COUNTY COUNCIL

19 FEBRUARY 2016

MEDIUM TERM FINANCIAL STRATEGY 2016/17 TO 2019/20 INCLUDING REVENUE BUDGET & CAPITAL PROGRAMME 2016/17 to 2017/18

REPORT BY EXECUTIVE DIRECTOR CORPORATE RESOURCES AND SERVICES

EXECUTIVE SUMMARY

The Medium Term Financial Strategy (MTFS) for the period 2016/17 to 2019/20 is designed to support the delivery of *Future West Sussex Plan* (FWSP) objectives of giving children the best start in life, championing the economy and being independent for longer in later life, whilst being an effective and efficient council. The MTFS is set against the background of a continuing reduction in public spending, expected to last for the majority of the life of the current Parliament, alongside increasing pressures on council services especially with regard to Children's and Adults services.

The County Council has dealt effectively with previous Government funding reductions, managing to make progress on its ambitions whilst living within its means. During the Autumn of 2015 the MTFS had been revised and, based on the information available at that time, allowed the Council to address its priorities within the anticipated funding restrictions. However, the Autumn Statement (25 November) and the Local Government Finance Settlement (17 December) announced several unexpected changes that have required the MTFS to be revised at short notice.

Particularly, Central Government has recognised the major strain upon local government finances caused by an ageing demographic and is encouraging a 2% council tax increase specifically to support adult social care services. This is over and above the existing "referendum limit" of 2% permitted for general council tax increases, thereby permitting a maximum council tax increase of 4%.

Conversely, the Settlement produced a much sharper reduction in Government funding for 2016/17 and 2017/18 than could have been predicted from the information available prior to 17 December 2015. To the detriment of West Sussex County Council and many other shire counties, Central Government has both revised how it allocates funding and front loaded its funding cuts. Given the lateness of the Settlement and its unexpected contents, it has been necessary to find some short term measures to balance the budget (for example, use of reserves) to allow time to address the challenges in a more sustainable way.

The County Council continues to be committed to focusing on the areas which will make the biggest difference to the lives of the residents and the future prosperity of the county. However, to have a realistic chance of achieving its ambitious objectives in the context of this public finance settlement, a maximum council tax rise (below the referendum limit) is now recommended after a sustained period of 5 years of no council tax increases.

Net revenue expenditure of £528.9m is proposed for 2016/17, a decrease of £8.7m (1.6%) compared to 2015/16 on a like for like basis. However, focusing only on service and other spending pressures such as pay/prices, costs arising from the National Living Wage and the rising numbers of older people in Care and

Children Looked After, the budget gap identified by the MTFS would have been £44.5m. This would have meant a net budget of £573.4m for unavoidable spending, implying that compensating savings and other reductions of £44.5m are needed in 2016/17 to balance the budget.

Plans for managing the demand pressures upon services and funding reductions for both 2016/17 and 2017/18 have been developed. These total £42.4m, of which £18.7m of expenditure savings and income growth proposals have reduced the net 2016/17 budget with further proposals for £23.7m reductions for 2017/18. It should be noted that the detail of some plans are still being worked up and may change - further updates will be provided where appropriate. Savings and income generation options for 2018/19 and 2019/20 are still being developed.

The capital budget remains largely as presented to and agreed by the County Council at their meeting on 30 October 2015. Minor changes, mainly in terms of the timing of payments, have been made and are described in this report.

The County Council is asked to note that any increase or decrease in funding coming to light before the budget setting meeting are managed through the Budget Management reserve (paragraph 6.5) and details will be provided as needed to show this for any late announcements or funding information coming to light.

Please note that for public health and a number other grants announcements are still awaited. These figures and some other information and figures in the report will be marked x or "tbc" and will be supplied following further work or new announcements.

RECOMMENDED

That, taking account of Council priorities, finance strategy, the Local Government Finance Settlement and the results of internal and external consultation, the following items be approved:

1 net revenue expenditure of £528.9m (paragraph 3.1 and Table 1)
2 An increase in council tax of 3.95% for 2016/17. This is split between 2% specifically for Adults Social Care and 1.95% for the 'core' council tax rise. This is within the Government prescribed assessment of the 'relevant council tax increase' and does not trigger a referendum.
3 service commitments and net additional funding of £10.0m (paragraph 3.4 and columns 3 and 7 of Table 2)
4 Expenditure savings and income generation of £18.7m (paragraph 4.1 and Table 3)
5 capital expenditure in 2016/17 of £134.9m, excluding the income generating initiatives and £23.4m relating to the income generating initiatives (paragraph 7.1 and Table 6)
6 proposed methods of financing capital expenditure between 2016/17 and 2020/21 (paragraph 7.8)
7 a maximum operational borrowing limit of £xm for outstanding debt and an authorised borrowing limit of £xm, including £40m of borrowing for temporary cash flow purposes (paragraphs X and X, and Table 7)
8 a limit of 100% on borrowing at fixed rates and 25% on borrowing at variable rates (paragraph 7.x and Table x)

9 the Executive Director Corporate Resources and Services' assessment of the robustness of estimates and the adequacy of reserves (paragraphs 8.1 to 8.12)

10 The following amounts be approved for the financial year 2016/17 in accordance with Section 42A of the Local Government Finance Act 1992:

a. That the budget requirement to meet net expenditure of the County Council for the financial year 2016/17 is £528.902m, and the council tax requirement for 2016/17 is £382.083m.

b. That the following sums be payable for the year into the County Council's revenue fund:

Settlement Funding Assessment	£125.614m
Business Rates Local Growth	£1.809m
Business Rate Cap Grant	£2.309m
Education Services Grant (ESG)	£7.438m
New Homes Bonus Grant	£5.362m
Local Services Support Grant	£0.521m
Net surplus from District Council Collection Funds	£3.766m

c. The council tax base for the year 2016/17 is the aggregate amount calculated by the billing authorities to which the County Council issues precepts totalling 316,322.75 Band D equivalents.

d. The amount of council tax being the budget requirement at 10(a) above, less the amounts receivable in 10(b) above, all divided by the council tax base at 10(c) above, shall be £1,207.89 to the nearest penny.

e. The amount of council tax payable for dwellings listed in a particular valuation band, calculated in accordance with the proportion set out in Section 5(1) of the Act, shall be as follows:

Valuation Band	Amount	Valuation Band	Amount
A	£805.26	E	£1,476.31
B	£939.47	F	£1,744.73
C	£1,073.68	G	£2,013.15
D	£1,207.89	H	£2,415.78

f. That the district councils be requested to make payments of sums due under precepts calculated in proportion to their council tax Band D equivalents as follows:

Adur District Council	£24,786,627.53
Arun District Council	£69,819,665.67
Chichester District Council	£61,889,747.03
Crawley Borough Council	£40,305,477.47
Horsham District Council	£70,308,740.33
Mid Sussex District Council	£69,845,695.70
Worthing Borough Council	£45,127,132.77

g. That the district councils be required to make payments of precept by equal instalments of the above sums due on or before:

14 April 2016	19 May 2016	23 June 2016
28 July 2016	1 September 2016	6 October 2016
10 November 2016	8 December 2016	12 January 2017

16 February 2017

h. Additionally, that payments be made by the district councils in respect of the estimated surplus on their collection funds on 31 March 2016:

	Council Tax	Business Rates
Adur District Council	£33,819.65	£95,160.07
Arun District Council	£726,000.00	
Chichester District Council	£393,799.00	
Crawley Borough Council	£441,319.42	£615,242.00
Horsham District Council	£1,014,329.00	
Mid Sussex District Council	£754,134.63	
Worthing Borough Council	£260,752.81	

And payments be made to the district councils in respect of the estimated deficits on their collection funds on 31 March 2016:

	Council Tax	Business Rates
Arun District Council		£361,000.00
Chichester District Council		£38,272.00
Horsham District Council		£125,000.00
Worthing Borough Council		£43,697.06

11 the context of the Equalities Act 2010 in making budget proposals (paragraphs 10.1 and 10.2)

12 the County Council is also asked to note that the savings proposals for 2017/18 and a one-off contribution from reserves of £1.4m (on current estimates) would enable the budget to be balanced in that year with a council tax increase of 4%. This is based on current information around funding and budget pressures – clearly more work will be undertaken over the coming 12 months to prepare additional proposals, in particular to maximise efficiency savings and avoid the use of reserves (see paragraph 6.7). Details of the budget for 2017/18 will be presented to the Council for approval in February 2017.

CONTENTS

Future West Sussex Plan 2016/2020

1.1 The Future West Sussex Plan was agreed and published in February 2015, providing direction and focus across the years 2015 to 2019. It is being refreshed for the period to 2020 and still provides an overarching view on the council's ambitions, how things may develop in the future, and how we will engage with and support residents. It then outlines the councils' three key priorities, how these will be delivered, and how success will be measured.

1.2 Over the course of the last year, considerable progress has been made on elements of the plan. Circumstances have also changed, in terms of the Comprehensive Spending Review, new legislation, and closer working with partners. For that reason, the plan has been refreshed to reflect past achievements and new commitments. However, the fundamental priorities and aspirations of the plan remain unchanged.

1.3 Through the Future West Sussex Plan, we will continue to concentrate our efforts on the things which will make the biggest difference to the lives of residents and have the most positive impact on the prosperity of the county. The proposed budget outlines how these and other, statutory, commitments will be funded.

Budget Report and Background

2.1 During the summer and autumn of 2015, the Finance Team, Corporate Leadership Team and the Cabinet have been considering the MTFS for 2016/17 to 2019/20. In the absence of any detailed Spending Review information beyond 2015, we have had to work from assumptions derived from budget and other statements about the rate of attrition of Government funding for local government. These assumptions were tested against other national models and were found to be consistent.

2.2 As a result of these assumptions, councillors (at the Performance and Finance Select Committee on 3 December 2015) had previously been advised of a £140m funding gap over the forthcoming four years, with one-third driven by funding loss and two-thirds by spending pressures. The Chancellor's Autumn Statement on 25 November appeared to present more optimistic finance information, based upon Office of Budget Responsibility (OBR) estimates of economic growth. This led the Finance Team to believe that our previous assumptions (leading to the £140m funding gap) were a little too pessimistic. However, what was not clear was how the Department for Communities and Local Government (CLG) would alter the distribution formula, which in the event actually made our previous assumptions optimistic and not pessimistic.

2.3 The provisional Local Government Finance Settlement was announced on 17 December 2015, the final Parliamentary date before Christmas. This has greatly reduced the time available for validation and checking before preparing the 2016/17 budget. The final local government finance settlement is not expected until early February 2016, after the budget report has been prepared and the formal report despatched to County Council. Any changes resulting from information coming to light after the budget report has been issued will therefore be tabled at the budget meeting. While such changes are unusual, the late, unexpected and curious amendments to the Settlement methodology may give rise to alterations between provisional and final Settlements.

2.4 Furthermore, in a number of cases the information provided by the West Sussex district and borough authorities in relation to both council tax and business rates remains provisional. However, it is proposed that unless there is an exceptionally large change against expected sums when the final figures are provided to the County, any adverse variation will be underwritten from the Budget Management Reserve (estimated to stand a £12.6m at 31 March 2016) and positive variations will be considered via the monthly Total Performance Monitor to underpin the savings programme.

2.5 A key issue in the budget and service planning for 2016/17 and future years has been the lack of key data from Government on future funding. This was provided immediately prior to the Christmas break – extremely late in the process. Although the Comprehensive Spending Review was announced in late November, it is the local government finance settlement and the individual allocations to local authorities which is the key to understanding the Council's funding and preparing its budget.

2.6 As indicated above, coupled with the late announcement, Government has fundamentally amended how it allocates funding to local authorities – to the significant detriment of West Sussex County Council. This change impacts county authorities as a sector and has been implemented without any prior notice, consultation or the damping that usually occurs when large falls in income arise from such a change. The national average reduction in Revenue Support Grant (RSG) is 27.6% next year, whilst Shire Counties as a whole have suffered a 34.1% loss. The equivalent figure for West Sussex is a loss of 37.8%. This change has produced a loss of **£10.5m** in Revenue Support Grant (RSG) funding for 2016/17 over and above our prudent planning expectations for funding reductions. The original assumption made in the Autumn was for a fall of around £21.8m in RSG funding, but the actual loss is around £32.3m. Much of this higher than expected loss of funding is attributable to a new method Government has introduced to allocate grant funding.

2.7 It is worth spending a few words explaining the change that the Government has made. During the last 3 years Government has applied a flat rate reduction to RSG, but has, this time, taken into account each authority's ability to raise council tax when assessing grant allocations. This means in practice that authorities with better than average tax bases (i.e. a greater proportion of properties in the higher tax bands such as West Sussex) suffer a higher funding reduction than those with a comparatively low tax base. Many shire County Councils are concerned as they are particularly adversely affected by this change. It was a key part of the Government's four-block funding model – which in 2013/14 formed the starting point for funding allocations under the Business Rate Retention Scheme - that resources (i.e. council tax raising ability) are already taken into account. Hence, introducing an extra adjustment that builds in another assessment of each council's different ability to raise tax revenue appears to be 'double counting'. Importantly, this assessment also ignores the need to spend – it moves resources away from many authorities with social care duties where Government states it aims to provide extra resources for this responsibility. These concerns will be highlighted in the County's reply to the provisional settlement.

2.8 After several years of a policy of using freeze grant to encourage no increase in council tax, the Government projections of future funding now assume future rises in council tax. Government has effectively assumed that councils will use their ability to increase the council tax by at least the 2% for adult social care in calculating the so-called "core spending power". In this way it can be presented by the Government that the core spending power has been maintained while shifting more of the burden from central to local funding.

2.9 The Local Government Association points out "taking council tax into account….is a significant change in central government policy". Government's published figures assume a council tax rise of 3.75% on average in each of the next four years to meet the pressures arising from the National Living Wage (NLW), the on-going pressure from social care and the increasing demand from an ageing population.

2.10 The funding allocations for 2016/17 for local authorities do not match the rhetoric of the stated aim to prioritise social care. Though there is an indication of extra funding being available by 2018/19, many social care authorities including West Sussex are impacted worse than average under this settlement, which has front loaded the funding cuts without any damping for any of those adversely affected.

2.11 Most if not all authorities have been surprised by the change in method for the allocation of Government funding and the impact of it, and therefore urgently need to develop new plans to tackle the resultant funding shortfall. The County Council's previous prudent planning and good financial management means that it is better placed to meet this unexpected challenge than most local authorities. The Council has the benefit of £15m of early and sustainable savings achieved from efficiency programmes delivered in previous years. Rather than a need to rapidly identify new savings to cover the worse than expected funding position, which would inevitably be focused on the expedient of cutting services, a part of this £15m can be applied to help balance the budget in 2016/17 and enable more sustainable savings proposals to be developed for future years.

2.12 Prudent stewardship of public money has also enabled a Budget Management Reserve (formerly the Volatility Reserve) to be created with a forecast balance of £19.1m in March 2017. This will be used to underpin the risks associated with delivering estimated 2016/17 net savings/income generation of £18.7m and also support the more ambitious funding within the budget derived from increasing the growth assumptions of business rates and council tax bases.

Budget Strategy

2.13 The proposed budget continues to support the objectives of the *Future West Sussex Plan* and is set against the background of continuing austerity in public finances and means the County Council must continue to plan for much reduced resources. The Spending Review 2015, covering the period 2016/17 to 2019/20, and the Autumn Statement were announced on 25 November 2015. The Government had already outlined its priorities for future public spending in the Summer Budget 2015, including its commitments to protect certain areas of public expenditure, including Health, Schools, International Development and Defence. Local Government funding does not fall into any of the categories explicitly protected in the Spending Review and in fact, the

headline cut in the sum allocated to local authorities was a 53% reduction by 2019/20.

2.14 The Spending Review seemed to suggest a slightly improved trajectory of funding reductions than expected, but this optimism proved to be misplaced under the Provisional Settlement as outlined below.

2.15 Measures to balance portfolio budgets, while maintaining focus on the FWSP priorities and principles, for both 2016/17 and 2017/18 have been developed and the list of these by portfolio is given in Table 3. As far as possible, the plans to balance the budget have been put together on the basis of maximising efficiency, finding new ways of service provision and engaging partners in collaboration. If those plans are bettered or delivered earlier, the measures needed in 2018/19 and 2019/20 to balance the budget may be scaled back appropriately, while taking account of the national picture.

2.16 The council tax in West Sussex has been frozen at the same level since 2010/11, a period of six years with no increase for five consecutive budgets. The Spending Review has given local authorities like West Sussex an additional freedom to raise council tax by an extra 2% to fund the additional pressures associated with meeting their social care responsibilities. This sum must be evidenced and spent on Adult Social Care provision. In addition, the Referendum Limit for "core" council tax increases remains at 2%.

2.17 The increasing pressures the Council faces, in particular with Children Looked After and increasing numbers of older people needing social care, together with new burdens such as the national policy on the National Living Wage and the much harsher than anticipated Finance Settlement means that the consideration of a council tax increase is unavoidable.

2.18 This budget for West Sussex proposes an increase in council tax of just under 4%, of which 2% will be earmarked specifically to protect spending on Adult Social Care. The 2% for social care will raise around £7.3m, which will support a number of the investments listed in paragraph 3.4 below and help address the impact that the Government's introduction of the National Living Wage has had on social care costs. The total increase of 3.95 % at band D for a council tax payer represents an extra £45.90 a year (or 88 pence per week) and would represent the first increase since the budget agreed six years ago in February 2010. Since 1 April 2010, RPI has increased by 16.6% and the County has provided a sustained benefit to council tax payers of no increase in council tax over that period, despite severe cuts in central Government funding amounting to an estimated £76m (core funding, excluding specific grant reductions). Only 6 other Counties froze their council tax from a total of 26 over this same period.

2.19 In formulating the budget proposals, and in advance of receiving the Settlement, consideration was given to a core council tax increase of 1.5% in addition to the 2% for adult social care. However, noting that each 0.5% on council tax provides an additional and sustainable £1.8m in funding each year, in the context of the Settlement, a maximum council tax increase (below the Referendum Limit) is proposed. A rise of 3.95% in council tax rather than (say) 3.5% provides an extra £1.7m at an additional cost of 10 pence per week for the average band D council taxpayer (or around 44 pence a month). This provides, over the life of the four-year Medium Term Financial Strategy, around £6.8m more than the Council would otherwise have for use to provide

essential services. £1.7m extra can fund key services identified below such as:

- £0.5m in Child Disability Services to reflect continuing demographic pressure,
- Investment for child safety including additional resource for children at risk of sexual exploitation £0.2m,
- £0.2m to ensure sustainable funding exists for the continued delivery of a training framework for Retained Duty System Firefighters to ensure that all personnel are properly trained and supported to deal with incidents,
- £0.8m for staffing budgets under pressure in Children's Social Care due to the need to employ agency staff to meet the increased number and complex needs of Children Looked After.

2.20 In order to address the volatility and uncertainty now in the proposed budget, arising primarily from reductions in Government support exacerbated by the short term and late settlement announcements; the Council will continue to actively manage its reserves to ensure budgets are sustainable, so avoiding the need for unplanned in-year spending reductions.

Local Government Finance Settlement

Background

2.21 The provisional settlement was announced in Parliament on 17 December 2015, during the last afternoon of Parliament before the Christmas recess and again very late in the budget process. The position was compounded by the fact that unlike last year, there were no pre-announced indicative funding figures provided by Government to rely on.

2.22 Whilst it has always been clear that local government remains an 'unprotected service' and therefore subject to the continuing austerity with public finances, the scale of the further funding reductions on the way has not been evident, and has needed to be inferred from the Chancellor's budget and the Spending Review announcements. As in the last parliament, grants to councils are set to be cut substantially over the next 4 years.

2.23 With the provisional settlement now known, the funding picture is taking shape, though beyond 2016/17 there remains considerable uncertainty on issues such as how Government will reform the business rate system and on what new responsibilities will be handed over to local authorities. Although the provisional settlement contained a number of key announcements that will impact on the future funding and financial position of the County Council, at the time of drafting this report, not all the information needed to formulate the budget has yet been announced. In January 2016 we expect further funding announcements, which are likely to affect the budget, especially on specific grants.

2.24 This is the fourth settlement under the new funding system of business rate retention scheme (BRRS) introduced by Government to give authorities an incentive to grow local business rates by allowing them to keep a share of that growth.

Key Announcements Nationally

2.25 The key announcements contained within the provisional settlement were:

- A national average reduction of 27.6% in Revenue Support Grant (RSG).

- An overall reduction of 12.5% in the national total for the Settlement Funding Assessment. This includes not only RSG but Government's assessment of the change in business rates funding at national level.

- No freeze grant for council tax in 2016/17. Most fundamentally, the settlement signalled a shift away from offering a council tax freeze grant to encourage no increase in council tax, to encouraging the use of council tax rises to generate additional funding by local authorities. This has been done by taking each authority's respective ability to generate its own revenue into account when allocating core Government funding.

- The freeze grant for 2015/16 (£3.9m) has been included in RSG for 2016/17 compared with being a specific grant in the current year. As Government phases out all of the County's RSG by 2019/20, the freeze grant funding for 2015/16 – and for earlier years – is effectively withdrawn alongside the rest of RSG.

- Confirmation of the 2% referendum limit on council tax increase, i.e. increases at 2% or more requiring a local referendum.

- However, there is extra flexibility for social care authorities, to levy a 2% premium on the council tax to finance additional spending on adult social care provision. This was as announced within the Spending Review. The statutory finance officers (S151 officers) of councils have been asked by the Government to indicate if their councils intend to exercise this option by 15 January 2016. S151 officers are challenging this requirement, pointing out that it can only be the council of each authority that declares this intent. There is also guidance on how use of this premium is reported to council tax payers.

- There is a 'guaranteed' four year settlement for those authorities that want them. This is welcomed, being something the County has long sought and lobbied for, and will be very helpful for future service and financial planning. The Minister states this was an offer "to every council which desires one and can demonstrate efficiency savings – for next year and for every year of this Parliament". There is as yet no detail around this requirement, nor is it clear what the advantage would be. The provisional settlement provided core funding figures for up to 2019/20 that "barring exceptional circumstances and subject to the normal statutory consultation process….Government expects these to be the amounts presented to Parliament each year".

- Authorities will be allowed to spend 100% of capital receipts from asset sales to fund the cost of efficiency generating reforms.

- A consultation on the New Homes Bonus has been published setting out proposals to achieve savings of £800m by 2019/20, which will be used to help finance extra funds for the Better Care Fund.

Settlement impact for West Sussex

2.26 The illustration below shows how the settlement compares to the previous year for West Sussex.

ILLUSTRATION 1: Settlement year-on-year change

	2015/16 £m	2016/17 £m	Change £m	Change %
West Sussex - Settlement Funding Assessment	**157.3**	**125.6**	**-31.7**	**-20.2%**
ENGLAND– Total Settlement Funding Assessment	**21,249.9**	**18,601.5**	**-2,648.4**	**-12.5%**

2.27 The settlement brought a worse deal than the national average for West Sussex County Council and a significantly worse settlement than expected. In recent years, DCLG effectively cut every council's grant by the same percentage. But starting in 2016/17 this pattern is set to change because of a change in the way DCLG allocates grants nationally. The allocation of core funding now explicitly takes into account the extent to which councils can raise council tax locally. Government has sought to achieve a cut which looks more 'flat rate' when taking into account the extra funding that can be raised locally by councils. As West Sussex has a better than average ability to raise council tax (due to a better than average tax base) Government therefore seeks to remove more funding from us, assuming the difference can be made good by council tax rises. This is a **fundamental** change in approach and policy. Government has recast the method for allocating grant funding, without any notice or consultation in a way that is highly detrimental to the County Council and other councils. Government has requested replies to the provisional settlement by 15 January and this issue will be taken up within that response, both individually and collectively via the Society of County Treasurers.

2.28 We estimate the additional loss of RSG in 2016/17 compared with what would have occurred in the previous system as £8.7m in 2016/17 alone.

2.29 The indicative figures from Government for subsequent years are shown below:

ILLUSTRATION 2: Settlement year-on-year change

Year	WEST SUSSEX		NATIONAL	
	Cash reduction £m	%	Cash reduction £m	%
2017/18	-24.0	-19.1%	-1,978.8	-10.6%
2018/19	-13.4	-13.2%	-1,085.6	-6.5%
2019/20	-9.7	-11.0%	-906.3	-5.8%

2.30 The County fares significantly worse than the national average for the reduction in core funding. The County Council has Revenue Support Grant remaining by 2018/19 at £12.1m (compared with £76.4m in 2015/16) and none thereafter. As can be seen above, the profile of reductions places a

much greater emphasis on funding cuts in the first two years than the last two years of the Settlement period.

2.31 Illustration 3 shows the composition of our allocation from Settlement for 2016/17 for core funding. It is made up of Revenue Support Grant (RSG) and business rates. The business rate component itself is further sub divided into two elements (i) a "top-up" part which Government links to the rate of increase in business rates and (ii) a local share element – under which the County Council receives 10% of the proceeds from local business rates. Whilst Government estimates the local share element, it is ultimately dependent on the sums our districts and boroughs expect to collect.

ILLUSTRATION 3: Settlement Funding Composition 2016/17

	SETTLEMENT 2016/17 £m	**Comment**
WEST SUSSEX:		
1.Revenue Support Grant	**53.1**	This is the sum left following the funding cut by the Treasury
2.Business Rates: (i)Top-up funding (ii)Local share **Business Rate Funding**	 40.7 31.8 **72.5**	 (i) **Top up** – This comes direct from Government and increases in line with RPI (ii) This is the 10% allocation to the County Council based on the local share of proceeds. The **local share** of business rates is NOT determined by Settlement but estimates from Districts/Boroughs
Settlement Funding Assessment (1+2)	**125.6**	NB The final business rates funding depends on local estimates

2.32 West Sussex districts and boroughs have not yet confirmed their final business rate estimates for 2016/17, nor the collection fund surpluses or deficits for council tax and business rates. However, the County's budget has applied indicative and assumed figures in order to prepare the draft budget. This includes an overall Collection Fund surplus from 2015/16 of £3.8m, local growth in business rates of 2% above RPI (worth around £1.8m more than Government's estimate in the settlement) and a buoyant council tax base with 1.9% growth. These assumptions will be underwritten by the Budget Management Reserve for 2016/17 if the final figures are less than those assumed. Applying this reserve will only be reconsidered if the final figures notified from districts/boroughs are materially lower than the assumed funding, which is considered unlikely.

2.33 It is also worth highlighting the following:

- New Homes Bonus – An amount of £5.4m has been allocated to the County Council for 2016/17. This is better than expectations by £0.7m. This is partly because of the high level of local house building. Also Government estimates an amount it 'top slices' nationally from RSG which it uses to fund the NHB and part of the gain is due to an over-estimate of this top slice and the unrequired sum being returned by Government.

- Care Act Grant – An amount of £4.8m paid in specific grant for the Care Act in 2015/16 has been included within the Revenue Support Grant from 2016/17 i.e. Government has switched this funding from one funding stream to another. While we are generally not in favour of specific and ring fenced grants, the move to RSG means that the amount is subject to reductions as described above.

- Revenue Support Grant (RSG) – RSG in 2015/16, when adjusted for funding changes made by the provisional settlement, is £85.4m. The County loses all of this RSG by 2019/20 under the indicative four year figures provided. This isn't the case for all authorities, as £2.3bn remains nationally in the system by that year for RSG with Norfolk (a county council of similar size to West Sussex) retaining £38.8m of RSG. The above average reductions in our RSG year-on-year account for why West Sussex reaches zero RSG funding sooner.

  In addition to receiving no RSG in 2019/20 the County also loses £2.6m of its business rate top-up that year. In order to achieve the reductions in funding Government wants to apply, it is effectively removing an element of business rates funding from the County. Put simply, not only are we losing all RSG but more besides. This is done in order to redirect resources to other parts of the country by Government.

- National Living Wage (NLW) - there is no extra funding for the NLW within the settlement. This is estimated to be a new cost pressure amounting to £9m in 2016/17 (£30m over the MTFS period) for West Sussex. The bulk of the pressure is within adults (£6.3m).

2.34 In previous years the Chancellor has limited the increase in business rates by an amount less than RPI. As local government is now part funded by local business rates this approach reduced the sum available to local authorities. Government has made good this difference by providing funds to compensate. The Settlement confirms this compensation will continue for these past decisions with £2.3m provided in 2016/17.

Provisional Settlement and 'Core Spending Power'

2.35 Government has introduced a new concept in this settlement; that of "core spending power". This comprises funding from:

- The Settlement Funding Assessment (SFA)
- Improved Better Care Fund
- New Homes Bonus
- The Council Tax Requirement i.e. funding via council tax.

2.36 Government has assumed an allowance for a council tax increase in line with the CPI (at 1.75% on average) as well as application of the 2% council tax increase for social care in each of the next four years. Government has tried to "address the particular pressure experienced by councils which provide adult social care and children's services", the DCLG have also allocated 2016-17 RSG in such a way that ensures the same reduction in Core Funding for each service tier (upper, lower, fire and GLA other services). As is often the case, when the Government includes a measure of Council Tax in its grant calculation, the result is that shire areas are adversely affected.

2.37 In other words Government has tried to skew the grant reductions, so areas with a higher tax base and more capacity to raise their own revenue take more of the hit from the grant reductions. The only recourse to avoid a worse than average funding outcome is to increase the local council tax charged.

Provisional Settlement and Council Tax

2.38 The settlement confirmed the ability of authorities with social care responsibilities the additional freedom to levy a 2% council tax charge provided the additional sum raised is directed to social care. For West Sussex this ability can raise £7.3m in funding in 2016/17.

2.39 No freeze grant is on offer for 2016/17 from Government and the way grant is now allocated demonstrates a fundamental change in policy by Government towards council tax, with Government assuming additional cuts in grant can be made good via local council tax resources. Between 2011/12 and 2015/16 grants were offered to authorities who froze their council tax, and the County took advantage of this grant in each of these years with the resulting grant being rolled into the RSG subsequently (apart from 2012/13 which was only a one off freeze grant). With RSG diminishing to zero by 2019/20, this freeze grant funding for previous freezes in council tax is effectively withdrawn.

The 2016/17 Tax Base

2.40 The initial information from the West Sussex districts and boroughs suggests the council tax base has risen for 2016/17 by 1.9% to 316,322.75 (Band D equivalents). This compares with an increase of 2% in the current year but it continues to be a very strong increase compared with the trend from previous years, when an assumption of 0.6% increase was applied.

Business Rate Pooling

2.41 The County Council, along with Adur/Worthing, Arun and Chichester District/Borough Councils formed a business rate pool in 2015/16. The pooling scheme allows authorities to pool their business rate proceeds, and ensures that they are treated as if they were a single entity for the purposes of calculating tariffs, top-ups, levies and safety net payments. This approach has several potential advantages not least reducing the levy paid to Government and ensuring more funds from the proceeds of business rates stays within the area. The estimated gain from pooling in 2015/16 has been £1.7m. County Joint Leaders will agree how this gain will be used.

2.42 Finance officers from the pooled authorities have determined there should be an overall gain from pooling, based on forecast business rate proceeds in 2016/17, and on that basis the pool will continue for another year.

Revenue Spending Proposals 2016/17

3.1 Net revenue expenditure of £528.902m is proposed for 2016/17, a like with like decrease of £8.743m (1.6%) compared to 2015/16, comprising:

	£m	£m	£m	%
Approved net revenue expenditure 2015/16			528.886	
Net changes in funding from central government not affecting spending power			8.759	
Comparable base 2015/16			537.645	
Allowance for price rises		8.735		1.6
Commitments and service changes		1.232		0.3
Balancing the budget - spending reduction	-15.926			
Balancing the budget - additional income	-2.784			
		-18.710		-3.5
Change in central government funding arrangements	8.759			
less Changes not affecting spending power	-8.759			
		0.000		0.0
Net decrease			-8.743	-1.6
Net revenue expenditure 2016/17			528.902	

Allowance for price rises

3.2 The total addition included for pay and price increases is £8.7m, as shown in column 2 of Table 2 of the Budget Pack. The general approach to allowing for price rises has been as follows:

- A 1.0% increase on the NJC pay budgets, in line with government expectations.
- A range of inflationary increases have been included for high value contracts, dependent on the specific index included within the contract.
- A 0% allocation on "low priority" items. This will save £0.4m per annum, based on current estimates.
- There remains a middle category of inflation which previously was awarded inflation in line with the September CPI. For September 2015, this figure was negative (-0.1%), therefore, inflation has been awarded in line with September RPI (0.8%) to this category of spend.
- An assumed 0.8% on areas of discretion over income in line with the September RPI and the approved policy on fees and charges.
- An additional 1% on pay budgets to provide for increased employer contributions to the Local Government Pension Scheme, which are rising from 18.4% to 19.4% from 1 April 2016. This commitment accounts for £1.2m of the total £8.7m allowance for pay and prices.
- An additional £2.7m to cover the increased cost to the council following the introduction of the single state pension from April 2016, resulting in the loss of the 3.4% rebate on employer national insurance contributions which the council benefited from as an employer with contracted-out scheme.

3.3 Overall, other than the inflationary adjustments set out in 3.2 above, service budgets are cash-limited and therefore no resources are included centrally to adjust those cash-limits if actual inflation experienced in individual service

areas exceeds the allowance made. In this event, services will be required to manage within the proposed cash limited budget.

Commitments and Service Developments

3.4 Net commitments and service changes of £10.0m are summarised in columns 3 and 7 of Table 2 of the Budget Pack. This includes the following items:

- £28.3m has been included within the portfolio budgets, largely relating to:

  - Adult Social Care and Health (total budget: £179.6m)
    - Adult Social Care and Health (£5.3m) – to address budget pressures arising from growth in demand (see paragraph 3.9). This is in addition to the £5.0m included and retained in the 2015/16 budget for demographic pressures,
    - Shortfall on adults budget (£3.0m) – to provide permanent funding for the underlying shortfall forecast in the 2015/16 budget and which is being mitigated by one-off sources of money, and
    - Care Act duties (£2.5m) – this is a technical adjustment because Care Act funding is being transferred from specific grant to revenue support grant.

  - Children – Start of Life (total budget £84.9m)
    - Child Disability (£0.5m) – to address continuing demographic pressures within the Child Disability budget (see paragraph 3.14),
    - Children Looked After (£4.3m) - increase in the number of Children Looked After and the complexity of their needs,
    - Commissioning and contract monitoring and mentoring (£0.2m) – to ensure the contract management of these high value, complex placements is at the right level to enable value for money commissioning,
    - Turnover allowance (£0.8m) – to fund the extra costs of agency staff engaged in the Children Looked After Service. This is not expected to remain an ongoing cost,
    - Multi-agency safeguarding hub (£0.2m) – to strengthen child protection decision making at the 'front door', and
    - Investment in Social Work Academy (£0.3m) – which will help generate an improved supply of qualified social workers and reduce reliance in the longer term on more expensive agency resources. This is therefore an invest to save measure which will enable the extra costs indicated above for agency staff (£0.8m) to be saved by 2018/19.

  - Finance (total budget £18.2m)
    - Income from solar farm (-£0.4m) – The full year impact of the investment in the Tangmere Solar Farm, and
    - Closing Social Enterprise Fund (£0.4m) and Be the Business (£0.5m). The council will undertake a review of all grants across the authority to ensure their effective use.

- Highways (£38.7m)
    - Operation Watershed – in the light of flooding issues experienced in other parts of the country, £0.5m will be invested in this initiative.

- Leader(total budget £1.7m)
    - Economic growth proposals with revenue implications of £0.3m.

- Residents' Services (Total budget £99.2m)
    - Waste (£0.6m) – to cover the impact of falling revenue generated from the sale of waste recyclates, which has reduced due to falling market rates,
    - Waste (£0.3m) – to cover the increase in landfill tax (2.18%) which is above the RPI increase included,
    - Fire (£0.2m) – to ensure sustainable funding exists for the continued delivery of a training framework for Retained Duty System Firefighters to ensure that all personnel are properly trained and supported to deal with incidents, and
    - Fire (£0.1m) – to contribute towards work pressures associated with national operational guidance and collaborative working within the Fire Service.

- £9.0m has been included in 2016/17 for the National Living Wage (provisionally allocated across both the Adult Social Care and Health and Children – Start of Life portfolios).

- £0.2m has been included in 2016/17 (allocated across three portfolios) for additional resources for children at risk of sexual exploitation.

- In addition, within the non-portfolio budgets, there are changes totalling £18.3m, largely relating to:

    - £3.9m relating to the Council Tax freeze grant for 2015/16 which has now been consolidated into the Revenue Support Grant, reflecting a change in the central government funding arrangements,

    - £0.2m was included in the 2015/16 budget as a transfer to the volatility reserve following the late notification of funding streams from central government and late changes to funding information from the districts and boroughs. This has been removed in the 2016/17 budget,

    - £3.0m was included in the 2015/16 budget as a one-off contribution to create a reserve to guard against the risk of Care Act duties being underfunded in 2015/16. This funding was available through the early delivery of savings in previous years,

    - £12.0m was included in the 2015/16 budget as a one-off contribution to create a Capital Infrastructure reserve which would be available to support capital plans over the longer term, such as, the A27 work if it proceeds, thus avoiding the need to borrow and the associated long term costs. This funding was available through the early delivery of savings in previous years,

- £8.0m was included in the 2015/16 budget as a one-off contribution to the capital reserve to assist the forecast longer term shortfall on capital funding. This has been removed in the 2016/17 budget,

- £5.0m was included in the 2015/16 budget as a one-off contribution to support the progression of the economic priorities within the Strategic Economic Plan. This has been not been provided in the 2016/17 budget,

- £0.5m was included in the 2015/16 as a one-off contribution to create a Business Rate pool to support economic development work within West Sussex. This has not been provided in the 2016/17 budget,

- £0.5m was included in the 2015/16 budget for Be the Business. This has been not been provided in the 2016/17 budget,

- £3.1m of undelivered and unallocated thematic savings from 2015/16 have been managed within the budget for 2016/17,

- The remaining unallocated balance (£4.1m) of the £15m held in the budget from the early delivery of savings in previous years has been added to the Budget Management reserve, and

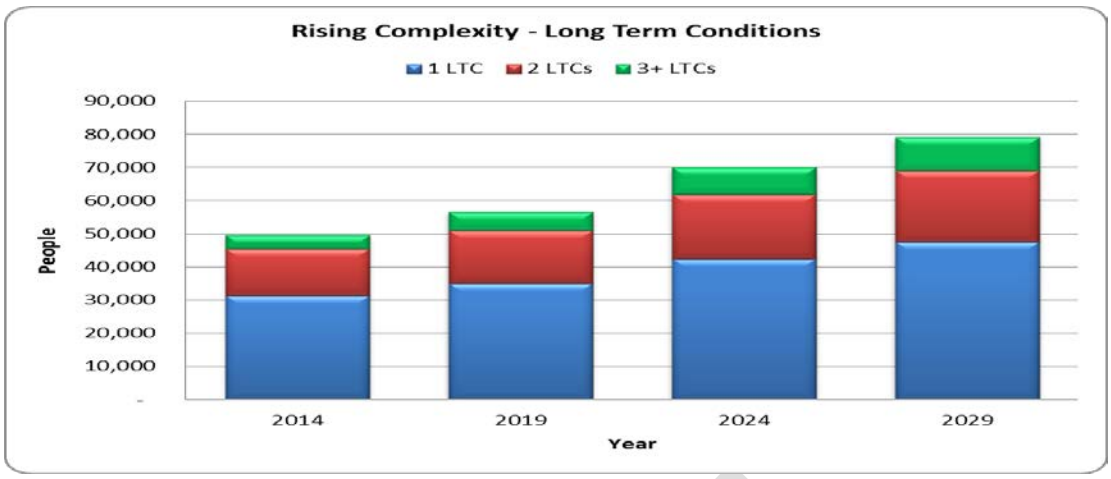
- There is also a decrease in the general contingency of £1.5m in 2016/17 which now stands at £3.2m.

Adult Social Care and Health

3.7 The Adult Social Care and Health budget for 2016/17 provides for net expenditure of £179.6m. Approximately 95% of this relates to the cost of funding the social care needs of residents who meet the national eligibility criteria that was introduced by the Care Act in April 2015. It has been prepared against a background of significant service changes, including:

- Population increase. The County Council is facing unprecedented growth in demand for adult social care. Some of this is due to population change, particularly in the age range between 75 to 84 and at 85+. Between those two groups, aggregate numbers are forecast to rise by 65% during the next twenty years. Currently around 13,000 people receive a service commissioned or provided by adult social care, of whom approximately 8,000 have eligible care needs. Based on population, it is likely that this figure will grow by around 1,000 during the period of the Medium Term Financial Strategy from 2016/17 to 2019/20.

- Rising complexity of needs. Increasing life expectancy means that more people are living with more complex conditions as the table below shows:



3.8 This factor has become the dominant cost driver within the portfolio and is translating into upwards pressures on unit costs across all care groups. The situation is being compounded by market factors, since the County Council is a minority buyer in the local market as demand from private customers is strong. The combination of these pressures is reflected in the fact that average weekly placement costs for older people's residential care have increased by nearly 12% during the last three years, while the average non-residential package is currently rising by 8% per annum.

- National Living Wage (NLW). The NLW will come into being on 1st April 2016 at a rate of £7.20 per hour, which will be payable to everybody over the age of 25. This represents an increase of 50p per hour (7.5%) on the current National Minimum Wage of £6.70 (at age 21 and over). Since pay is the largest element of social care providers' costs, the knock-on implications of this for the County Council will be marked, especially as Government has declined to provide any additional resources under New Burdens principles.

- Care Act. Government has announced that the implementation of the cap on care costs will be delayed from April 2016 until April 2020. Even though its stated position was that additional spending would be funded via New Burdens, this had proved insufficient to quell widespread concerns across local government. For the meantime, at least, the delay has eased the immediate financial risks. Separately to this Government has transferred the funding that it was providing for other Care Act-related responsibilities from specific grant to revenue support grant. £2.5m of this links to costs which impact directly on the portfolio, such as around increased take-up in areas like carers, and so the County Council's financial planning has assumed this will be passported in full to Adult Social Care and Health. The remaining £2.3m is funding nominally attached to direct payments agreements (DPA). This presents more of a choice, because the money that the County Council spends when a DPA is agreed for a customer in residential care is equivalent to a loan and thus is repayable in time. Since the County Council maintains its accounts on an accruals basis, this element of the cash is not required in the service budget. Instead it will be transferred into an earmarked reserve where it will be held as potential mitigation against the financial risks that the County Council faces across the Care, Wellbeing and Education directorate.

- Better Care Fund/Independent Living Fund/Deprivation of Liberty Safeguarding – more potentially to be added once Government has confirmed what it will be providing in 2016/17.

3.9 The budget proposals recognise the pressures inherent in these issues and will deliver a significant reprioritisation of resources towards adult social care. The proportion of the County Council's net revenue budget allocated to the portfolio will increase from less than 32% in 2015/16 to 34% in 2016/17. The key explanations for that shift are as follows:

- Growth of £5.3m for the effect of population change and rising complexity of needs. Part of this will be invested in preventative services to support independence with the aim of reducing the future rate of increase of demand for social care. This growth is additional to the £34.5m that is being made available within the capital programme to enable the County Council to engage more actively with the care market. £30m of that is earmarked for partnership working with providers on joint ventures to develop and shape the market, including extra-care facilities, residential, dementia and end of life care. The other £4.5m is allocated for delivering a social care academy that will train the next generation of care providers and workers.

- Growth of £3m to provide permanent funding for the underlying shortfall forecast in the 2015/16 portfolio budget.

- Growth of £6.3m for the National Living Wage. It will be unlawful for providers not to pay the NLW to their staff, so the County Council accepts that its rates will need to increase if it is to purchase care of an appropriate quality. Detailed proposals will be brought forward as a separate Cabinet Member decision and will be informed by dialogue with the market.

- Savings of £6.6m. Given the scale of the financial challenge facing the County Council, the portfolio cannot be exempted from the need to contribute towards savings requirements. Full details are shown in Appendix 3. £1m relates to income from client contributions towards the cost of social care which should arise through the natural course of events. Savings in the cost of housing support and from the redesign of services and processes will provide most of the remainder.

3.10 The net growth created by these changes is £8m. As a contribution towards paying for it, the budget will propose that the County Council takes advantage of its freedom to raise an additional 2% precept for adult social care. This was announced by the Chancellor of the Exchequer in the Spending Review and is being offered to all local authorities with responsibility for adult social care "*in recognition of demographic changes which are leading to growing demand…….and increased pressure on council budgets*". The offer comes with conditions attached to it, notably that "*spending on adult social care in 2016/17 is £x higher than it would otherwise have been, where x = revenue from the additional adult social care council tax flexibility*". It is not yet clear how Government will allow the need for savings because of the overall shape of the local government finance settlement to be reflected in this assessment. Nevertheless, on any interpretation of the position the County Council's plans are in excess of that requirement as the table below sets out below:

ILLUSTRATION 4: Change in Adult Social Care Budget v 2% Council Tax precept

	£m	£m
Adult Social Care and Health budget 2015/16		167.4
Add:		
Inflation allocation	2.5	
Funding for demand pressure	5.3	
Funding for underlying shortfall in 2015/16 budget	3.0	
Allocation for National Living Wage	6.3	
Transfer of Care Act funding to revenue support grant	2.5	
Savings	-6.6	
Internal County Council changes	-0.8	
Total changes		12.2
Adult Social Care and Health Budget 2016/17		179.6
Items making the budget "higher than it would otherwise have been"		
Excluding savings		
Inflation allocation	2.5	
Funding for demand pressure	5.3	
Funding for underlying shortfall in 2015/16 budget	3.0	
Allocation for National Living Wage	6.3	
Total		17.1
Including savings		
Inflation allocation	2.5	
Funding for demand pressure	5.3	
Funding for underlying shortfall in 2015/16 budget	3.0	
Allocation for National Living Wage	6.3	
Savings	-6.6	
Total		10.5
2% adult social care precept		7.4
Value of additional County Council contribution		
Excluding savings		9.7
Including savings		3.1

3.11 Helpful though the 2% precept is as a funding option, it falls short of the amount that the budget requires. Due to the importance that it attaches to the later life priorities in the Future West Sussex Plan, the County Council is proposing to make that gap good. However, it does not follow that the outlook for the portfolio will become easier and this is almost certain to remain the position unless more sustainable ways can be found to deliver social care.

Children – Start of Life

3.12 The Children - Start of Life budget provides for net spending of £84.9m in 2016/17. This will deliver, in line with the Future West Sussex Plan, the best

possible start in life for every child growing up in West Sussex. In order to achieve this we will prioritise improved physical and emotional wellbeing, work with partners to help families receive the support they need at an early stage and ensure children are safe and secure. We will continue to work to ensure young people are ready for school and ready for work.

3.13 The service has faced increasing financial pressure in the last 12 months arising from an increase in the number of children who need to be looked after, and greater complexity in the needs of those children. To address this, the draft 2016/17 budget provides for additional investment to meet existing needs and to support measures to manage future needs in the most effective way:

- Additional investment of £4.3m to reflect the additional pressure of the increase in children and the complexity of their needs,
- Further investment of £0.2m to ensure the contract management of these high value, complex placements is at the right level to enable value for money commissioning. This is an 'invest to save' proposal as it will help to manage the cost pressures the service is experiencing.
- The implementation of a new Multi-Agency Safeguarding Hub to strengthen child protection decision making at the 'front door'. This service, costing £0.2m, is being led and supported from the Customer Experience Programme (but is subject to further review),
- Removal of the turnover allowance for operational social worker staff (£0.8m) to reflect the need to cover essential front line social work vacancies with agency staff. This is not expected to remain an on-going cost (see below),
- Investment of £0.3m in the social work academy to help recruit, train and retain an improved supply of qualified social workers. This is a short term investment measure that will produce savings in agency staff numbers as it is anticipated the extra £0.8m cost above can be removed by 2018/19, and
- Further investment for child safety including additional resource for children at risk of sexual exploitation £0.2m.

3.14 In addition, additional investment of £0.5m in Child Disability Services to reflect a continuing demographic pressure in this area. Children with disabilities aged 0-16 are the fastest growing group amongst the population of people with disabilities and children now have better outcomes and longer life expectancy following severe illness or injury. This has led to increasing numbers of children with complex care needs, which in turn leads to increasing expenditure in this area.

3.15 The budget provides for delivery of £1.789m of savings. These savings will come from across the portfolio including Early Childhood Services and Children's Social Care.

3.16 The County continues to support work on the national Troubled Families Initiative, with the aim of helping to turn around the lives of over 4,000 families before 31 March 2020. One-off funding already set aside for this purpose, when combined with expected phase 2 grant funding and with existing budgets for intervention work will enable delivery of the programme. This funding is held in a reserve account and drawn down into the Start of Life budget as required.

3.17 SEN and Inclusion are continuing to convert all SEN statements to Education, Health and Care Plans (EHCPs) in line with the Children and Families Act 2014. The current grant estimate in 2016/17 of £0.4m has been based on the 2015/16 allocation. The current estimated cost of the service in 2016/17 is £0.6m with the balance funded from the SEND grant carry forward. The initial settlement has confirmed that the grant will continue into 2016/17 and has indicated that funding may be increased although final allocations are not yet known. Any variation between the final allocation and the draft budget will be adjusted through the SEND grant carry forward. It is estimated that there will be £0.3m in the grant carry forward as at 1 April 2016.

3.18 In addition, further expenditure of £XXm within the portfolio is allocated from the Dedicated Schools Grant to fund nursery places for 2 to 4 year olds and to support children and young people with special educational needs. ***TBC - This needs to be reviewed based on the 2016/17 settlement.***

Community Wellbeing

3.19 The Public Health Grant is one of the few remaining ring-fenced grants received by the County Council. Although it needs to be spent with regard to the national Public Health Outcomes Framework, in practice there is considerable latitude for local choice, subject to an overriding requirement to 'improve significantly the health and wellbeing of local populations'. In year the Government has reduced the national allocation by £200m in 2015/16, which has resulted in a loss of £2m for the County Council. The Spending Review announced that there would be a further cut of 2.2% in 2016/17, so, when the County Council's allocation for next year is confirmed (mid January?), it is expected that the loss will be even greater. Further details to be confirmed when available.

Corporate Relations

3.20 The Corporate Relations budget provides for net spending of £43.8m. The majority of this relates to the Cabinet Member's responsibility for a range of back-office functions together with outsourced contracts for support services and information technology. It also covers costs of democracy, including elections and members' allowances. For 2016/17, plans have been prepared to deliver savings of £2.2m. These are shown in Table 3 and, in the main, will arise from redesigns in areas such as Business Improvement and Facilities Management. This will lead to a reduction in permanent staffing costs as part of a process aimed at providing services that will meet the County Council's needs during the medium term.

Education and Skills

3.21 The Education and Skills budget provides for net spending of £16.2m. In line with the Performance Framework, we will continue to work to ensure young people are ready for school and ready for work. We will work with employers to ensure our residents have the right skills throughout their lives to meet the needs of our businesses.

3.22 The indicative Dedicated Schools Grant 2016/17 is £XXm, of which £XXm is allocated to the Education and Skills portfolio and £XXm is allocated to Children Start of Life portfolio as noted above. ***TBC - this needs to be reviewed based on the 2016/17 settlement.***

3.23 Funding of £7.9m is expected to be received from the Department for Education in 2016/17 which relates to the provision of Universal free school meals for children aged 4-7 in reception and years 1 and 2.

3.24 The budget provides for delivery of the £0.225m of savings as shown in Table 3 of the Budget Pack, which relate to reductions in the home to school transport budget and additional income.

Finance

3.25 The Finance budget provides for net spending of £18.2m. This funds the cost of certain support services, notably Property and Finance, as well as various corporate items, for example insurance and precept payments levied by external bodies. Table 3 of the Budget Pack itemises planned savings of £1m. The bulk of these have already been achieved and reflect the return from sharing County Hall North with Horsham District Council (£0.5m) as well as savings in the cost of insurance premiums (£0.3m). It also includes the benefit of additional income of £0.4m from PropCo developments.

Highways and Transport

3.26 The Highways and Transport budget provides for net spending of £38.7m. This maintains and delivers, in line with the *Future West Sussex Plan*, highways infrastructure that businesses and local communities need to support economic growth and allows our customers to access services across the County. We will maintain, improve and, where appropriate, expand the asset for the benefit of all visitors to West Sussex.

3.27 The introduction of the West Sussex Permit Scheme will require utility companies to apply for permits before they are able to dig up and place their apparatus on the highway. This better enables the co-ordination of works and improved efficiency on the highways network, delivering benefits to businesses and residents across the county. The £1.465m budgeted cost of implementing the scheme will be met from the fees levied.

3.28 In the light of flooding issues experienced in other parts of the country, £0.5m will be invested in Operation Watershed.

3.29 Planned savings of £3.058m come from across the portfolio in 2016/17 and, as shown in Table 3 of the Budget Pack, include savings from the highway maintenance budget following the capital investment in the Better Roads programme, a reduction to English National Concessionary Travel budget reflecting reducing bus operator reimbursement costs and a range of Passenger Transport thematic savings initiatives.

3.30 The budget includes a transfer into the Street lighting Reserve of £0.454m which is to cover future planned expenditure in line with the affordability model over the 25 year life of the contract. The one off transfer from reserves of £0.323m made in 2015/16 to cover the implementation of the Highways Review is removed from the budget following the completion of the review and restructure.

Leader

3.31 The Leader budget provides for net spending of £1.7m. This budget is largely comprised of expenditure on supporting economic development. This will be achieved through the commitments set out in the Economic Strategy for West Sussex 2012-2020 and continuing to work collaboratively with our partners. We will work with Members, communities, businesses, partners and other County Council Services to understand and support the progress of local priorities. The main budget change from 2015/16 relates to the inclusion of £0.328m to fund revenue costs associated with the development of a site for economic development purposes in Horsham as part of the West Sussex Economy '5 Bold Ideas' initiative.

Residents' Services

3.32 The Residents' Services budget provides for net spending of £99.2m.

3.33 The Communities and Public Protection budget, through West Sussex Fire and Rescue Service, aims to provide an assured 24/7 emergency response service around the County and has a dedicated resilience and emergency team. The portfolio will also provide a library service that is accessible to all who wish to use it and will give public access to the archives and recorded heritage of the county. Working with customers and partners Waste Management will aim to continue to reduce waste going to landfill through education aimed at changing customer behaviour.

3.34 Within Waste Management, landfill tax is set to increase at a rate of 2.18% in 2016/17 which is above RPI inflation of 0.8% and therefore £0.302m has been included in the budget to cover the additional uplift of 1.38%. The budget also includes £0.615m to cover the impact of falling revenue generated from the sale of waste recyclates, which has reduced due to falling market rates. Funding of £0.738m will be drawn down from the Materials and Resource Management Contract reserve in 2016/17 to cover anticipated waste disposal costs in line with the financial model.

3.35 The budget provides sustainable funding of £0.2m to ensure the continued delivery of a training framework for Retained Duty System Firefighters to ensure that all personnel are properly trained and supported to deal with incidents and £0.12m towards work pressures associated with national operational guidance and collaborative working with the Fire Service.

3.36 Planned savings totalling of £1.176m (net saving of £0.943m) comes from across the portfolio in 2016/17 and, as shown in Table 3 of the Budget Pack, include savings from restructuring in Communities and Public Protection and efficiencies within Waste Management and Customer Services.

Balancing the Budget

4.1 Plans to balance the portfolio budgets for both 2016/17 and 2017/18 have been developed and these total £42.7m. Delivery of further measures to balance the budget in 2018/19 and 2019/20 will, to a certain extent, be enabled by the successful implementation of the plans set out for 2016/17 and 2017/18. As far as possible, the realistic plans to achieve a balanced budget have been put together on the basis of maximising efficiency, finding new ways of service provision and engaging partners in collaboration rather than

straightforward cuts, to deliver a robust and deliverable savings package which is consistent with the Future West Sussex Plan's aims and objectives.

4.2 Greater detail of the savings for next year and 2017/18 is set out in Table 3 of the Budget Pack and summarised by portfolio below:

	2016/17 £000	2017/18 £000	Total £000
Reduced Spend			
Adult Social Care and Health	4,753	7,858	12,611
Children – Start of Life	1,789	1,435	3,224
Community Wellbeing	2,347	725	3,072
Corporate Relations	2,229	673	2,902
Education and Skills	125	0	125
Finance	504	219	723
Highways and Transport	2,931	1,265	4,196
Leader	7	116	123
Residents' Services	994	5,256	6,250
Non-portfolio	155	155	310
Thematic – yet to be allocated	325	3,977	4,302
Total	16,159	21,679	37,838
Additional Income			
Adult Social Care and Health	1,850	1,800	3,650
Education and Skills	100	50	150
Finance	525	0	525
Highways and Transport	127	33	160
Residents	182	68	250
Thematic – yet to be allocated	0	80	80
Total	2,784	2,031	4,815
Grand total 2016/17 and 2017/18	**18,943**	**23,710**	**42,653**

In addition to the above, approximately £1.4m (based on current estimates) will be needed in 2017/18 from reserves in order to balance the budget. However, savings plans will continue to worked up during 2016/17 and if additional savings can be brought forward to cover this gap as an alternative, they will.

Residents' Services portfolio is shown gross of increased staffing requirements relating to the Customer Experience saving which requires additional funding of £0.223m.

Special and Specific Grants – NB to be updated

5.1 As mentioned in the summary, several grants are yet to be confirmed. Any known sums are set out in Table 4. The overall change for those grants included within portfolio budgets is a rise of 0.6% or £3.9m, which includes changes in:

- The Dedicated Schools Grant, TBC

- The Independent Living Fund Grant (£4.5m) and the Youth Justice Good Practice Grant (£0.6m) to cover new responsibilities part way through 2015/16.

- Public Health Grant, TBC,

- The Pupil Premium Grant, TBC

5.2 Table 4 also highlights a number of non-portfolio specific grants. For 2016/17, the County estimates it will receive funding of £7.4m in Education Services Grant (ESG) as part of the County's corporate core funding. The ESG is based on an amount per pupil. Government has cut the funding for this grant by £10 per pupil.

5.3 By separating out this funding stream, when any school transfers from a local authority to become an independent academy school, Government can also transfer the associated funding directly to the school. The County retains a small element of the funding only for residual duties, whilst the new academy receives the bulk of the funding. The £7.4m grant income budgeted for in ESG for 2016/17 is therefore not certain.

Future Revenue Budget and the Budget Strategy

6.1 Indicative financial projections up to 2019/20 are included in the Finance Strategy as set out in Illustration 5 below. Overall spending levels and council tax implications will be matters for the County Council to consider as each year's budget is proposed, taking account of any amendments to Local Government Finance Settlements, council tax bases and service circumstances. However, given the decline in Government funding for local government, opportunities for partnership working, new legislation and other changes, it is essential that the County Council looks forward more than one year in order to ensure that it remains a going concern. External audit (EY) will have a duty to ensure that the Council has in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. One key ingredient of this assessment will be to review the planning of finances to ensure that they effectively support the sustainable delivery of strategic priorities and the maintenance of statutory functions. Note also Government has indicated it wants to guarantee future settlements for local councils "which can demonstrate efficiency savings – for next year, and for every year of this Parliament". We await the details of what this offer entails.

6.2 As indicated above, the provisional settlement announced on 17 December 2015 provides for four years of information. It is therefore helpful for planning purposes and enables the Council to undertake some longer term, systemic transformation proposals in order to seek to deliver the FWSP priorities within the funding available.

6.3 The illustration below shows that the funding that will be available to the Council over the next four years. This funding is based on the planning assumption of council tax increases of 4% (2% for adult social care and 2% for core council tax) over each of the next four years as signalled by the Settlement. When spending pressures are taken into account there is a gap between spending and funding of around £73m over that period.

6.4 Considerable planning work has been undertaken over the Autumn period. Based upon assumptions from the Chancellor's earlier budget statements, a balanced MTFS had been delivered, only assuming a council tax increase of 2% per annum. Planning work has identified some £73.7m of efficiency reductions and income generating initiatives spread over the four years of the MTFS. As is normally the case, the proposals in the latter years are less well developed than those in the earlier years. It is also anticipated that some more ambitious initiatives, for example based on the opportunities derived from devolution and a review of property, would yield further efficiencies could be factored in following more detailed work. The County Council is also embarking on revising the budget process to include Zero Based Budget work to ensure all areas of the budget are, over time, examined from first principles and all spending plans justified.

ILLUSTRATION 5: Summary of the MTFS

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Core Funding	125.6	101.7	88.3	78.6
Other Funding:				
Council Tax - current level	367.6	373.8	380.2	386.6
Business Rates Growth	1.8	2.6	3.4	1.6
Specific Grants	15.6	14.6	16.8	23.1
Collection Fund	3.8	1.0	1.0	1.0
Total Funding Estimate	514.4	493.6	489.6	490.9
Budget with all known pressures	558.7	538.4	521.1	524.1
Annual Budget Gap	44.3	44.8	31.5	33.2
Total Budget Gap				**153.8**
Increase in Council Tax if 4% applied	-14.5	-15.8	-17.0	-18.2
Application of £15m early savings	-11.1	-3.9		
Application of Reserves		-1.4	1.4	
Revised Budget Gap	18.7	23.7	15.9	15.0
Revised Total Budget Gap				**73.3**

6.5 There are many variables which need to be modelled to produce forecasts for the medium-term. The main ones are:

- The business rate retention funding system of whereby a portion of the County's funding relies on local business rate proceeds,
- New duties and burdens and the extent to which Government will support these with extra funding, and
- Pressures from the outside economy such as inflation and local demographic factors, which will influence the demand for services.

6.6 The 2015/16 budget assumed a number of 'one-offs' only and as anticipated these will fall out of the budget in 2016/17 to reduce spending and ease the pressure on the budget and the need for savings. These items included:

- £5m to the Strategic Economic Plan reserve,
- A net £5m from the one–off payment into the capital reserve,
- A payment into the proposed business rate pool of £0.5m.

6.7 As a result of early delivery of savings in previous years and a prudent approach the authority has built up a sum of £15m available to offset any budget shortfall. This is a sustainable on-going sum. As a result of the much worse than expected settlement, the County Council can now deploy this sum and around £11.1m is used to ensure the budget is balanced in 2016/17. The £3.9m balance, together with a one off contribution from reserves of around £1.4m will be used to balance the budget in 2017/18. Illustration 6 below shows how the 2016/17 budget has been balanced using a combination of the extra precept income from the rise in council tax, savings (as shown in the Table 3 in the Budget Pack) and use of £10.9m of the available £15m from early savings.

ILLUSTRATION 6: Balancing the 2016/17 budget

Item	**2016/17 £m**
Budget Gap based on extra spending pressures per MTFS	44.5
Income from 3.95% council tax rise	-14.7
Use of sum part of sum from £15m early savings	-11.1
Savings programme (see table 3 in budget pack)	-18.7
Balance	**nil**

6.8 The MTFS uses a number of assumptions around tax base growth and growth in business rates to project future income to 2019/20. It includes on-going tax base growth of 1.7% pa (marginally less than seen in 2015/16 and 2016/17) and real growth in business rates of 2% above RPI. These assumptions will be reviewed annually, but the Budget Management Reserve is intended to support these assumptions and to mitigate the amount should actual numbers be less than this projection.

Capital Spending

7.1 The proposed capital programme showing movements since the programme approved by Council in October 2015 is summarised in Table 1 below. Further detail is set out in Tables 6a and 6b of the Budget Pack which includes a detailed starts list for 2016/17. Total expenditure within the core programme is £134.9m in 2016/17 with a further £23.4m planned within income generating initiatives, subject to approval of business cases that demonstrate that projects are self-financing.

Capital Programme 2015/16 to 2020/21

Core Programme

7.2 During the summer of 2015, a comprehensive programme covering the period 2015/16 to beyond 2020/21 was developed to provide the County Council with greater transparency over its future spending plans and to enable more

effective planning, prioritisation and financial management. Both revenue and capital funding must work to complement each other in support of the delivery of the Future West Sussex Plan, which is dependent upon both investment in capital infrastructure and transformation and modernisation in operational service delivery.

7.3 At its meeting on 30 October 2015, the County Council approved a revised programme for 2015/16 and 2016/17 and an indicative programme from 2017/18 through to 2020/21, totalling £676.3m. Of this sum, £404.4m was supported by grants and a maximum of £174.8m by borrowing. The remaining funding was comprised of capital receipts, revenue contributions and other external contributions. It was reported that officers would continue to seek further external contributions such as grant or developer funding in order to reduce the amount of borrowing.

7.4 A supplementary plan of income generating initiatives totalling £96.6m was approved subject to business cases confirming that the projects are self-financing.

7.5 It is recognised that the programme over this period cannot accurately predict all demands for the future and that it will require periodic review and revision at least annually to enable the County Council to allow adjustments in the light of changing circumstances. The programme is actively managed through the Councils governance arrangements on a monthly basis. Cabinet Board review the programme quarterly and decisions in relation to individual projects are taken by Cabinet Members and Officers in line with the Scheme of Delegation approved by Council in December 2015.

7.6 The annual budget setting meeting of Council provides the first opportunity to review and consolidate the overall programme approved in October 2015 to ensure alignment with the Medium Term Financial Strategy (MTFS) for revenue budgeting.

7.7 The proposed core programme for the period including 2015/16 to beyond 2020/21, compared to the approved programme in October 2015, is set out in Table 1 below, summarised by portfolio together with movements in sources of financing.

7.8 The core programme has increased by £3.280m (0.48%) from £676.327m in October to £679.607m.

Table 1: Summary of movements in the core capital programme

	October 2015	Proposed February 2016	Variation
	£m	£m	£m
Core Services:			
Adult Social Care and Health	42.999	42.909	(0.090)
Community Wellbeing	2.160	2.160	-
Education and Skills/Children - Start of Life	188.911	188.911	-
Finance	34.110	34.110	-
Highways and Transport	271.370	274.715	3.345
Leader	110.200	110.260	0.060
Residents' Services	26.577	26.542	(0.035)
Total	**676.327**	**679.607**	**3.280**
Financing:			
Ringfenced Government Grant	234.652	235.683	1.031
Un-ringfenced Government Grant	169.701	170.091	0.390
Capital Receipts	21.524	23.592	2.068
Revenue Contribution to Capital Outlay	58.152	58.862	0.710
External Contributions including s106	17.507	19.661	2.154
Core Borrowing	99.791	99.791	-
Additional Borrowing	75.000	71.927	(3.073)
Total	**676.327**	**679.607**	**3.280**

7.9 There have been a number of movements in expenditure and financing. Notably there has been an overall increase of expenditure of £3.28m with the major element on Highways and Transport schemes, financed from additional s106 (£1.7m), government grants (£0.7m) and revenue contributions (£1.0m). Based on the latest estimates, the level of additional borrowing required is likely to reduce from £75m, due to an improved forecast for capital receipts and a number of reductions in scheme costs.

7.10 The main changes that have been approved through delegated decisions and reported through the Total Performance Monitor, together with those that are proposed for consideration and approval within this report, are set out in Tables 2 and 3 below.

Table 2: Changes already approved through delegated decisions in November

	Increase/ (reduction) in budget	Movement in Council resource	Movement in external resource
	£m	£m	£m
Adults - APTL Alinora Redevelopment	(0.090)	(0.045)	(0.045)
Adur Tidal Walls *	0.400	0.400	0
Resident Services- Landfill Schemes	(0.035)	(0.035)	0
Total	**0.275**	**0.320**	**(0.045)**

* Additional Council resource is financed from revenue contributions

Table 3: Changes proposed for consideration and approval by Council

	Increase/ (reduction) in budget	Movement in Council resource	Movement in external resource
	£m	£m	£m
Principal Roads *	0.600	0.600	0
Integrated Transport Block	1.660	0	1.660
Local Highways Maintenance	0.685	0	0.685
ASEAN Gateway	0.060	0	0.060
Total	**3.005**	**0.600**	**2.405**

*Additional Council resource is financed from revenue contributions

7.11 The revised programme includes re-profiling of a number of projects between financial years. This is summarised in total in table 4 below. A summary by portfolio is included in Table 8c within the Budget Pack. In particular xxx schemes are proposed to be accelerated into 2016/17 whilst xxxx schemes are expected to be deferred into 2017/18 and beyond.

Table 4: Movement between financial years for Core Capital Programme

Financial Year	October 2015	Proposed February 2016	Variation
	£m	£m	£m
2015/16	130.541	115.046	(15.495)
2016/17	120.392	134.896	14.504
2017/18	109.084	113.409	4.325
2018/19	141.501	141.427	(0.074)
2019/20	78.930	78.940	0.010
2020/21	56.955	58.555	1.600
Subsequent	38.924	37.334	(1.590)
Total	**676.327**	**679.607**	**3.280**

7.12 The core programme includes a number of schemes within Highways and Transport and Leader Portfolios that are subject to receipt of Local Growth Fund (LGF) grant via the Coast to Capital Local Enterprise Partnership (C2CLEP). Where these schemes are subject to slippage within 2015/16 compared to the original plans held by the LEP, the Council is currently in discussion with the LEP to secure flexibility of funding to transfer into 2016/17 and future years to enable re-profiling of the schemes in accordance with the LGF funding conditions. An update on these discussions will be reported to members as it becomes available and will be reflected in 2015/16 outturn reporting.

7.13 The total budget for the LGF funded schemes is £132.02m. Slippage on five projects, totalling £3.96m, has been proposed from 2015/16 into 2016/17 in the detailed programme. This includes:

- Crawley Transport Package Phase 1 where LEP funding approvals are required before the scheme can be fully committed. Delays in finalising the scheme design and procuring a contractor will push expenditure of £2.36m into 2016/17. Work totalling £3.98m in subsequent years has been accelerated into 2020/21.
- A284 Lyminster Bypass where a funding decision is required from the LEP prior to land being purchased pushing £0.57m into 2016/17. This is likely not to delay later elements of the scheme.
- Two of the 5 Bold Ideas scheme (ASEAN Gateway and Digital Growth) where progress in developing full business cases for LEP approval has been delayed, resulting in £0.83m being slipped into 2016/17.
- Better Outdoors where progress on this project has begun and completion is estimated during 2016/17.

Please also note that in the light of the current adverse weather conditions and review of national flood defence arrangements, we will look to see if any measures relating to flood defence within the programme can be brought forward for earlier possible delivery. However this is also dependent on prioritisation by external agencies.

Income Generating Initiatives

7.14 The table below sets out the movements between financial years for the Income Generating Initiatives.

Table 5: Movement between financial years for Income Generating Initiatives

Financial Year	October 2015	Proposed February 2016	Variation
	£m	£m	£m
2015/16	23.694	9.366	- 14.328
2016/17	16.852	23.368	6.516
2017/18	11.306	13.214	1.908
2018/19	6.927	9.591	2.664
2019/20	6.300	8.503	2.203
2020/21	6.300	6.944	0.644

Subsequent	25.200	25.200	-
Total	**96.579**	**96.186**	**-0.393**

7.15 Overall, there is a reduction of £0.393m within the Income Generating Initiatives, with a £1.38m reduction in PropCo schemes, partly offset with a £0.99m increase in the forecast cost of the development in Horsham. In addition, there is movement of £14.3m from 2015/16, largely relating to reprofiling over future years; £11.2m for the 5 Bold Ideas relating to the development in Horsham and £3.1m relating to various PropCo schemes.

7.16 Work totalling £7.2m on the Your Energy Sussex project originally planned during 2016/17 has been profiled into 2015/16. These works have been brought forward as a result of a recent change in Government legislation which will substantially reduce the Feed-In-Tariff (FIT) from January 2016 and required the Council to contract earlier than initially planned to ensure it is not impacted by the reduction in FITs which would render the projects unviable.

Table 6 below shows a summary of the programme from 2016/17 to beyond 2020/21. The details shown in Tables 8a and 8b includes spend in 2015/16, based on latest estimates, and the cost of projects to the end of life and hence include costs in subsequent years after 2020/21. Table 7 reconciles this information back to the core programme outlined in Table 6.

Table 6: Proposed Budget - 2016/17 to beyond 2020/21

Capital Programme	**2016-2017**	**2017-2018**	**2018-2019**	**2019-2020**	**2020-2021**	**Subse-quent**	**Total Prog-ramme**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Core Services							
Adult Social Care and Health	18.014	12.700	11.500	-	-	-	**42.214**
Children - Start of Life	51.238	36.841	29.512	7.464	6.887	-	**131.942**
Community Wellbeing	1.000	-	-	-	-	-	**1.000**
Finance	10.472	3.201	3.201	3.201	3.201	-	**23.276**
Highways & Transport	38.784	35.188	43.166	37.035	47.157	37.334	**238.664**
Residents' Services	10.175	6.934	0.105	0.630	0.700	-	**18.544**
Leader	5.213	18.545	53.943	30.610	0.610	-	**108.921**
Total Core Services	**134.896**	**113.409**	**141.427**	**78.940**	**58.555**	**37.334**	**564.561**
Income Generating							
Prop Co	2.546	3.514	3.291	2.203	0.644	-	**12.198**
Leader	20.822	9.700	6.300	6.300	6.300	25.200	**74.622**
Total Income Generating	**23.368**	**13.214**	**9.591**	**8.503**	**6.944**	**25.200**	**96.186**
Total Capital Programme	**158.264**	**126.623**	**151.018**	**87.443**	**65.499**	**62.534**	**660.747**

Table 7 - Movement between Approved Programme October 2015 and Proposed Programme February 2016

	£m
Approved Programme October 2015 from 2015/16 to beyond 2020/21	676.327
Movements (as outlined in Tables 2 and 3 above)	3.280
Proposed Programme February 2016 from 2015/16 to beyond 2020/21 (as per Table 6a in the Budget Pack)	**679.607**
Less: Expenditure in 2015/16	(115.046)
Proposed Programme February 2016 from 2016/17 to beyond 2020/21 (as outlined in Table 6 above)	**564.561**

Revenue impact of borrowing

7.17 Capital expenditure may be financed from a range of internal and external sources. Internal sources include capital receipts, revenue contributions, reserves and borrowing. External sources also include borrowing as well as private sector contributions such as S106 developer contributions, and government grants (which may be ring-fenced for specific purposes or non-ring-fenced and available for general application by the County Council).

7.18 In addition to utilising external funding sources, and its other internal revenue contributions, the County Council's policy is to borrow £17m per year to finance its core capital investment plans supplemented by up to £75m of additional borrowing as approved by Council in October 2015. This is called 'Core Borrowing'.

7.19 When the Council borrows to finance capital expenditure, this also has a direct impact upon the revenue budget in the form of 'capital financing costs'. Capital financing costs incorporate the annual Minimum Revenue Provision (MRP) plus the actual interest paid on the debt outstanding. The actual cost of borrowing is determined by the market interest rates at the point of taking a loan and the period over which the loan is taken.

7.20 The base revenue budget for 2015/16 does not need to be increased over the MTFS period in order to support the anticipated additional borrowing costs over this time. Indeed, there is a small reduction built in for 2016/17 to assist in meeting other pressures in the revenue budget. Total budget provided in 2016/17 is £35.6m (split between MRP and interest).

7.21 Whilst the £96.19m of planned projects within income generating initiatives are required to be self-financing, there will be timing differences between the need to finance capital expenditure and the realisation of capital receipts or income streams generated by them. Therefore, the associated borrowing costs will need to be recovered in full by these projects.

Prudential Borrowing

7.22 The Prudential Code requires local authorities to agree ratios and limits in respect of their borrowing and to demonstrate that their plans are prudent,

sustainable and affordable. Details of the proposed ratios and limits are summarised in Table 7. This shows that the additional general borrowing outlined above in the financing table would add around xxx% over the five-year period to current council tax levels. The table also includes the limits that the County Council is required to set before the beginning of each financial year:

- an operational limit for borrowing to reflect the likely level required
- an authorised limit for borrowing based on realistic assessed risk
- the maximum to be borrowed at fixed rates
- the maximum to be borrowed at variable rates
- the maximum to be invested for a year or longer

7.23 It is proposed that the operational limit for borrowing be set at £xxx for 2016/17, based on current outstanding debt and the spending and financing plans included in the proposed capital programme. This figure includes borrowing assumptions for all income generating initiatives such as PropCo, YES Programme and the 5 Bold Ideas plus borrowing previously undertaken for the Waste MRM contract. The figure also includes notional borrowing of £xxxm for the three existing PFI contracts for Crawley Schools, Street Lighting and Waste Handling & Recycling; this is an accounting adjustment required under International Financial Reporting Standards, and does not represent actual cash borrowing. Excluding this adjustment, the County Council's actual external debt is projected to be £xxxm by March 2017.

7.24 The County may also need to borrow temporarily for cash flow management purposes, pending receipt of income, or to meet a large expenditure flow, or to avoid withdrawing short-term investments, where interest rate effects would be detrimental. It is proposed therefore that an authorised limit for borrowing of £xxxm should be approved, to encompass the above operational limit and an additional £xxm for temporary borrowing.

7.25 As all current long-term debt is at fixed rates and is likely to be so in most future circumstances, it is proposed that the limit on fixed rate debt be set to match the operational borrowing limit of £xxxm. There may however be market circumstances when it may be advantageous to defer long-term borrowing at fixed rates for a period and it is therefore proposed that a 25% limit (£xxxm) be placed on borrowing at variable rates.

Capital Governance

7.26 A new Governance framework around the capital programme was set up and approved by Council in December 2015 to allow robust planning, authorisation and monitoring and will ensure transparency, accountability and consistency in approach. Further details of the arrangements can be found on the Council's Website.

Robustness of Estimates, Adequacy of Reserves and the Management of Risk

8.1 Section 25 of the Local Government Act 2003 requires Chief Financial Officers to report to their authorities about the robustness of estimates and the

adequacy of reserves when determining their budget and level of council tax. Authorities are required to consider their Chief Financial Officers' reports when setting the level of council tax. The Executive Director for Corporate Resources and Services (Chief Finance Officer for the County Council) has provided the following assurance:

> *The County Council prides itself on its record of creating balanced budgets, delivering ambitious savings programmes and carefully managing its finances within each financial year. It is this track record which has helped to produce the foundations for the budget for 2016/17 and for the MTFS through to 2019/20. However, the last minute, unpredicted and unforeseeable alterations to the funding formula contained within the Local Government Finance Settlement have seriously compromised the Council's ability to continue its successful track record. Particularly, I am concerned about the Government's creation of a new "core spending power" calculation. This removes central funding from those authorities which are considered able to raise proportionally more council tax, but without regard for the need to spend to meet escalating demands. This has implied a Settlement for West Sussex County Council that is much worse than for the average authority for 2016/17 and 2017/18, without any damping to phase in the adverse financial effects.*
>
> *During the preparation of the budget for 2016/17 and the MTFS, the challenge has been to find efficiencies and savings that do not stop the Council from delivering against its FWSP priorities. This is in the context of the £163m of savings already delivered since 2010. Consequently, some £74m of savings proposals have been identified across the MTFS period, although not all have detailed delivery plans in place. Agreeing those savings proposals, developing detailed delivery plans and adding more proposals has now become more urgent in the light of this Settlement.*
>
> *It has been possible to offset the unexpected additional reduction in RSG in 2016/17 by applying part of the £15m of early savings delivered by the Council in previous years. This sum had deliberately not been previously committed for two reasons: pending the Settlement and to allow for a safety net to underpin the challenging savings programme. Under the proposals within this report, the £15m is fully committed by 2017/18 and that year also requires approximately £1.4m) of reserves to present a balanced budget. The latter, in particular, is clearly not a sustainable position and can only be viewed as a temporary fix to allow more time to develop robust budget proposals.*
>
> *Consequently, while I have assessed the proposals contained in this report for 2016/17 as robust, with a sufficient safety net for any non-delivery of savings, it is clear that proposals for the MTFS will need to be developed at pace to allow the S151 to sign off the budget as robust in future years. This will also give our external auditors, EY, the evidence to support their consideration of the Authority's "arrangements for securing economy, efficiency and effectiveness in its use of resources".*

All of the above comments are made in the context of a planning assumption that the Council will agree to the currently maximum permissible council tax increase (4%) over the MTFS period. Of course, changing finances and new opportunities for service delivery (e.g. through devolution) may mitigate that requirement in due course.

This budget reinforces the need for on-going robust financial management, strict budgetary control and the on-going monitoring of both savings and investment delivery plans, with processes in place to promote these.

In assessing the robustness of estimates, I have drawn on the advice of service chief officers that the proposals presented for 2016/17 can be delivered within the available resource envelope. These colleagues include, but are not limited to, the statutory chief officer roles of Chief Fire Officer, Director of Adult Services and Director of Children's Services.

I have also taken account of the estimated £15.2m (as at 31.03.15) within the budget management reserve, which provides a safety net against the non-delivery of savings or over optimism with funding assumptions in 2016/17.

The projected levels of reserves and balances are deemed to be adequate, having been reviewed recently and reported to the Performance and Finance Scrutiny Committee. The general contingency is retained (at £3.2m) and, though at a lower level than 2015/16, is assessed as adequate for the risks it is expected to cover.

The budget does not provide specific funding for any unforeseeable, extraordinary items of major expenditure, for example, the implications of flooding within the county. Subject to the magnitude of the extraordinary event, if such an event were to occur, it would have to be funded from existing general reserves if the general contingency were exhausted.

Against such a challenging financial background, it will therefore be crucial that reserves, both general and earmarked, continue to be managed in the medium term in a way that gives due regard to the need to set a legally balanced budget.

Peter Lewis CPFA
Section 151 Officer

Precept and Council Tax

9.1 The budget proposals imply a precept requirement of £382.083m and a Band D council tax of £1,207.89.

9.2 The budget embodies the core principles of living within our means, protecting the vulnerable and bearing down vigorously on administration costs.

Equality Act Considerations

10.1 The County Council formulates its budget proposals having regard to the duties under the Equality Act 2010 and the likely impact on those with protected characteristics, as set out in the Treating People as Individuals Policy.

10.2 At the time of developing specific service plans and policies the Council will consider in greater detail the specific impact of the proposals that might be implemented within the budgetary framework. Proposals shall only be implemented after due regard has been paid to the need to achieve the three aims set out in Section 149 of the Equality Act. The budget approval does not constitute a final decision about what the Council's service priorities and service budget commitments will be, or about what sums must be saved within each service portfolio. Specific executive decisions will be taken by the relevant portfolio holders and directors, and shall be made based on a clear understanding of what the potential impacts of doing one thing rather than another will be for the residents of West Sussex. It will be open to directors and Cabinet Members at the time of taking those decisions to choose to spend more on one activity and less on another or, where necessary, to go back to County Council and invite it to reconsider the allocations to different service budgets within the overall Council budget that has been set.

PETER LEWIS
Executive Director Corporate Resources and Services

Background Papers
None

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