. The one-off nature of reserves and their purpose show the importance of revenue budgets being sustainable rather than depending upon reserves.

6.8 Full details of the County Council’s reserves can be found in Appendix 5 of the [budget book](#) and final balances as at March 2023 in the quarter 4 [Performance and Resources Report](#). Reserves are categorised as follows:

- Contractual Commitments – to provide financing of long-term financial arrangements, e.g., PFI schemes.
- Risk and Uncertainties Based Reserves – to help manage:
 - unforeseen in-year expenditure e.g., increased social care demand,
 - fluctuations in income e.g., surpluses/deficits on collection of council tax and business rates, interest rate changes.
- Service Specific Earmarked reserves – for a particular purpose and for managing risks and uncertainties relating to a specific service
- Government Grants – from ringfenced Government grant received but not fully spent.

Table 2 – Summary of Reserves 2023 to 2028 (excluding Capital Reserves and School Balances)

Reserves (£m)	Balance 31 March 2023	Opening Balance 1 April 2023	Forecast Balance 31 March 2024	Forecast Balance 31 March 2025	Forecast Balance 31 March 2028
Earmarked revenue reserves					
Contractual Commitments	56.3	53.5	53.9	49.1	38.5
Risk and uncertainties	87.6	72.7	67.8	67.4	65.1
Service Specific	53.8	55.0	42.6	29.2	17.9
Government grants	6.6	6.6	2.9	2.9	0
Total revenue usable reserves	204.4	187.8	167.2	148.7	121.5

6.9 Over the five year period reserve levels are forecasted to decrease from £204m to £121m as the reserves held for specific services and contractual commitments are utilised.

General Fund Reserve (Working Balance)

6.10 The general fund reserve is also held to mitigate risks of unexpected events or emergencies. The level is based on an assessment of known financial risks and the impacts they would have on the Council’s overall spending. It is set at £36.3m and is approximately 5% of the net revenue budget. It is forecast to remain at this level for the period of the MTFS in line with the agreed strategy at February 2023.

7. Addressing the Budget Gap

7.1 The budget gap for the medium term, considering changes in funding, spending and risks is projected to be £180m or £100m if Council Tax increases are at assumed referendum levels for the five years. Savings required will not be achieved through general efficiencies but will require a more fundamental review of services. Every service must provide good value for money, be cost effective and contribute to Council Plan priorities.

- 7.2 Further details on the specific proposals for balancing the budget for 2024/25 will be published in the Autumn but the County Council must take a longer term approach.
- 7.3 Delivering savings of this scale will require change and will focus on the following areas:
- Improving commissioning, procurement and contract management processes
 - Ensuring staff have the right support, skills and tools to deliver effective services
 - Maximising the use of digital technology and solutions to improve how we work and how residents, businesses and visitors access services
 - Optimising the use of the County Council's operational estate
 - Exploring new options for income generation.

8. Capital Strategy and Programme

- 8.1 The Capital Strategy drives the Council's capital investment ambitions to support sustainable long-term delivery of services and is part of the suite of financial management approaches that inform the MTFS. Work continues to strengthen the link between revenue and capital.
- 8.2 The Capital Strategy is informed by the Council's Asset Management Strategy which collates service asset needs and integrates them with corporate asset management objectives. These demand-led objectives help shape decisions about the priorities for the Capital Programme.
- 8.3 The Capital Strategy combines demand for investment with the available funding and the capacity and resources to deliver the programme. It also covers the capital governance process, which is subject to an ongoing review to ensure it remains fit for purpose and provides clear and reliable forward planning of capital investment.
- 8.4 The 2023/24 – 2027/28 Capital Programme, approved in February 2023, was £747.2m with highways and transport, learning and skills and the operational estate the main areas of investment. The full [Capital Strategy and Capital Programme](#) is approved as part of budget setting and included with the February Budget papers in **Annex 2(a)**.
- 8.5 The Council's ability to prudentially borrow to fund future capital schemes is determined by affordability. Information on revenue implications of prudential borrowing are published in the annual Treasury Management Strategy ([February Budget papers Annex 2\(b\)](#)).
- 8.6 The annual review of the capital programme is underway and includes a review of the delivery plans and profiling of schemes as well as reviewing any new requirements or any schemes which may no longer be a priority. The pre-pipeline projects are also under review and although not part of the published capital programme will show future forecasted expenditure at a summary level as part of progressing the development of the Capital Strategy into a long term plan. The proposals for pre-pipeline will be at early draft or Strategic Outline Case.

- 8.7 Proposals for the 2024/25 capital programme will be considered over the summer months and reviewed against estimated resources available. Initial recommendations for prioritisation of existing projects and new capital investment proposals will be presented to Cabinet in the Autumn ahead of the final Capital Programme being presented for approval in February 2024.

9. Schools Budgets

- 9.1 The Dedicated Schools Grant (DSG) is a specific ring-fenced grant received by local authorities to fund schools and central expenditure supporting the schools' budget. The grant includes a High Needs Block to fund pupils with special educational needs and an Early Years Block for two, three and four year olds in nursery and associated provision.
- 9.2 Funding pressures affecting the High Needs Block within the DSG have continued to grow as a result of increased number of children with education and health care plans (EHCPs) and the DSG deficit is forecast to reach £63.7m by the end of 2023/24. The Government has confirmed that the statutory override for this deficit to remain off balance sheet will continue for a further three years and during this time the County Council will continue to lobby and engage in discussions with Government on the need to find a longer term solution after 2026/27. Financial Plans assume that this deficit will continue to be ringfenced to the Dedicated Schools Grant. Further details on Schools' Budgets are included in **Annex 6**.

10. Engagement and Budget Timetable

- 10.1 The MTFs and Capital Programme provide the financial framework for delivering the Council Plan and provides assurance that spending plans are aligned to the Council's priorities. Formal engagement on the draft budget proposals and Capital Programme, as detailed in Table 3 below, will be undertaken during the Autumn.

Table 3 – Budget Timetable

Date	Who	What
19 July	Member Day	Update on Council Plan and MTFS
25 July	Public Cabinet	Council Plan and MTFS (this report)
17 Oct	Public Cabinet	Update on Capital Programme, Budget gap/savings including discussion on priorities and Council Plan
18 Oct	Member Day	Council Plan and Budget Proposals (Revenue and Capital)
November	Scrutiny Committees	Council Plan and Budget Proposals (Revenue and Capital)
November	Stakeholder Engagement	Council Plan and Budget (Revenue and Capital) stakeholder consultation
<i>December</i>	<i>DLHUC</i>	<i>Provisional Finance Settlement</i>
19 Jan	Member Day	Council Plan and Budget Proposals (Revenue and Capital)
24 Jan	PFSC	Review draft Council Plan and Budget Proposals (Revenue and Capital). Comments to feed into 30 January Cabinet meeting.
30 Jan	Public Cabinet	Council Plan and Budget Papers. Verbal feedback from all Scrutiny Committee Chairmen.
16 Feb	County Council	To approve Council Plan and Budget 2024/25 and the updated MTFS (2024/25 to 28/29)