Appendix 4

FINANCIAL CONTEXT

1. NATIONAL FINANCIAL AND ECONOMIC CONTEXT

1.1 The general state of the economy is an important factor in setting the County Council's budget and Medium Term Financial Plan (MTFP) for the **three** year planning horizon, 2014/15 to 2016/17. Poor UK economic growth performance and prospects means an almost certain protracted period of severe cuts and rigid restraint in public funding will continue to drive down the budget deficit.

1.2 The Government continues to make it clear that one of its major priorities is to tackle and eliminate the national budget deficit. The Chancellor announced in the 2013 Budget that the Government's themes for the Spending Round will be '*growth, efficiency and public service reform, including localism and fairness'*. *These messages were reinforced when the Chancellor in June announced the outcome of the Spending Review 2013. The Government also continued to set out its long term strategic plan for capital spending to build, repair and renew key infrastructure to support the economy in the Treasury document which followed the CSR 2013 called "Investing in Britain's future".* A full update of the national infrastructure plan is expected in time for the Autumn statement 2013.

1.3 It is normal practice to hold a spending review a year or two before the end of the period covered by the previous one, to ensure that forward plans are in place to provide more detailed plans. However, whilst this normally covers two/three years; the June review only covered 2015-16. The 2012 Autumn Statement did, however, show that departmental resource (revenue) budgets will continue on the same trajectory in 2015/16 as over the Spending Review 2010 (SR2010) period and that much larger cuts are forecast between 2015-18 than have been achieved or budgeted for in previous years.

1.4 The 2013 Spending Review confirmed the messages from the Autumn Statement with Total Managed Expenditure (TME) decreasing at a real terms rate of 0.4% per annum on average, the same rate as over the 2010 Spending Review period. The more general announcements in the Spending Review 2013 included:

- An efficiency review of schools, published by DfE, which shows significant variance in back office costs between schools and outlines measures to support school-level financial efficiency, including improved benchmarking data on school spending.
- The Government through its capital spending recognising the need for continued investment and committed to fund a pipeline of specific projects worth over £100 billion over the next Parliament, including over £70 billion in transport, over £20 billion in schools, and over £10 billion in science, housing and flood defences.
- Information that the single local growth fund will total £2.019bn in 2015/16, which Local Enterprise Partnerships will be able to bid for.

More about the Local Government Context is set out below.

2. LOCAL GOVERNMENT CONTEXT

2.1 A provisional settlement for 2014/15 was announced in March 2013 which continued reductions in local government funding. The 2013 Spending Review covered a number of areas set out below.

2.2 On Local Government funding and spending the Chancellor said:

- The Department of Communities and Local Government (DCLG) Local Government Departmental Expenditure Limit (DEL) will be reduced from £25.6bn in 2014/15 to £23.5bn in 2015/16, a reduction of 10.0% in real terms and 8.2% in cash terms.

- Local government spending will reduce from £54.8bn in 2014/15 to £54.5bn in 2015/16, a reduction of 2.3% in real terms and 0.5% in cash terms (because of other funding announcements on schools, social care and troubled families).
- From 2015/16 £400m of the New Homes Bonus will be pooled within Local Enterprise Partnership areas to 'support strategic housing and economic development priorities'.

2.3 Council Tax

- Funding for a further council tax freeze in 2014/15, payable in 2014/15 and 2015/16, has been announced. According to the DCLG "authorities that freeze or reduce their Band D Council Tax will receive a grant equivalent to a 1% increase on 2013/2014 Band D Council Tax levels" in both years.
- Funding will continue to be provided for previous council tax freeze grants 'for councils who have kept their council tax down since 2011/12'.
- The council tax referendum limit will be set at 2% for 2014/15 and 2015/16.

2.4 Transformation of Local Services

A 'key objective for this Spending Round is better cooperation between services at a local level', a clear example being the Whole Place Community budget pilots. *This includes:*

- £100m collaboration and efficiency fund to support 'upfront costs' of local authorities working together and encourage 'better ways of operating', such as for new IT systems
- £30m in revenue funding from the local government finance settlement to 'encourage greater collaboration' between fire and other emergency services.

2.5 Children's Services

- The Troubled Families Programme will be extended to more families from 2015/16, with £200m in funding, led by DCLG and drawn from several government departments.
- DfE and DCLG will 'examine the scope to improve outcomes, reduce burdens and drive efficiency in children's services', reporting on progress in autumn 2013.
- Schools funding and the Pupil Premium will be protected in real terms and the new schools funding formula will be introduced from 2015/16.

2.6 Health and Social Care

- £3.8bn funding will be pooled between NHS and councils 'to support and reward integrated working' in 2015/16. This includes an additional £2bn from the NHS, building on the current transfer from NHS to social care.
- £200m additional funding from the NHS in 2014/15 'to ensure that closer integration between health and social care can start immediately…as an upfront investment in new systems and ways of working that will benefit both services'.
- £335m in 2015/16 to support implementation of social care costs cap from April 2016.
- Local government will be 'fully funded' for the transfer of Independent Living Fund to the local authority social care system.

3. THE COUNTY COUNCIL'S POSITION

3.1 The Council developed a balanced three year MTFP and this is based on the delivery of a £70m savings package across 2013/14 to 2015/16.

3.2 The published MTFP for 2014/15 and 2015/16 is being updated including an additional year (2016/17) to maintain a three year strategy.

3.3 These adjustments are intended to inform the quantum of overall savings required over the new MTFP period which will include 2016/17. Pending further information they include:

- To fine-tune for expected changes in formula grant/business rates retention
- Obtaining more information on funding changes including health and other specific grants
- Outcomes from the income review taking place which includes grant arrangements
- Estimate of the financial shortfall when schools migrate to new Academies
- Impact of Council tax benefit localisation and the local year 2 review
- Other statutory and corporate items.

3.4 The approach to continuing to maintain a balanced budget for the three year period ending 2016/17 is now being prepared including reviewing cross cutting opportunities.

4. GOVERNMENT GRANTS 2014/15 ONWARDS

4.1 Business Rates Retention ~ previously through Formula Grant

4.1.1 Previously, all business rates income collected by billing authorities was “pooled” nationally by the Government, with this income being redistributed to individual authorities through the Formula grant system. From 1 April 2013, business rates is retained locally, by a system of funding transfers to County Council’s, Fire and Police that will give a financial incentive to councils to undertake economic development and benefit from increases in business rates collected locally. [NB. Businesses still pay the same rate of local tax which would continue to include the nationally set multiplier, valuations and reliefs.] This change works in conjunction with similar incentivisation in respect of the council tax base.

4.1.2 Business rates retention proposals cement the existing national formula grant distribution through resetting each authority a baseline and absorbing currently separate funding streams into the process. Each of these will materially reduce (or reduce to zero) grant dependency on central Government. At the same time new volatility is introduced into major revenue streams from the very beginning onwards. There are safeguards of levies and safety nets, and tariffs and top ups to reduce funding “turbulence”. The County is a “top up” authority receiving £54.7m in 2013/14 by this means. In this context, the partnership between the county and boroughs and districts is likely to become more significant.

4.1.3 The overall resources available for local government in 2014/15 continues to be constrained and based on the outcome of the 2013 Spending Review further 10% reductions in corporate funding is not considered unreasonable for years 2015/16 and 2016/17.

4.2 Other Corporate Grants

4.2.1 Where there are reductions in specific grants, the existing approach will continue; spending will be reduced on a like-for-like basis as we cannot afford to substitute discretionary funding to replace lost specific grants.

4.2.2 The likely future outcome is that excess business rates will be used to fund other grants for local government rather than this funding being identifiable to supplement local government spending. Ultimately, from 2015/16 onwards, the responsibilities of central and local Government will need to be adjusted to reflect the level of business rates yield or changes made to the regulatory arrangements.

4.2.3 This therefore heralds <u>a zero grant world</u> for local government with diminishing general grant substituted for local control over resources.

4.3 Schools' Funding

4.3.1 The transfer of Schools to Academy status requires the Government to proportionately transfer their central local authority services to Academies. The County has seen a significant resource reduction as a result and is reviewing the associated expenditure in line with the principle of expenditure reflecting grant levels.

4.3.2 The Education Services Grant will be reduced by around £200m in 2015/16. This is anticipated to be delivered 'through realising efficiencies and enabling local authorities to focus on their core role on schools'. We are assessing the implication of this.

4.4 Localising Council Tax Support ~ Council Tax Benefit Localisation/Discounts and Exemptions

4.4.1 The old system of council tax benefits being fully funded by central Government, with the full cost being refunded to billing authorities, at nil cost to council tax payers has changed. From 1st April 2013, the Government abolished this scheme, and it was replaced by a system of locally determined council tax discounts. The Government, as an austerity measure, reduced the grant it currently pays to local authorities by 10%, and billing authorities were empowered to approve local discount schemes to offset these amounts, subject to Government permissions which, for instance, protect pensioner benefits. Given the level of change for the first year only the Government provided transitional funding to ease the implications of changes to the scheme.

4.4.2 The cost of localised council tax support is now spread proportionately across all local authorities according to council tax requirements. As a result 70% of the "volatility" risk from the new arrangements will fall upon County Council revenues. A collaboration project amongst East Sussex authorities agreed a countywide one year scheme and is now developing arrangements for the scheme from 2014/15 and beyond.

5. COUNCIL TAX STRATEGY

5.1 Against the backdrop of the ever-tightening grant settlements, the need to set the council tax at realistic level in light of the current financial climate is exacerbated by the pincer effect through multiple tiers of funding reductions.

5.2 The extent to which savings can be phased over the three year medium term will have a bearing on the levels of sustainable council tax increases.

5.3 The importance of setting the council tax at the most reasonable level possible must relate to how the cuts and tough financial climate are already impacting on people's lives. Through our measured approach and careful financial planning the assurance is that important frontline services are protected, whilst also providing for major investment in East Sussex infrastructure and projects.

5.4 When the budget was set in February by the old County Council it assumed an annual increase of 2.5% in 2014/15 and 2015/16. A 2.5% increase represents approximately a 55-60p increase per week for the average Council Tax payer and provides approximately £5m.The new County Council will need to consider its aspirations for future Council Tax levels as part of the budget setting process.

5.5 As part of reviewing the MTFP and assumed Council Tax for 2014/15 onwards, the County Council will need to have regard to the above alongside the opportunities for Council tax Freeze Grant and that a council tax referendum limit will be set of 2% for 2014/15 and 2015/16.

6. BUDGET PROCESS

6.1 Clearly the Government's intention to reduce the national budget deficit means a prolonged period of austerity and consequential reduced funding for the County Council, year on year and for the foreseeable future. The challenge is unprecedented, and requires us to be clear about our priority outcomes and objectives and to recognise that not all current services can continue as now. Equally, we have recognised that the operational model of the Council needs to change to become more cost-effective in this new environment. The County Council is adopting a commissioning approach to enable it to focus on priority outcomes and objectives, and this will also help inform the way the Council is organised for delivery. The support services have also been consolidated to provide savings through economies of scale.

6.2 This approach is increasingly informing resource allocation decisions as was seen by the differentiation in target setting between support service costs and other costs in developing the current savings plan. This reflects the need to prioritise direct service delivery.

6.3 There is an established track record of managing and monitoring the cuts. The process will serve us well into 2013/14 and subsequent years. Departments are implementing the savings plans agreed by Cabinet in February and the position will be used to update the overall position in rolling forward the MTFP.

6.4 The current published MTFP is being refreshed having regard to matters such as:

- 14/15 provisional settlement adjusted for budget reduction announcement
- 10% reduction based on CSR 2016

Existing savings and pressures plan are being reviewed along with the areas of underspend in 2012/13 to assess if there are base savings are available.

6.5 The financial years after the published MTFP are being assessed to understand the implications; confirm assumptions and assess uncertainties e.g. changes in health funding as well as other external economic factors that will impact on the overall position including interest rates.

6.6 In tandem with this; assessments are being made of whether there are more savings and better outcomes that could be achieved by more cross-cutting reviews in addition to those which are already in place, such as agile and the income review.

7. CAPITAL STRATEGY

7.1 The renewed capital strategy objectives are to:

- Prioritise and coordinate funding
- Invest in the most beneficial projects that will support the long term vision of the council and prosperity of East Sussex.
- Manage capital investment efficiently and effectively

7.2 The strategy is a joined up approach in terms of planning, delivery, management, skills and governance of all our capital projects. The aim is to secure successful outcomes and outputs, eradicate costly delivery failures and increase the confidence of our residents, elected members and staff. This was done by:

- Setting a 5 year rolling programme to provide certainty for projects and the benefits they offer;
- Ensuring investment is co-ordinated across the programme;
- Aspiring to underpin programme planning with robust controls that will include a comprehensive initiation process including deliverability, gateway reviews against key

millstones, financial and benefits realisation reporting, excellence in project and programme management.

- Contingency measures will allow for unforeseen circumstances in between major strategy and programme reviews.

7.3 A mid- term review of the existing programme and overall needs will take place to inform phasing assumptions and the potential to expand the programme including the phasing of this.