REPORT OF THE CABINET

The Cabinet met on 11 October 2016. Attendance:-

Councillor Glazier (Chair)
Councillors Bennett, Bentley, Chris Dowling, Elkin, Maynard, Simmons and Tidy

1. Reconciling Policy, Performance and Resources

1.1 This report provides members with the latest update of the Medium-Term Financial Plan (MTFP) and further information on the areas of search being progressed by officers as savings for 2017/18 and 2018/19. With the exception of the decision required to accept the Government's four year funding offer, the report is presented to share the latest information on funding issues, both national and local and on the development of savings plans. The current position is one of considerable uncertainty with a number of "moving parts" that will only begin to be clarified with the announcement of the Autumn Statement in November.

1.2 The update of the MTFP indicates a projected shortfall against previous plans of £4.9m for 2017/18 together with a number of additional financial risks. In response additional savings of £6.5m for 2017/18 have been identified as areas of search. These savings are in addition to the £17.3m previously included in the MTFP.

1.3 The State of the County report agreed by Cabinet in June set out:
- the main national and local issues facing the Council over the next three years;
- the agreed policy outcomes to be used to act as the focus of activity over the period;
- the strategic and financial challenge we face; and
- the work we have in place to help to deliver the savings over the remainder of the MTFP period.

1.4 The report took into account our existing plans, the likely changes in funding, growth in demand for services due to demographic and legislative changes and set out MTFP which was extended to 2020/21 to match the NHS 3+2 model. In this model there is greater certainty about the first three years than the last two, which are indicative of the direction of travel for the County Council. The report confirmed the current planning assumption of the need to make savings of £70m-£90m during the current three year plan period 2016/17-2018/19.

1.5 Cabinet agreed to continue to develop plans for savings of £17.3m in 2017/18 from the areas of search agreed by the County Council in February 2016. A possible funding gap of an additional £7m was also identified due to the Government's announcements at that time on changes to local authorities' responsibilities for schools. The total savings assumption for the MTFP period still remained £70m-90m. The updated MTFP also assumed that Council would agree to annual Council Tax rises of 1.99% and would apply the 2% Adult Social Care precept that the Government has made available in acknowledgement of the considerable pressures local authorities face in this area.

Medium Term Financial Plan update

National Outlook

1.6 It has been announced that the Autumn Statement will be made on 23 November. The Provisional Local Government Settlement is likely to be in December and a technical consultation on the settlement has been announced that will end 28 October. While it is now clear that the previous objective of a budget surplus by 2020 has been abandoned it will remain unclear until the Autumn announcements how this will affect local government funding.

1.7 The Government has announced that, by the end of this Parliament, local authorities will be funded by use of 100% of the business rates that are raised locally. This proposed change to the business rates system is the most significant change in local government funding since the introduction of the community charge and national non-domestic rates. East Sussex is a net importer of business rates and without some form of continuing top-up from the Government will find funding existing services extremely challenging. A detailed response to the consultation has been sent by ESCC, 3SC and SE7 and is available on request. The outlook for local government finance therefore remains both highly uncertain and highly challenging.

MTFP Update

1.8 Since the State of the County report in June the MTFP has been updated as follows:

- Collection Fund
  The existing MTFP includes an assumption of an annual projected surplus of £2m on council tax collection by the District and Borough Councils for 2017/18 to 2019/20. Based on trends for previous years and additional surplus shown in the collection authorities 2015/16 accounts, it is now clear that an estimated surplus of £4m can be assumed2017/18 to 2019/20. This is an increase of £2m on the previous MTFP assumptions.

- Education Services Grant
  In the previous MTFP, a reduction in the Education Services Grant (ESG) which local authorities receive to fund services for schools from £4.4m to zero was assumed. This was based on the Government's plans to reduce the national ESG budget by £600m. The guidance published alongside July's ministerial announcement now suggests ESG of £0.98m is likely to be awarded to ESCC for 2017/18. This is subject to confirmation and approval by Schools' Forum in January 2017, however, as it is now expected to be approved it is now included in the MTFP.

- Inflation
  A review of the provision for Pay Award/Inflation/National Living Wage has been undertaken. This has resulted in a reduction of £1m for 2017/18 mainly as a result of updating the inflation rates applied to contracts and the removal of the provision for general running costs.

1.9 The updated MTFP is set out in Appendix 1.

Quarter 1 Review

1.10 At the end of quarter 1, the gross projected year-end overspend within service departments was £12.7m. The main areas of overspend were £8.7m in Adult Social Care, mainly due to ongoing pressures on Independent Sector Care. Discussions are taking place with the Clinical Commissioning Groups (CCGs) about mitigating this overspend through the deployment of Better Care Fund contingencies, as was also agreed last year. Moving forward the pressure on Adult Social Care has been incorporated into the planning for East Sussex Better Together (ESBT) which is described below. In addition, there is a projected £4.0m overspend in Children's Services, mainly for Education and Inclusion, Special Educational Needs and Disability (ISEND), Looked After Children (LAC), and Home to School Transport. Children's Services are continuing to work towards fully understanding the range of possible outcomes and to seek further mitigations from existing budgets. The current working assumption is that the in-year service overspends can, through mitigating actions, be absorbed without material impact on the Council's forward financial sustainability. This assumption will be tested continuously through Q2 and Q3 review.

Service plans and pressures

1.11 The Council has confirmed the approach it wishes to take to making savings which is to prioritise its priority areas and to use its operating principles and facilitating programmes to make the best use of the available resources. Savings of the scale that we have made over the last 5 years and will need to make for the foreseeable future mean that all services have and will continue to need to contribute to the savings. There are three particularly significant areas that are detailed below:

The Council's role in Education

1.12 The Government is reviewing its plans for the future of education policy and the role that it expects for local authorities. This means that the loss of Education Services Grant is not likely to be as immediate as was expected in June (see above). The position regarding Dedicated Schools Grant (DSG) is less clear. In June, Cabinet agreed to revise the MTFP to assume the loss of £3m of DSG. It is possible, given the delay in announcements regarding the future funding of schools, that this loss of grant will not occur in 2017/18. For the time being, however, the £3m continues to be excluded from the MTFP.

1.13 The Council will need to continue to plan for the loss of this funding in the medium term however, and to ensure that our schools are well placed to continue to improve education outcomes when the Council is no longer funded to support improvement through the plans we have in place in Excellence for All.

Children's Services, including ISEND

1.14 It was reported at quarter one that there are significant pressures emerging in Children's Services, chiefly in the ISEND, home to school transport and LAC budgets. Work is being undertaken to understand the nature of these pressures and whether more can be done to manage demand.

1.15 The Department is considering ways to mitigate the overspend and underlying pressures within the department. Savings for 2017/18 have been identified which, if confirmed, would provide considerable mitigation towards the overall pressure, leaving a net pressure figure of £1.8m.

1.16 Further work is underway to identify further savings for 2018/19, as current indications are that there will be a net pressure of £7.3m by that year – due to the temporary nature of some of the 2017/18 savings as well as increasing pressures in ISEND.

1.17 In summary, the current working position regarding children's services budgets and their impact on the MTFP is as follows:

	2017/18 £million	**2018/19 £million**
Pressures:		
Underlying Pressures (previously managed through one-off funding, etc.)	2.600	
Emerging SEND pressures	4.600	0.800
Sub-Total Pressures	**7.200**	**0.800**
Mitigations:		
Temporary	(0.800)	0.700
Ongoing (excluding CSD share of additional savings requirement)	(0.600)	
Proposed Inter-Block DSG Transfer (assumed to be one-off only pending clarification of national funding changes)	(4.000)	4,000
Net Pressures	**1.800**	**5.500**
Cumulative	**1.800**	**7.300**

Working with the NHS

1.18 Members are aware that there is growth in the number of older people in the county and the associated need for more care to help with increasingly complex conditions. ESCC is working with the CCGs across the county to try to improve the way that health and social care works together to improve outcomes for residents.

1.19 For residents in the areas covered by the Eastbourne, Hailsham, Seaford CCG and Hastings & Rother CCG, East Sussex Better Together will provide a transformational integrated partnership with the County Council. The East Sussex Better Together Strategic Investment Plan sets out how we will spend the pooled health and social care budgets and identifies a range of schemes which will mitigate increasing demands on services. These schemes will change the way care is delivered, leading to efficiencies in operational costs, reductions in admissions to hospital, improvements in triage and assessment capacity. The investment plans for health and social care will help to ensure that we can meet the growth in the demand for community care by making the best use of available resources.

1.20 In November, Cabinet will consider the model for accountable care. Accountable care brings together health and social care providers to take responsibility for the cost and quality of care for a defined population within an agreed budget. An accountable care system is geared towards preventing ill health (keeping people well) and promoting independence and wellbeing, while ensuring we have high quality hospital, care and specialist services when people need them.

1.21 The delivery of ESBT is heavily reliant on shifting resources away from hospital and into community based care and promoting prevention and health and wellbeing to reduce demand. The NHS has introduced a new planning process in 2016/17 and there is a requirement to develop a Sustainability and Transformation Plan (STP) for Sussex and East Surrey. ESBT has been accepted within the STP as the agreed model for place based planning. There will be a need moving forward to ensure that ESBT continues to be recognised by the STP and NHS England as the most effective way to ensure clinical and financial sustainability across health and social care services. New planning guidance has been issued by NHS England which requires two year strategic plans and Trust Provider contacts to be agreed by early December.

1.22 Within the High Weald, Lewes and Havens area the County Council will continue working with the CCG to develop the jointly agreed Connecting For You (C4Y) Programme. Consideration will be given in future years to how population based commissioning can be fully integrated, pooled budgets further developed and proposals for joint services drawn together within a communities of practice model. For 2017/18 we will work with the CCG to align our plans as we have in previous years, but because this is not full integration, the service offer in this part of the county will be different as will be the proposals for identifying savings.

1.23 Areas of search for savings from within the ESBT pooled budget and for the remainder of services within Adult Social Care (ASC) are set out in separate tables within Appendix 2.

<u>Summary</u>

1.24 Officers have updated the MTFP for agreed identified pressures and further corporate savings as set out in the following table.

	17/18 Estimate £million	**18/19 Estimate £million**	***19/20 Estimate £million***	***20/21 Estimate £million***
Deficit - State of the County	**7.073**	**4.974**	***18.056***	***29.517***
Collection Fund surplus	(2.000)	(2.000)	*(2.000)*	
Pay Award/Inflation/National Living Wage	(1.010)	(1.837)	*(2.428)*	*(2.839)*
Education Services Grant	(0.980)	(0.980)	*(0.980)*	*(0.980)*
General Contingency	0.020	0.020	*0.020*	
Children's Services net pressure	1.800	7.300	*7.300*	*7.300*
Adult Social Care net pressure	TBC	TBC	*TBC*	*TBC*
Deficit - Cabinet 11th October 2016	**4.903**	**7.477**	***19.968***	***32.998***

1.25 There are, however, a number of significant financial issues that will alter the budget gap; however the planning horizon remains within the £70-90m assumption.

1.26 The Council is on the cusp of significant service and organisational change that will impact on the MTFP. The business case for the next stage of development for ESBT will have significant financial implications. The Business Case for ESBT accountable care will be discussed by Cabinet in November setting the policy direction on integration. It is possible that an additional pressure of up to £4.9m may be identified, once the treatment of the demographic and inflationary pressures, along with the treatment of the ASC precept are agreed. Additionally, the negotiations relating to ESBT and with High Weald Lewes and Havens are continuing and there remain a number of pressures and risks that are being worked through. These will be reported to Members later in the year when they are clearer.

1.27 Pressures within Children's services are still being worked through, to ensure that the full range of possibilities have been analysed. Some mitigations are dependent on the support of the Schools' Forum. Currently, the known worst case position on DSG has still been assumed within the above figures; if DSG changes were to be deferred, the position in 2017/18 would improve by £3m.

1.28 There are also risks that our plans will be affected by changes in Government policy. Some of that risk may be clearer when the Autumn Statement has been announced on 23 November. Although, should Cabinet agree to accept it, the four year funding offer (see paragraphs 1.49 to 1.53 below) gives us some level of certainty about funding for next year. There are, however, still significant unknowns for example grants, including our share of DSG, capital funding and the Council Tax income that we can expect.

Areas of Search for Savings

1.29 Chief Officers have identified revised areas of search set out in Appendix 2. The areas of search for Business Services/Orbis, Governance Services and Communities, Economy and Transport are in the familiar format ie set out by department. To reflect the new partnership planning arrangements, the proposals for the other portfolios are set out under:

- ESBT total pooled budget (including of Adults, Children's, Public Health and CCG funding)
- ASC areas of search for savings for those services outside ESBT
- Children's Services outside ESBT

1.30 The table below summarises the areas of search already agreed by County Council and included in the MTFP together with additional areas identified of £6.656m for 2017/18 and 2018/19 (£6.498m in 2017/18 and £0.158m in 2018/19). The update of the MTFP indicates a projected shortfall against previous plans of £4.9m for 2017/18 together with a number of additional financial risks. In response additional savings of £6.5m for 2017/18 have been identified as areas of search. These savings are in addition to the £17.3m previously included in the MTFP.

	2017/18 Areas of Search (£m)			2018/19 Areas of Search (£m)		
	Current: included in MTFP	**Additional – areas of search**	**Total (current + additional)**	**Current: included in MTFP**	**Additional – areas of search**	**Total (current + additional)**
Adult Social Care	2.019	0.760	2.779	4.000	0.000	4.000
Business Services / Orbis	0.981	0.491	1.472	1.396	0.000	1.396
Children's Services (excl. schools)	3.139	1.500	4.639	4.903	*(0.697)	4.206
Community, Economy & Transport	0.999	0.537	1.536	0.894	0.825	1.719
Governance Services	0.100	0.170	0.270	0.104	0.030	0.134
ESBT:						
Adult Social Care	8.074	3.040	11.114	16.000	0.000	16.000
Children's Services	0.036	0.000	0.036	0.069	0.000	0.069
Subtotal ESBT	**8.110**	**3.040**	**11.150**	**16.069**	**0.000**	**16.069**
Subtotal Departments	**15.348**	**6.498**	**21.846**	**27.366**	**0.158**	**27.524**
Capital Programme Man't	2.000	0.000	2.000	0.000	0.000	0.000
Subtotal Centrally Held Budgets	**2.000**	**0.000**	**2.000**	**0.000**	**0.000**	**0.000**
TOTAL SAVINGS	**17.348**	**6.498**	**23.846**	**27.366**	**0.158**	**27.524**

** Savings slipping to 2019/20*

1.31 In addition, there are a number of corporate workstreams that are nearing completion that may benefit the Council. These include the already identified Minimum Revenue Provision Review, which will recommend a new way of calculating the cost that should be charged to the Revenue Fund for long term debt (current annual budget of £12m).

1.32 The Capital Programme resource position will be clearer after the Autumn Statement as Government Grants are a significant proportion of the budget. This knowledge will allow the Council to review how it is funding essential capital needs (currently, there is a £6m annual contribution to directly pay for capital budgets that have a relatively short term life, as well as New Homes Bonus being applied to capital)

1.33 An additional annual £1.1m has been included in the MTFP for the Council's contribution to the pension fund. The results of the triennial actuarial valuation are expected in October 2016 and may reduce this increase.

1.34 There remains considerable uncertainty about Government plans and therefore our likely resources for the next year. These plans should, however, ensure that the Council can set a balanced budget and may provide some options for members to consider as plans develop and the total picture becomes clearer.

Risks, Uncertainty and Next Steps

1.35 The unprecedented and sustained savings the council has had to make over a prolonged period means that there are no easy solutions. Members will be aware that we have needed to make savings in areas of early intervention and prevention in order to maintain and support the growth in demand for people with the most critical needs. The approach we have taken is intended to provide the best possible priority outcomes under the current circumstances, but it is not without risk, both in terms of delivery of savings and in terms of increased growth in demand.

1.36 Following the November Accountable Care Organisation business case, the Autumn Statement and other ongoing workstreams, such as the DSG interblock transfer, the MTFP will be updated again. The 3 year £70-90m gap remains our overall assumption.

1.37 We will need to carefully monitor the effects of implementing the savings proposals agreed for 2016/17 and emerging pressures to help shape the proposals for 2017/18 and to ensure that we set realistic but challenging performance and savings targets for services.

1.38 Members will note from the report that there is significant uncertainty regarding many aspects of the MTFP. At this stage the identified “areas of search” have been developed with a planning assumption of yielding additional savings of £6.5m, in addition to the £17.3m set out in the February 2016 RPPR Cabinet report to the Council, totalling £23.8m for 2017/18.

1.38 Cabinet has agreed to ask Chief Officers to continue to work up proposals on the areas of search and come back with final proposals in January for recommendation to County Council, taking into account comments received from Scrutiny Committees, partners and a further update of the MTFP once the results of the Autumn statement, grant settlement, schools’ funding and accountable care are clearer.

1.39 In summary, there are a range of outcomes that could lead to the current budget gap for 2017/18 being reduced or in fact increased.

Staffing implications

1.40 The savings proposals for the next two years could lead to the reduction of 200 jobs. The County Council has established and robust employment protection policies and will continue to try and avoid making compulsory redundancies, wherever possible.

Capital

1.41 In 2015/16 a high level Capital Programme management review was commissioned in recognition that firm targets need to be set to focus and shape the new 5 year Capital Programme 2018-2023 in light of the financial challenges this presented.

1.42 As reported in June the Council had a gross remaining 2013-18 programme of £205.1m, which, after applying scheme specific income of £45.8m, resulted in a net programme to be financed of £159.3m. The core need programme 2018-23 was revised down to £326.6m from the initial estimates of £414.0m. The estimated level of funding against this programme amounted to £234.5m, creating a funding gap of £92.1m.

<u>2013-18 Capital Programme</u>

1.43 As part of quarter 1 monitoring, the programme was updated for a net overspend of £200k relating to the Bexhill Hastings Link Road. It is proposed that this is funded from the contingency, reducing the contingency from £8.7m as reported at State of the County, to £8.5m. Additionally, £11.0m previously profiled in the current programme for Newhaven Port Access Road has slipped into the 2018/23 programme. Furthermore, net nil variations have been made to the programme of £600k. The updated programme 2016-18 is therefore £194.9m gross which, after applying £46.4m scheme specific income, results in a net programme to be financed of £148.5m.

<u>2018-23 Proposed Capital Programme</u>

1.44 Taking into account slippage from the 2013-18 programme for Newhaven Port Access Road, the gross estimated costs for the core need have now been revised to £337.6m. Work continues where possible to drive down costs to achieve value for money and efficiencies. The uncertain financial outlook continues, largely in respect of Government grant funding for the core activity. Of the £234.5m estimate of funding, £142.8m relates to Government grants, of which, only £2.7m (2%) are confirmed.

1.45 The Autumn announcements are likely to give us more detail of the level of capital funding available from diminishing government sources. Members will be updated in a future report. The capital position is as difficult, if not more so than the revenue challenge. It is hoped that a balanced capital budget can be proposed and agreed by members in February 2017.

Member Engagement in RPPR

1.45 All members will continue to be involved in the RPPR in a variety of ways. The Scrutiny Committees have already begun to review the work they have been carrying out over the last year and the implications this has for the Council's service planning and resources. A summary of their views is set out in Appendix 3. Special scrutiny boards will take place in December. As part of their work programmes, the Committees are involved in the major service change programmes such as ESBT and the Libraries commissioning strategy, which form the Council's thinking on the way forward for the future.

1.45 Following the last Members' Forum in July, a series of others been set up to examine the issues members raised. These are: Accountable Care; roads, infrastructure and drainage; devolution; and the future of local authorities' relationship with schools. There will be an update on the latest overall position on RPPR at each of these briefings.

1.46 The Group Leaders will continue to meet informally regularly to share views and ideas and the Deputy Leader has been meeting with members individually to ensure that all have a the opportunity to understand and participate fully in the choices the Council needs to make.

Lobbying

1.47 Members and officers have been and will continue to lobby for the best interests of the residents of East Sussex directly with the Government, through meetings and briefings with our local MPs, through contact with Government officials and through the various partnerships in which we participate such as SE7, 3SC, CCN and LGA. We have used all these channels to try to ensure that, for example, the implications of the proposed changes to local government finance to the sustainability of services in East Sussex is clear.

Communications and Consultation

1.48 We will carry out consultation on our proposals as appropriate with those affected directly. In addition we will ensure that the public and partners are aware of our plans and the context in which decisions are being taken.

Multi-year Settlement/Offer

1.49 Following publication of the final 2016/17 local government finance settlement, the Secretary of State for Communities and Local Government wrote to all local authorities on 10 March 2016 providing clarification of the requirements for applying to accept the multi-year offer. Acceptance of the offer would provide certainty of funding for those areas set out in the table below, ie the Revenue Support Grant and Business Rate top-up to 2019/20 and Transition Grant for 2017/18, in all but exceptional circumstances; what would be considered an exceptional circumstance has not been set out. Acceptance is entirely optional but the Secretary of State has stated that he could not "….guarantee future levels of funding to those who prefer not to have a four year settlement". A further consultation launched on 15 September, has indicated that other grants may be included in the offer. The letter from the Secretary of State required authorities accepting the offer to publish an "efficiency plan".

	2017/18 £m	2018/19 £m	2019/20 £m
Business Rates Top-Up	58.429	60.153	62.075
Revenue Support Grant	26.727	14.966	3.491
Transition Grant	2.696	-	-
Total	**87.852**	**75.119**	**65.566**

1.50 The offer was made before the recent changes in ministerial responsibilities. It is therefore even harder to identify the full implications of accepting or rejecting this offer. This is particularly pertinent, as the Autumn Statement on the 23 November 2016 is now being seen as an opportunity to reset the public finances, after the target for reaching a budgetary surplus by the end of the Parliament appears to have softened. However, many authorities have indicated that they will accept the multi-year settlement as it does provide some certainty of funding at a time when there is so much uncertainty about local government finances.

1.51 The efficiency plan, set out at Appendix 4, is based on the MTFP agreed by Council in February and updated as part of the State of the County which is reported to Council in July. The plan includes a narrative explaining the Council's RPPR process, its agreed priorities, operating principles and plans for managing within the resources available which were considered in approving the budget, Capital Programme and Council Plan.

1.52 Whilst the acceptance of the 4 year offer is an executive decision, bearing in mind the medium term budgetary implications for the Council, the Cabinet agreed that the view of the Council should be sought on whether to accept the multi-year settlement and on the draft efficiency plan attached at Appendix 4. Should it be decided to accept the offer, the Council should remind the Department of Communities and Local Government (DCLG) of the significant financial pressures around Adult Social Care and Children's Services that need to be addressed and that the reductions in Government Funding cannot be achieved through efficiencies alone, but require difficult cuts in services.

1.53 The County Council is recommended to:

✡ (1) express a view on whether to accept the Government's multi year settlement offer and on the draft efficiency plan

11 October 2016

KEITH GLAZIER
(Chair)