

Report to: **Scrutiny Committee for Social Services and Health**

Date: **30 November 2004**

By: **Chief Executive and all Chief Officers**

Title of report: **Reconciling Policy and Resources**

Purpose of report: **To seek the Committee's views on the financial and service planning proposals for the service area under its purview**

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## **RECOMMENDATION -**

**The Committee is recommended to consider any comments it wishes to make to the Cabinet on the Proformas for the portfolio area to help to shape the budget and Council Plan 2005/06.**

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### **1. Background**

1.1 Cabinet considered, at its meeting in August, the financial and planning guidelines it wished to give Chief Officers to begin the Reconciling Policy and Resources process, which will be used to develop the Council Plan and supporting budget. The paper considered by Cabinet set out the national policy and financial context, the current policy steers, and local policy and budgetary issues. This paper was also considered by the last round of Scrutiny Committees. The comments made by Scrutiny Members have been passed on to Lead Members and Chief Officers, in order that they can be taken into account as more detailed plans are starting to be developed.

1.2 The Policy Steers agreed by County Council in 2002 represent a strategy and statement of priorities to guide the business planning processes of the Council in the medium-term. The Cabinet endorsed the current policy steers which sets the medium term agenda for the Authority. The Policy Steers for the whole Council and those relevant to this Committee, agreed by Cabinet in August, are contained in Appendix 1 to this report.

1.3 The medium term financial overview against which the Cabinet set its planning guidelines for the County Council is attached at Appendix 2. The County Council has 'lost' over £30m, in real terms, over the medium term as a result of the Government's formula changes in 2003/04. The Council is reliant on a minimum floor increase from Government and will be for a number of years. The level of any floor increase is currently unknown. For planning purposes, the Cabinet has assumed a floor increase which provides grant of only £0.5m in excess of the estimated schools passporting requirement. Overall standstill and other risk pressures would add £25.3m to the Council's budget. As set out in Appendix 2 there remains a number of key risks which, depending on the settlement, could present significant challenges.

1.4 Having considered the policy and financial context for the Reconciling Policy and Resources work for 2005/06 and beyond the Cabinet has agreed the following initial guidelines:

- fully 'passport' to schools;
- 0.7% efficiency savings for Social Services;
- standstill less 1% efficiency savings for:
  - Libraries and Arts; and
  - Highways Maintenance;
- standstill less 5% savings for:
  - Chief Executive's Department;
  - Corporate Resources;
  - Education LEA Block;

- Transport and Environment (excluding Highways Maintenance and Waste PFI); and
- other Waste costs (excluding Waste PFI).

1.5 It should be noted that the actual settlement may be worse or better than that required for the modelling proposals. The settlement will be announced week commencing 29 November 2004.

## **2. Service and Financial Planning**

2.1 Since the Committees last met Chief Officers have begun the work to turn the Policy Steers into practical programmes of action with appropriate resources and clear targets for when and how they will be completed. In agreeing improvement areas within each portfolio and setting specific targets, careful consideration will need to be given to current performance, the Comprehensive Performance Assessment (CPA) and Public Service Agreement (PSA) targets.

2.2 As a first stage, Portfolio holders have been requested to bring forward service delivery and savings plans which:

- focus on delivery of core policy steers and respond to core improvement agendas;
- maximise procurement and other efficiencies; and
- take account of sensible risk management.

The proformas attached at Appendix 3 to this report set out those plans showing: current performance; improvement aims and actions; and the efficiency and other savings in order to meet these aims and the Cabinet's financial planning guidelines. These are very much working documents, which model certain savings scenarios to assist Reconciling Policy and Resources. They are not, at this stage, firm proposals. They have been used to guide discussion between Lead Members as the process has developed. Although savings options are only being modelled at this stage, staff and external partners who may be affected by the possible savings shown have been made aware of the options being discussed.

2.3 The Committee is asked to consider any comments it wishes to make to the Cabinet on the proformas for the portfolio area under its purview to help to shape the budget and Council Plan 2005/06. Where Scrutiny Committees indicate that they would wish to see a savings option in the proforma removed or protected, it would be helpful if they could also suggest alternative modelling options which the Cabinet might like to consider to meet the specified requirements. At its December meeting the Cabinet will consider further the financial and service plans it will be putting forward to County Council. In so doing, it will take into account the views of Scrutiny Committees and the outcome of consultation with the public, stakeholders and partners.

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for all Chief Officers

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Local Member(s) : All

### BACKGROUND DOCUMENTS

None

## CABINET PRIORITIES FOR THE WHOLE COUNCIL

### What we will do:

The Council Plan details our priorities within each service area and we are determined to ensure East Sussex is a high-performing authority. Our particular priorities are to:

- continue to improve services to older people;
- minimise council tax rises, as far as possible, by focusing on core services;
- raise the economic performance of East Sussex;
- further reduce crime and the fear of crime;
- provide safer and better maintained roads and repair street lights;
- support teachers in continuing to raise standards in our schools; and
- promote active citizenship.

### How we will do it:

- being clear about priorities and long term direction;
- focusing on our customers, particularly on our residents' needs and preferences;
- providing equality of opportunity for all through our service delivery and as an employer;
- departments working more closely with each other and with our partners;
- using a variety of ways to deliver services;
- managing our resources and assets well;
- harnessing the potential of our staff; and
- improving the County Council's reputation.

## **SOCIAL SERVICES AND HEALTH (Cllr Mrs Waite)**

### Overall

- Improve the user and carer experience, to be measured against standards and performance indicators.
- Develop a range of flexible and responsive services to support people in their own homes.
- Build better partnerships with Health, Housing, Education and Independent and Voluntary Sector partners.
- Shift the balance from providing to commissioning services.

### 1. Older People's Services

- Support more people in their own homes, while retaining the current low rate of admission to residential care and reducing delayed discharge from hospitals.
- Expand intensive support at home, including the development of new services, where possible joint with Health and Housing, including intermediate care and extra care housing.
- Continue the move towards being increasingly a commissioning, rather than providing, organisation and develop more effective strategic commissioning jointly with Health.
- Continue to increase the proportion of the Social Services Department's budget spent on older people.
- Increase further use of direct payments to achieve the efficient use of resources and encourage individual choice.

### 2. Services for People with a Physical Disability

- Increase further use of direct payments to achieve the efficient use of resources and encourage individual choice.
- Continue integrating occupational therapy services into multi-disciplinary teams, based on local health and social care economies, building on current practice.
- Integrate equipment services with Health while expanding and increasing flexibility.

### **3. Services for People with Mental Health Problems**

- Integrate further current services with the Mental Health Trust, where these changes will improve the efficiency of the service, and outcomes for service users.
- Develop effective joint commissioning arrangements.
- Implement, jointly with Health, a new service model with particular emphasis on supporting people in their own homes.
- Reduce the use of residential provision and expand community services, outreach provision and support at home.

### **4. Services for People with a Learning Disability**

- Consolidate the work of the newly created joint learning disability team, and ensure that they review existing services in order to best meet people's needs.
- Reduce, over time, the use of residential care and increase support at home, including the development of supported housing.
- Increase the use of direct payments to achieve the efficient use of resources and encourage individual choice.
- Modernise day care and day activity provision, in order to promote independence, and meet the visions set out in "Valuing People".

### **5. Support Services**

- Develop budgets to client groups and geographical areas coterminous with those of partners wherever possible and to plan pooling and integration of budgets, where appropriate.
- Improve strategic contracting, including block contracts and e-Purchasing, to ensure improved partnerships with suppliers, the building of capacity and continuity of supply.
- Maximize use of e-Business practices to improve access, service delivery and efficiency.
- Work with Health on approaches to workforce planning, training and development, with a view to preparing for greater integration and improved recruitment and retention.
- Implement the electronic social care record, and use associated technology to improve efficiency and effectiveness.

## **CHILDREN AND YOUNG PEOPLE; AND LIBRARIES (Cllr Mrs Stroude)**

### **Children's Services**

- Increase foster care and adoption capacity, reduce the use of residential care and independent fostering agencies and continue to improve outcomes for looked after children.
- Develop disability services jointly with Health and Education, focusing on community support and ensuring effective transitions to adults' services.
- Keep children safe by further improving already high quality child protection and family support services.
- Seek to improve services to users by providing more integrated services, jointly with Education, Health and the Voluntary Sector.
- Improve arrangements for consulting with service users, and ensure that services are provided in ways which take account of their views and aspirations.

**Spending Review 2004**

1. At the national level, the last year of the 2002 Spending Review (SR) was 2005/6. The Government's 2004 Spending Review (SR 2004) has now determined new Government Departmental spending plans for 2006/07 and 2007/08 and has, very largely, maintained the spending totals for 2005/06 set out in the 2002 Spending Review. It also included a new set of Public Service Agreements. The Spending Review was presented to Parliament by the Chancellor of the Exchequer on 12 July 2004. It includes the Government's efficiency review, which impacts across all public services with a headline issue on the reduction of civil service posts. The key issues for local government are set out below.

2. The formula grant for councils will grow by 2.7% (above inflation) annual average over three years and three year revenue and capital settlements will be introduced, following consultation, from 2006/7. The Local Government Association has calculated the figures below based on the Government's plans. (The implied increase in council tax, just to spend at Formula Spending Share (FSS), is 6.7% for 2005/06.)

	<b><u>2005/6</u></b>	<b><u>2006/7</u></b>	<b><u>2007/8</u></b>
Formula Spending Shares (FSS) – total	5.8%	5.5%	5.1%
Net Aggregate External Finance – grant	5.4%	5.5%	5.1%
Locally Financed - council tax	6.7%	5.5%	5.1%

Relevant service specific increases (FSS)

	<b><u>2005/6</u></b>	<b><u>2006/7</u></b>	<b><u>2007/8</u></b>
Education	5.9%	6.8%	6.0%
Children's Social Services	7.5%	7.5%	4.6%
Personal Social Services	9.9%	4.0%	4.4%
Highways Maintenance	2.5%	0.0%	0.0%
Environmental Protective & Cultural Services (EPCS)	0.6%	3.5%	3.7%
Capital Financing	16.7%	10.1%	9.0%

3. The Government's plans are predicated on efficiency savings of 2.5% p.a.; delivering £6.45 billion of efficiency and productivity improvements by 2007/8 with the aim of releasing resources to front-line services. 'Savings' are expected as follows:

- 40% delivered through schools;
- 10% delivered through policing; and
- 35% delivered through procurement in other services (adult care, housing, children's services, highways maintenance and waste).

Further savings are 'expected' through rationalisation of council back office functions, transactional services and productive time of staff.

4. In respect of Education, for 2005/06, the current 'passporting' arrangements will apply and it is expected that the level of the minimum per pupil funding increase will be broadly similar to the current year. In value terms, for East Sussex, the passported increase to schools required will be £7.5m to £8.0m. This is less than the level required in the current year due to reductions in pupil numbers. Again we expect Formula Grant to at least match the schools passporting requirement. The minimum funding guarantee is expected to contain some additional uplift to reflect support for primary schools arising from the national agreement on workforce reform. The second year of the transitional grant will be delivered as promised (at £1.6m for East Sussex).

5. From 2006/07 onwards the Government intends to introduce a 'guaranteed' 3 year budget for every school but aligned with the school year and a 'ring-fenced' grant.
6. The Office of the Deputy Prime Minister (ODPM) will receive £50m to support the development of leadership and corporate capacity in local government. This will fund: the local government leadership centre; cross-cutting national programmes; spread best practice; and develop the role of the ODPM's Regional Directors of Practice. £25m will also fund Regional Centres of Excellence [procurement].
7. There will be increased freedoms and flexibilities for fair, good and excellent local authorities through new trading powers from September 2004, allowing trading in efficient services.
8. ODPM and Home Office funds will be rationalised into a single Safer and Stronger Communities Fund, including Neighbourhood Wardens funds; local areas will be able to decide how to spend against a group of nationally set outcomes. 5,000 additional Community Support Officers and Neighbourhood Wardens are to be funded.
9. A Green Paper will be published on the reform of services for young people proposing to extend the support provided to troubled teenagers at risk of re-offending.
10. The Adult Social Services budget is to increase at 2.7% p.a., in real terms, to 2007/08, in particular to improve care for the elderly. £60 million over two years will be provided to fund 20 joint projects between councils and the NHS to provide seamless care arrangements and measures to reduce hospital admissions. £80 million is proposed over two years to enable councils to install smart alarms, helping older people to live at home.
11. Local Area Agreements are proposed to provide a single framework for additional funding linked to central and local priorities and help achieve efficiencies in central and local government and devolve decision-making to the most appropriate level. These will involve Government departments, local authorities and local partners (including voluntary and community sector). This is part of the ODPM's long-term strategy for local government and will be piloted in each region during 2005/6.
12. The Neighbourhood Renewal Fund will continue, with minimum standards for service delivery to be cascaded to Local Strategic Partnerships. There will also be a doubling of Government grant to allow local authorities to carry out emergency planning in response to the threat from international terrorism.
13. Some £150m has been allocated for infrastructure investment in support of future housing growth plans.
14. The Chancellor also announced that the ODPM will move towards setting three year grant allocations for local authorities from 2006/07 onwards. Further detail is awaited on this development and, indeed, on the more comprehensive picture for local authorities.

#### Comment on SR 2004

15. Overall it remains the assessment that funding compared to core service spending pressures – other than for schools – will be very difficult, particularly for 2006/07 onwards. Regrettably this is as expected. It has to be recognised that funding growth outside schools, overall and in cash terms, will be positive but the rate of planned growth is significantly less than previous years and indeed, in some cases, the Government is indicating zero to negligible cash growth from 2006/7 onwards. The claimed efficiency savings appear to be formulated to help offset this shift in the grant profile. On initial inspection the level of expected 'efficiency savings' do not seem realistic in the light of cost pressure experience on, for example, social care, waste, highways and transport. In other cases it is not yet clear how such savings are actually delivered in

practice (e.g. '40% efficiency savings in schools'). This council will, however, wish to maximise efficiencies and lower impact savings in line with its Council Plan aims.

The LGA have calculated that, in line with the Government's own figures the level of council tax increase required to fund just the proposed FSS increases are 6.7% (05/06), 5.5% (06/07) and 5.1% (07/08). In reality, cost pressures will exceed the FSS increase allowed in some significant areas. This would put even greater pressure on the levels of council tax increase implied in the settlement.

16. Other specific issues arising from the SR 2004 can be summarised as follows:

- (a) zero cash growth in highways maintenance funding (via revenue) from 2006/07 onwards. More generally, the position for Transport could be difficult once national support for rail and major road schemes is considered;
- (b) the approach to waste costs is completely unrealistic. (There is no separate FSS block for waste; instead it forms part of EPCS.) EPCS is only forecast to grow by 0.6%, in cash terms, in 2005/06 and by 3.5% in 2006/07 and 3.7% in 2007/08. This does not reflect current pressures but the Comprehensive Spending Review (CSR) indicates additional costs through the introduction, effectively, of even higher taxes on landfill through the Landfill Allowance Trading Scheme;
- (c) additional resources are promised for a new FSS block dealing with Children's Social Services. Further detail is awaited;
- (d) the FSS for Adult Social Services is set to rise by 9.9% in 2005/06 and thereafter by some 4% per year. The first year increase is not yet completely understood and there is a concern that part of the rise could simply reflect the switch of existing funding from specific grant (which may also disadvantage this council). The growth for 2006/07 onwards is less than standstill pressures faced by local authorities and no doubt reflects an efficiency assumption; and
- (e) the allocation for housing infrastructure looks very inadequate compared to likely costs in the south east alone.

17. The most fundamental point for East Sussex, regardless of the above, is that the County Council will still only receive a minimum floor increase of some 3% to 4% (as well as being dependent on some £25m of transitional 'floor' support in the current level of grant). This reflects the on-going effects of the damaging national formula changes in 2003/04. A minimum floor increase of 3% to 4% compares to the increase expected for other authorities, on average, of 5% to 6%. In this context the risk to this council is further compounded by:

- (a) the tightening financial situation, outside schools, will inevitably result in greater pressure by 'ceiling' authorities to argue for a higher 'ceiling' at the expense of a lower 'floor' given to 'floor' authorities; and
- (b) transfers of specific grants into base formula grant could result in net losses of resources due to change in distribution bases between specific grant and FSS. This is regardless of floors but the net loss could be even greater because of the operation of the floor mechanism.

18. In short, the financial position (outside schools) for next year is difficult and particularly so over the medium term.

19. The proposed changes in education funding from 2006/07 onwards (particularly in respect of ring-fenced 'passporting' grant) is a fundamental change. It represents, in advance of the detail, significant risks in terms of arbitrary top-slicing of base formula grant – currently supporting LEA or other services – to support 100% ring fenced grant for core (passported) school funding. There

are also issues about the operation of the Local Management of Schools (LMS) distribution formula to reflect local needs etc. More generally, the movement to specific grant risks a superficial 'arithmetical' solution to the balance of funding being presented.

### Balance of Funding

20. On 20 July the Government published a report on the work to date on the Balance of Funding. It then promptly announced a further study which will not report until next year at the earliest. The 'interim' report also appears to support the retention of the council tax but with modifications, but seeks further work on additional local tax schemes including local tax schemes including local income tax as well as the return of the business rates to local control. Sadly, the Government's interim report makes little mention of addressing the 'Balance of Power' (i.e. the proper constitutional position of local government to then inform the consequent balance of funding). This was a key point made by the council in its submission on the Balance of Funding.

21. As expected, further examination includes assessing the impact of the planned council tax bands revaluation in 2007/08. The Government's interim report also appears to signal changes in council tax bands; most significantly increasing the number of bands, particularly at the higher property value range. As members have been previously advised, revaluation could see further shifts of grant away from the south east because of the relatively high house price inflation in the south east since the last valuation. Changes in the number of bands could add to this effect but would certainly impact, in terms of increased council tax, on owners of relatively high value properties (due to house price inflation). This would particularly affect those in that situation who are beyond benefit assistance but are relying on fixed incomes or those where disposable incomes are already under pressure to support relatively high house prices. Clearly, in both cases, this represents a particular issue for East Sussex. It would, however, be premature to speculate on the precise effects – in terms of 'winners' or 'losers' in advance of final decisions on the Balance of Funding.

22. The Government's announcement also underlines the importance of residents maximising their legitimate take-up of benefits in support of council tax costs. This must be supported and indeed chimes with particular initiatives already launched by this Council to that effect.

23. As already mentioned, one must not lose sight of the risk of changes in school funding (in 2006/07) being 'positioned' as contributing to a significant increase in the Balance of (local) Funding in support of net spending (i.e. net of specific grants). This has long been feared and would only address the issue in a superficial 'arithmetical' way rather than addressing (and preferably recognising) the need for real local power to make choices on priorities and service levels.

### Local Position – Standstill Pressures

24. After adjustments for one-off items included in 2004/05 and other base adjustment changes, the 2004/05 adjusted base budget is as follows:

	<b>£m</b>
Schools budget	208
Capital Financing, Treasury Management, Levies, Contribution to Reserves	38
Waste (including Corporate Waste Provision)	21
	<u>267</u>
T&E (Highways)	15
T&E (Other)	12
Libraries	6
Social Services	122
Central LEA	23
Chief Exec's, CRD, Misc	18
<b>Total</b>	<b><u>463</u></b>

25. All budgets will attract inflation. Simply adding assumed wage inflation of 3% and general price inflation of 2.5% will add some £12m to the budget in each of the next 3 years. Maintenance of existing policies will increase this by a further £10m in 2005/06 – slightly less in the following two years.

	2005/06 £m	2006/07 £m	2007/08 £m
Inflation on all services	11.7	12.2	12.7
Additional to meet passporting	2.3	4.0	2.4
Social Services – self funders, learning disabilities	2.9	2.8	2.9
T&E – revenue effects of capital programme and other standstill	0.4	0.8	0.2
LEA block and Libraries	0.3	0.2	0.2
Corporate Waste Provision	2.5	2.5	-
Debt Charges	1.1	0.8	0.8
E Government Provision removal	(1.0)	-	-
Single Status	0.6	-	-
Pension Increase (phased)	1.1	1.1	1.1
Cost of 2005 elections	0.4		
Other	0.3	(0.1)	(0.2)
<b>Standstill Increase</b>	<b>22.6</b>	<b>24.3</b>	<b>20.1</b>
<b>% Increase (on 04/05)</b>	<b>4.9%</b>	<b>5.2%</b>	<b>4.1%</b>

*This table does not take into account any efficiency savings and, crucially, a variety of other risks.*

#### Other Risks not Included in Standstill so far

26. There are a number of other risks not yet included in standstill and in most cases subject to uncertainty, currently, as to precise impact and possible timing. These include the following:

	2005/06 £000	2006/07 £000	2007/08 £000
Excess inflation (above RPI)	1000	1000	1000
Loss of Preserved Rights Grant	1500	1000	-
Travellers	200	-	-
Highways re-tendering	750	750	-
Bexhill Link Road	-	1500	1000
Single Status	300	300	-

27. There are also a number of currently less quantified but no less significant risks including delayed discharges, single status, Landfill Allowance Tax Scheme, the impact of ceasing contributions to the E-Government reserve, the impact of the Children Bill (including Children's Centres), responding to regionalism, major planning enquiries and changes in Supporting People funding.

28. At this stage the only sum included in standstill against these risk areas is the £2m labelled below as 'New Risks' for 2005/06 (and a further £1m for each of the following two years) and £0.7m pa excess inflation provision. Standstill and risk pressures will continue to be refined during the year.

#### Overall Standstill and Other Risk Pressures

29. Taking all of the factors set out above the position for the next 3 years is:

	2005/06 £m	2006/07 £m	2007/08 £m
Inflation – all services	11.7	12.2	12.7
Additional for Passporting	2.3	4.0	3.0
Other Standstill	8.6	8.1	4.4
	<u>22.6</u>	<u>24.3</u>	<u>20.1</u>
Excess Inflation Provision	0.7	0.7	0.7
New Risks Provision	<u>2.0</u>	<u>1.0</u>	<u>1.0</u>
	<u>25.3</u>	<u>26.0</u>	<u>21.8</u>
of which:			
Schools Passporting (inc. inflation)	8.0	10.4	9.0
Standstill on other services	17.3	15.6	12.8

### CBOSS Efficiency Savings

30. Cabinet will remember that base budget efficiency savings of £300,000 (from 2005/06) were included in the MTFP when the CBOSS contract was let. Further work has been undertaken and this indicates that ongoing efficiency savings of some £450,000 should be achieved from 2005/06 and a further ongoing savings of £400,000 from 2006/07 (in total this equates to about 35fte posts). Of this total saving some £150,000 relates to areas which form part of the schools budget.

The detailed departmental targets which make up these totals have been shared with Chief Officers and will contribute towards savings requirements required as part of Reconciling Policy and Resources.

### Funding available

31. The medium term plan for 2005/06 presented to Council in February made the assumption that the grant increase would only marginally exceed the schools passporting requirement – which was the reality in 2004/05. This remains the planning assumption and is reflected in the plan.

### Comparison of Pressures and Possible Funding Scenarios

32. The position for 2006/07 onwards can only be considered indicative at this stage; not just because of funding uncertainties (e.g. schools) but also possible changes in the council tax methodology and council tax revaluation as well as the need to crystallise a number of spending risks not yet included in standstill. For 2005/06, the standstill and other accepted risks, compared to the funding assumption and before any savings targets etc., would indicate a council tax increase requirement of 8.7%. In determining the way forward it will be important for Cabinet to consider this in the medium term context and to be clear on:-

- a. preferred level of Council Tax increase;
- b. core policy priorities;
- c. appreciation of difficult/impossible to avoid costs;
- d. areas to protect/ areas of further investment; and
- e. consequent level of savings required – over the medium term – and their credibility/deliverability in comparison with the discretionary costs base.

33. Given the various uncertainties, it will be necessary to revisit the planning guidelines continually during the Reconciling Policy and Resources process.

## Outturn 2003/04

34. The draft accounts, subject to external audit, were approved by the Governance Committee on 12 July. The form and content of those accounts are heavily prescribed in legislation.

35. The emphasis placed on improved budget management as part of the Excellence in Financial Management initiative (including training for over 400 budget managers) is reflected in the outturn. Departments underspent by £3.7m (0.8%) on a total budget of £458m - a major improvement on the previous year. The underspend of £2.1m on treasury management and other risks was allocated as part of setting the 2004/05 budget.