REPORT OF THE CABINET

The Cabinet met on 26 July 2011. Attendances:-

Councillor Jones (Chairman)
Councillors Belsey, Bennett, Bentley, Elkin, Freebody, Glazier and Maynard

1. Reconciling Policy and Resources – State of the County

1.1 The Cabinet has considered an overview of the national and local policy, financial and performance context for 2011/12 to 2014/15 which will provide the development of detailed business and financial plans for consideration by the County Council.

National and Local Policy Context

1.2 The Cabinet has considered an overview of the policy context within which the Council's targets and priorities need to be reviewed and developed (Appendix 1 of the report to the Cabinet previously circulated to all members). These issues include:

Localism Bill – this is a significant piece of legislation which looks to devolve decision making powers from Whitehall to communities and their local democratically elected representatives. There are seven parts to the Bill – local government, EU fines, non-domestic rates, community empowerment, planning, housing and London.

Open Public services – in July 2011 the Government published a white paper setting out its public service reform programme and five principles for modernising public services.

Economic Development – the Local Enterprise Partnership will play a key role in determining local economic priorities and undertaking activities to drive economic growth and the creation of local jobs providing a means for local authorities to work together with business in order to quicken economic recovery; the Regional Growth Fund will operate until 2014 to stimulate enterprise by providing support for projects; Enterprise Zones will be decided via a competitive process with a preference for proposals which offer the best prospect for increased growth.

New Homes Bonus – in the first year the Council has been allocated £375,000

Community Budgets – the target of these budgets is to tackle social problems around families with complex needs with local authorities working with other services such as the police, probation, fire, third sector etc

Budget and Local Government Finance – the Government has committed to reduce the national fiscal deficit over the period of the Parliament and the consequent funding reductions for local government announced in the Comprehensive Spending Review 2010. In addition to in year cuts of £8.4m in 2010/11 the Council has to save £100m over the four years until 2014/15. The number of Government grants paid to local authorities is to be streamlined with the

Local Services Support Grant being the payment mechanism for a number of funding streams. The Government is conducting a major review into the way local authorities are funded as part of the localism agenda with the aim to give authorities greater financial autonomy

Commission on funding of care and support – the Commission's report was published in July 2011 with 10 recommendations for the Government to consider to achieve an affordable and sustainable funding system for care and support for adults. The Government is due to publish a White Paper in the Spring of 2012.

Health and social care – since 2010 there has been significant activity in the health and social care agenda and it is likely that this will continue. Local changes have begun with the merger of the management teams of local Primary Care Trusts (PCTs), East Sussex achieved 'early implementer' status for Health and Well Being and Public Health, and clinical commissioning groups are being established. Key groups of staff, including Public Health, have moved from PCTs to the Council.

Munro review of child protection – the report was published in May 2011. The Government's response, published in July 2011, sets out proposed actions for Government and local services.

The Education Bill – the Bill implements the Government's education reform programme and aims to create an educational system that delivers ever higher standards for all children

Special Educational Needs and Disability – the Green Paper published in March 2011 was generally well received by the Council with a number of issues proposed by the South East Seven Partnership included although a number of issues seen as key by the Partnership were not acknowledged in the Paper.

National review of waste policy – the conclusions of the review sit comfortably with the policy direction of the County Council and the South East Seven Partnership – in particular it reinforces our policy steer of minimising waste to landfill

Shared services - the South East Seven is a partnership of authorities committed to working together to find opportunities to reduce costs, improve service delivery and enhance public facilities and services in the south east.

Police Reform and Social Responsibility Bill – this lays out the Government's plans for reforming the policing and licensing systems, establishing elected Police Commissioners and creating new scrutiny committees.

Public Sector Pension Reform – the recommendations of the review set out how public sector pension schemes should be changed.

Future of Public Audit – proposals regarding a new audit framework have been consulted upon and the outcome of the consultation is awaited

Fire merger – East Sussex Fire Authority has entered discussions with West Sussex County Council's Fire and Rescue Service to explore some form of collaboration or merger to deliver better value for money and long term sustainability

Policy Steers

1.3 The Council has agreed its overall Promise and supporting Policy Steers for each portfolio area to guide business and financial planning (as set out in Appendix 6 of the report to the Cabinet). These need to be revised to ensure they reflect the changed circumstances and new context in relation to finance, policy and the drive for greater localism. Changes will be proposed by the Cabinet in October 2011, after consultation with the Scrutiny Committees.

Financial Context

1.4 Until 2014/15 reduction in the structural deficit, is at the heart of the Coalition Government's priorities and will remain a priority and a core planning context for the whole of the public sector and indeed the wider economy. The 4 year Comprehensive Spending Review (CSR) set out significant funding reductions for all public spending. The reduction for Local Government related spend was above average and front loaded. The actual settlement for Local Government represented 27% reduction in funding in real terms over 4 years. As part of this some specific grants were also reduced, particularly those in relation to education.

1.5 For Local Government the % cash funding reductions for the coming 4 years are:

2011/12	2012/13	2013/14	2014/15
-8.4%	-6.5%	-0.8%	-5.4%

In real terms, these reductions amount to a 27% reduction in funding, but the position is complicated by the fact that certain specific revenue and capital streams will be directed through different Government Departments.

1.6 In relation to general funding for Local Government, specific allocations for both 2011/12 and 2012/13 have been confirmed for each Authority (the allocations for 2013/14 and 2014/15 are yet to be confirmed due to the Government's intention to fundamentally review Local Government finance). The review will consider replacing current Formula Grant and introducing local spending power changes (in conjunction with Council Tax) that will be heavily linked to growth in local business rates (rather than Formula Grant as is the case now). The position for individual Authorities is difficult to predict at this stage but the overall scale of reductions in Local Government funding set out in the CSR are expected to be honoured for 2013/14 and 2014/15.

1.7 The terms of reference for the fundamental Local Government Resource review were published in March 2011. The core objective of the review is to consider the way in which Local Authorities are funded, with a view to giving Authorities greater financial autonomy and strengthening incentives to support local economic growth. Timescales for the review are short with the Government committed to implementing a new approach in 2013-14. Phase 1, to be published for consultation in July 2011, is focusing on the localisation of business rates. Following the creation of Dedicated Schools Grant, most of the remaining total of Formula Grant is actually financed by the national pool of 'business rates' (NNDR), so localisation would inevitably require radical changes to the existing formula grant system. In fact, going forward it will not be possible to simultaneously operate a need based formula grant system and localise business rates. The County Council will need to consider the precise impact when more detail is available. The change would fundamentally alter both the relationship with Government and, more crucially, create a direct financial incentive for Local Government to promise business growth.

Local Context

1.8 The County Council's gross spend is over £800m. This figure becomes £358m (net) when spending on schools, specific grants and local fees and charges are excluded. It is this net spending which is important for the purpose of the Council Tax calculation, and consequent public reporting. Of this figure, £118m (33%) is met from Formula Grant and the remaining £240m (67%) is funded from Council Tax.

	£m
Gross spend	832
Less dedicated schools grant	(309)
	523
Less:	
Specific grants	67
Local fees and charges	92
Council tax freeze grant	6
	358
Financed by:	**£m**
Formula grant	118
Council tax	240
Net revenue budget	358

(Note: Even excluding direct schools gross spending is over £0.5bn p.a.)

1.9 The net budget of £358m is broken down across the Council's main departmental areas as follows:

	Net Budget £m
Children's (excl DSG)	65
Adult Social Care	167
Economy, Transport & Environment	59
CRD/Governance & Community Services	27
Treasury costs etc	40
	358

1.10 While it varies across departments, approximately 39% of spend is on staffing costs. This reflects the mixed economy model of provision (in-house and outsourced) already in place by degree across all our departments. There will be many Authorities in different parts of the country who have a higher in-house employee cost element.

1.11 In settling the 2011/12 Revenue Budget the Council had to make some £37m of savings, £9m of this was due to specific grant reductions and £28m due to the mixture of Formula Grant reductions and spending pressures.

Local Funding provision

General Funding

1.12 There remain two key revenue funding streams, general funding and specific grants. Currently, the County Council's general or net budget resources are dependent upon Formula Grant and Council Tax. On a like for like basis our general Formula Grant was reduced by £17m or 12.6% for 2011/12. This was partly offset by a Council Tax freeze grant which gave us income of £6m (equivalent to a Council Tax increase of 2.5%). We can be reasonably confident that Formula Grant reductions for 2012/13 will be £9.3m (-8%) less than 2011/12, at £108.5m. Beyond that we can only work at this stage with the average national quantum reductions of some 1% for 2013/14 and 6% for 2014/15.

1.13 Combining the above with current Council Tax increase assumptions provides the following net general resource changes over the next 4 years.

		Change £m		
	11/12	**12/13**	**13/14**	**14/15**
Formula Grant	117.8	-9.3	-1.1	-6.4
Council Tax	240.3	3.7	4.9	5.0
	358.1	-5.6	3.8	-1.4

(**Note:** the planning assumption of 2% Council Tax rise in 2012/13 to 2014/15 remains. Also the assumed council tax increase for 2012/13 is net of a falling out of the one off collection fund surplus in 2011/12).

Specific Grants

Our two remaining core and on-going specific grants are as follows (with changes for 2012/13 more certain than for the following years):

	12/13	13/14	14/15
Early Intervention (£18.2m)	0.7	(0.2)	(1.0)
Learning Disability/Reform (£17.1m)	0.4	(0.2)	(1.0)

Local Spending Pressures

1.14 In addition to simple inflation of some £6.5m to £6.7m p.a. over the next 3 years, the Council could face £14.7m p.a. of demographic, social care and other ‘normal’ pressures in 2012/13 and £10.7m and £8.9m in 2013/14 and 2014/15 respectively. In addition, a particular spike in pressures of over £6m is expected in 2013/14 with the withdrawal of the additional PCT directed income for Adult Social Care received for 2011/12 and 2012/13.

In summary:

	12/13		**13/14**		**14/15**
Simple Inflation	6.5		6.7		6.7
Other Services Pressures:	14.7		10.7		8.9
PCT Income			6.6		
Total Spend Pressures	**21.2**		**24.0**		**15.6**

Key Assumption Notes

(a) Simple inflation assumes for 2012/13: 0% for wage increases and 4% for prices. For 2013/14 and 2014/15 simple inflation assumes: 2% for pay and prices.

(b) More work is being done on better understanding and modelling key spending pressures going forward.

1.15 Comparing our assumption on net resource changes and base budget spending pressures gives the following picture:

(£m)	12/13		13/14		14/15
General Resources + / (-)	5.6		(3.8)		1.4
Spend Pressures	21.2		24.0		15.6
Gap	26.8		20.2		17.0

Cumulative – next 3 years	64.0
Additional for specific grants (say)	3.0
Total funding gap for next 3 years (£m)	67.0

In addition to the £37m savings for 2011/12, this produces real funding reductions of over £100m for the four years 2011/12 to 2014/15.

Other financial planning and risk issues

Capital

1.16 For a number of years the Council has operated with a medium term (four year) plan for its capital investment programme. As for medium term revenue forecasts, capital resource planning is not exact with capital grants seldom being known for longer than two years and local funding, in terms of capital receipts, being subject to the vagaries of the market.

1.17 As it stands the Council approved a gross capital spend plan of £343m in total over the 4 years to 2014/15. £221m was assumed to come from Government grants; leaving a demand on local resources (borrowing or other resources) of £122m. The gross spend and specific grant dependencies are dominated by the Hastings to Bexhill Link Road and Academy assumptions (the latter have been largely confirmed).

1.18 With a specific link to current Economic Development priorities and the incentive opportunities from business growth in the future, the Leader and Deputy Leader have requested a fundamental review of the future Capital Programme. This does not affect current committed programmes for 2011/12 onwards – such as Academies, The Keep, prudential borrowing for Highways etc but will affect future plans. This will mean reviewing the use of the broad, provisional but un-committed, late allocations for both Highways and school maintenance (£36m in total), put in the programme in February on the back of late and unexpected grant awards. At that same time some £5m of resources were also identified as general capacity. As a result, £41m of uncommitted resources can be considered as part of the fundamental review.

1.19 The following (key) aspects of the process are proposed:

- Lead Members, in conjunction with their lead officers, to review existing scheme priorities to ensure they meet policy priorities and, where appropriate, maximise economic development and regeneration potential; and
- New bids and schemes are invited that address, particularly, opportunities to improve and enhance the economic base and economic potential of East Sussex.

1.20 In all cases capital programme schemes or new bids have to set out costs and benefits, and only proceed when appropriate project plans are in place. In addition, the Council will want to include important decision criteria such as invest to save and risk management in the process. The task calls for a sharper focus on validating policy priorities and economic development in general. It is intended that the above process will be completed by the end of September 2011. This would allow decisions in October (as a first phase), on any re-orientation of the Capital Programme.

1.21 Under the Prudential Borrowing Code there are, effectively, few limits to the capital the Council is able to raise subject to the borrowing being evidenced as prudent, sustainable and affordable. Like any borrower, the Council has to make repayments of principal and interest over the expected life of the asset created, and has to be able to afford the repayments. Consequently, raising capital finance puts increased pressure on the revenue account, which becomes extremely difficult when there is severe pressure on revenue expenditure.

Other matters

1.22 Every pound spent on running the Council is a pound that is not spent on front-line services. There is a cost associated with running any Council but in continuing to minimise and reduce that cost we are doing everything we can to be as efficient as possible, reduce the running costs, streamline management and get the best value out of our assets. Inevitably the scale of change and restructuring implicit in accommodating the revenue funding reductions implied for the future is leading to redundancy and restructuring costs. Current policies are under ongoing review as are the size of necessary reserves and provisions as part of the Reconciling Policy, Performance and Resources process. More generally, the Council will need to maintain adequate risk reserves. However, in some areas (particularly the Waste Reserve) the development of the project beyond major construction stage allows for the level of the reserve to be reviewed with a view to being able to release some resources for other purposes. This and other routine reviews of all reserves will form part of the work programme and will also inform the fundamental review of the capital programme.

1.23 The Council's strategic risk register sets out a variety of other risks including in-year and future exposure to high volatility revenue budget pressures in both Adults' and Children's Social Care. These areas will need to be managed closely.

Reconciling Policy and Resources Mechanism

1.24 The RP&R process for 2010/11 has been reviewed and, whilst it concluded that it has worked well, there are changes that need to be made to cope with the scale of challenge over the next three years. The key changes are:

- RP&R will become Reconciling, Policy, *Performance* and Resources (RPP&R). This makes it explicit that we need to balance three elements where choices can be made – Policy (what to do), Performance (how well to do it) and Resources (at what cost). The intention is not to focus on identifying cuts but, more positively, to decide how to spend well the budget that is available and challenge ourselves across the three elements of RPP&R to deliver the best possible value for money;
- having a full three year budget;
- to link policy, performance and resources to an overall commissioning approach for each set of services (a fourth choice – how to do it). This will be supported by using 11 smaller 'service areas' in each portfolio as the basis for integrating financial and performance information and so allow for finer

choices to be made about how resources are allocated and how services are commissioned.

1.25 The proposed service areas and 2011/12 budgets are set out below:

- Corporate Governance - Democratic Services (including members); Chief Executive's Office; audit; Section 151 responsibilities; monitoring officer.
- Corporate Support Services - Legal, personnel and training, finance, IT and property.
- Community Services - Libraries, archives, registration.
- Economy – economic development, trading standards and transport strategy.
- Transport – Highways, street lighting, busses, parking and rights of way
- Environment – Planning, waste and environment.
- Children's social care – Children's social care (excluding disability social care) and safeguarding.
- Access and disability - Disability social care, school admissions and transport and special educational needs.
- Learning and school effectiveness - Early intervention services; Schools and Learning Effectiveness and Inclusion Support.
- Older People
- Working Age Adults (including community safety).

1.26 The essential elements of our commissioning approach are: to set the direction for services in Policy Steers (based on an analysis of local needs); design appropriate services and rigorously assess the best means of delivery; procure and deliver the services; and then monitor and evaluate how successful we have been in achieving value for money for local people.

1.27 The Annual Report will be produced drawing heavily on State of the County. It is a public facing summary of the Council's work in the past year that will address elements of the transparency on local accountability agenda. We will have regard to national developments and guidance that may be relevant such as the new public audit arrangements, reporting on adult social care and Local Government self regulation. We intend to integrate these elements where possible and as and when they are finalised. We aim to minimise duplication and present a coherent single report on the Council's progress.

1.28 The process of carrying out service reviews is being revised to support our commissioning approach. The service review programme is being updated to reprioritise some reviews, add new areas and include high level monitoring information. In support of the programme, service review guidance is being updated, strengthening the links to commissioning including needs analysis and evidence gathering. The guidance also includes practical tools to support officers undertaking the reviews.

1.29 Adjustments will be made to RPP&R to fit with the new Cabinet portfolios. The current Council Plan 2011/12 will be reorganised so that Policy Steers are grouped around the new portfolios ready for monitoring of performance in quarter 1.

1.30 In total these changes should produce a more robust and transparent process to support good decision making and local public accountability. In making these changes we recognise that the first year is one of development and that we are setting a direction for year on year improvement. Further detail on the overview of the mechanism and details of the changes were set out in Appendix 3 and 4 of the report to the Cabinet.

Cash Limits

1.31 The Cabinet has approved the provisional cash limits for 2012/13 to 2014/15 (as set out in Appendix 5 of the report to the Cabinet).

Communications Plans

1.32 A set of key messages were used last year in media and staff communications. These will be reviewed to ensure all communications, both internal and external, give consistent messages. A range of consultation and engagement has been taking place about the service changes which have taken place as a consequence of this year's budget changes. The information from these exercises has been used in equality impact assessments of service changes. We will need to develop an appropriate programme of communication and engagement to support any further service changes in 2012/13.

Conclusion

1.33 In October 2011 the Cabinet will consider revisions to the Promise and Policy Steers, following comments from Scrutiny Committees in September. Lead Members and Chief Officers will continue modelling the service impacts of the provisional cash limits, the best deployment of resources and the development of portfolio plans.

26 July 2011

PETER JONES
Chairman