

Report to: Cabinet
Date: 10 October 2017
By: Chief Executive
Title of report: Reconciling Policy, Performance and Resources (RPPR)
Purpose of report: To confirm guidance on activity, spending and savings for the development of final proposals to Cabinet and County Council in January 2018

RECOMMENDATIONS:

Cabinet is recommended to:

i) note progress on activity, spending and savings plans for 2018/19 and agree to their further development for consideration by Cabinet in January 2018;

ii) agree the areas of search for savings in 2019/20 and 2020/21 as set out in paragraph 8.3 below and note that specific proposals for activity, spending and saving in these years will be brought forward when there is greater certainty about future funding; and

iii) agree not to pursue a bid for a Business Rate Pilot and note work with the Borough and District Councils towards reinstating the East Sussex Business Rate Pool in 2018/19.

1. Background

1.1 As part of the State of the County report in the summer, Members asked Chief Officers to continue to develop plans for the Council based on the need to make savings of £21.9m in 2018/19, whilst continuing to focus activity and resources towards the Council's four priority outcomes:

- Driving sustainable economic growth;
- Keeping vulnerable people safe;
- Helping people help themselves; and
- Making best use of resources.

1.2 This report, updates the Medium Term Financial Plan (MTFP – Appendix 1), sets spending and savings priorities in 2018/19 (Appendix 2), articulates the implications of the need to make further savings of an estimated £36.2m over the two years 2019/20 and 2020/21 and suggested areas of search in those two years.

2. Changes to the National Context

2.1 Our planning is being carried out in the context of significant uncertainty in the national outlook, particularly beyond 2018/19. The effects of leaving the European Union (EU) on the national economy remain unknown and may affect the Treasury's plans for public expenditure, even where these appear to have been set to 2020. There are a number of urgent issues that the Government needs to address, for example, the future of health and social care funding, but the squeeze on Parliamentary time caused by arrangements for leaving the EU may hamper its ability to do so.

2.2 The Department for Communities and Local Government's (DCLG's) technical consultation on the 2018/19 budget indicates that there will be no change to allocations for those Councils, like East Sussex, that took up the Government's multi-year settlement offer in October 2016. Government Departments have been asked to consider how they could

contribute to £3.5 billion savings in 2019/20 required as part of the Spring Budget 2017, with £1 billion to be allocated for reinvestment in priority areas. The Councils, like East Sussex, which accepted the four year deal should not see a change in the settlement to 2019/20 but other grants which fund Local Government services may be affected and the Government has said that it could revisit the multi-year deal should the country's economic outlook change.

2.3 Additional short-term funding has been made available for Adult Social Care (ASC) through the option to apply an ASC Council Tax precept and through the Government's ASC support grant (2017/18 only) and Better Care Fund (reducing to zero by 2020/21). The current MTFP includes a 3% ASC precept in 2018/19. The precept was subject to a maximum charge of 6% over the three years to 2019/20. So, as it was levied at 3% in 2017/18, it cannot be raised in 2019/20. The Government has announced that it will publish a Green Paper on the future of social care in the autumn, although there is a lack of clarity about timing. It is imperative that early decisions are taken by the Government to ensure a sustainable care system can be provided for the short and longer-term, if a cliff edge in ASC funding is to be avoided.

2.4 Provisional figures have been published recently for Dedicated Schools Grant (DSG) which appear to give greater recognition than feared to the continuing duties of Local Authorities in providing services such as admissions, school places, home to school transport and support to those with complex Special Educational Needs and Disabilities (SEND). However, final figures will not be available until December and final allocations between schools and the Local Authority will not be agreed until January 2018.

2.5 There has been speculation the Government will scrap the 1% public sector pay cap as it has agreed larger rises for the Police and Prison Officers. If the cap were to be lifted for other public sector staff, it is unlikely to be funded by Government and it would create significant additional pressure.

2.6 The Government is pressing ahead with proposals to make Councils wholly dependent on Council Tax and Business Rates from 2020/21. Invitations have been issued for participation in further Business Rate Pilots in 2018/19. No progress has been made, however, on the Fair Funding Review which would be needed to ensure that areas like East Sussex, which have high levels of need and currently receive a top-up of Businesses Rates from the national pool, can continue to deliver services and meet their statutory duties.

2.7 The Government asked for input into the development of its Industrial Strategy earlier in the year, to which the County Council contributed. Final proposals from the Government on a Strategy and associated infrastructure funding which might help stimulate growth in East Sussex are awaited. The Council has made bids to the Housing Infrastructure Fund for schemes that would help bring house building forward.

2.8 The Autumn Budget is on 22 November 2017. It is hoped that this will provide greater clarity about the Government's plans beyond 2018/19. No changes are expected which materially affect our position next year.

3. Local Context

2017/18 Monitoring

3.1 At Quarter 1, the projected year-end overspend within service departments was £3m. The Council was aware that there were a number of risks to our savings delivery plans, particularly in relation to demand-led services, when the budget was set and the current projected overspend can be covered by the contingency set aside for this purpose.

Council Tax Collection and Growth

3.2 Council Tax growth estimates have reduced since July from 1% to 0.8% – a reduction in income of £0.5m. Collection rate surpluses have also been reduced from £4m for 2018/19 and 2019/20 and £2m in 2020/21 to £3.5m in 2018/19 and £3m in 2019/20.

Update on Business Rates Pool and Pilot

3.3 There are three ways Business Rates growth could be distributed next year and these are set out below.

1. No Pool

3.4 For all Business Rates growth, the Government keeps 50% and returns 50% to the area. Across the whole county this is estimated at £3.8m in 2018/19. The Government takes a levy on the 50% totalling £1.5m, leaving Councils with £2.3m collectively. The County Council's share of any growth is 18% (approx. £400,000). This is the mechanism in operation for the 2017/18 financial year.

2. Existing Pooling arrangement

3.5 50% of the Business Rates growth in the county is retained in a pool to be shared among Authorities. The Government does not take a levy. The whole of the £3.8m estimated growth is retained in East Sussex. The County Council's share would be 18% of £2.3m, plus 40% of the £1.5m levy (approx. £1m).

3.6 If all the parties in East Sussex agree to restart the pool which they ended for 2017/18, they would need to notify the DCLG by 27 October. Notifying the DCLG would not mean they were committed to pooling and the position could be reviewed following the provisional Local Government Finance Settlement.

3. 100% Business Rates Retention Pilot

3.7 The Government has announced that there will be a second round of 100% Business Rates Pilots in 2018/19. All Authorities are eligible to apply for this second round of pilots which will last for 12 months, but the Government is keen to involve two-tier, rural areas.

3.8 Under the pilot arrangements, all Business Rates growth is retained by Councils in East Sussex – estimated growth of £7.6m for 2018/19. Authorities would need to reach agreement on how that funding was split across tiers.

3.9 If the Councils in East Sussex were to bid to become a 100% pilot they would need:

- Agreement, by 27 October, from all parties to participate;
- Agreement on how the funding would be split across tiers; and
- A bid document setting out the above and how the funds would be used, in particular, how it would boost economic development and promote financial stability.

3.10 The DCLG has not decided whether there will be a “no detriment” clause in the latest pilot arrangements, under which the pilot area as a whole cannot be worse off than under the existing 50% pooling arrangements. Given the difficulties there have been under the existing arrangements, it may be difficult to reach agreement in the timescale set by the DCLG. The current pilots have not yet reported, which makes learning from them difficult.

3.11 Whilst participation in the pilot would make additional funding available in the county next year, this would only provide a short-term benefit. The Government's pilot proposals do not address the fundamental issues with its plans to make Councils totally dependent on locally raised funding. The issues include the need for a mechanism to address the imbalance between areas which raise more Business Rates than they need and those, like East Sussex, which import Business Rates. There is also the question of whether Business

Rates growth will ever keep up with the growth in demand for services and whether a property based tax is the right way to fund public services in the future.

3.12 A bid for participation in the pilot would require a great deal of effort in a short time, for little long-term benefit. The energies of Councils across East Sussex may be better spent in trying to ensure the Government addresses the long-term funding needs of Local Government. Having undertaken some initial consultation with the Borough and District Councils there is no strong desire to pursue a pilot bid. It is therefore recommended that the county does not pursue a bid to become a pilot, but works with towards a pool for 2018/19 under existing arrangements.

Pay inflation

3.13 It was agreed in February 2016 that a provision for National Living Wage (NLW) in 2018/19 be set at £4.7m, which reflected increasing the lowest spinal column points to meet the NLW whilst maintaining pay structure differentials. Whilst the Council has implemented a local pay spine, we remain part of the national pay bargaining arrangements. The Local Government unions have submitted a national pay claim for 2018/19 of a 5% increase on all NJC pay points to ensure no salaries fall below the Foundation Living Wage rate of £8.45 per hour. The legal requirement is for payment at the NLW, currently £7.50 per hour.

3.14 If the national public sector pay cap were to be lifted, an additional 1% pay rise would add £1.3m to the Council's current pay bill (excluding schools). The provision made in 2018/19 for the NLW is still considered sufficient; however, it may impact across two years. Pay inflation has been increased within the MTFP by a further 1% to 2% in 2020/21 to reflect the anticipated inflation.

National Funding Formula for Schools

3.15 The MTFP includes provision of £5.75m for 2018/19 for Children's Services pressures. The response to the Stage 2 consultation on the National Funding Formula for Schools and High Needs was issued by the Department for Education on 14 September 2017. The figures use current (2017/18) allocations between blocks as the basis of the calculation, but with the expectation that the funding assigned to services provided by the Council will reduce over time. A limit has also been set of 0.5% of the schools block allocation for transfers between blocks. This means that if high needs SEND spend continues to rise, the Council will no longer be able to fully recoup the funding from schools.

3.16 Final figures will be issued in December, based on the latest pupil number information, and allocations between blocks need to be agreed with the Schools' Forum in January. The current provision in the MTFP is likely to meet the risk in 2018/19. The position for future years remains uncertain, however, and could represent a significant risk.

Changes to the MTFP

3.17 The table below shows changes to the MTFP since State of the County in July. Changes have been for Council Tax and collection fund estimates (see paragraph 3.2 above), an additional provision for pay inflation in 2020/21 (see paragraphs 3.13 – 3.14 above) and general contingency, which is based on our agreed formula of 1% of total corporate funding less Treasury Management.

	17/18 Approved Budget £m	18/19 Estimate £m	19/20 Estimate £m	20/21 Estimate £m
State of the County – estimated savings	0.000	0.000	15.362	33.079
Council Tax – base increase reduced to 0.8%		0.540	1.112	1.717
Collection Fund surplus – reduced projection		0.500	1.000	
Pay award – 2% projection				1.403
General Contingency + minor adjustments		0.040	0.030	0.030
Revised savings	0.000	1.080	17.504	36.229

4. Pressures on Services

4.1 Provision has been made in the MTFP for some pressures in Children’s Services and ASC. All other Departments are containing pressures through savings. Members will be aware that:

- It was reported at Quarter One that East Sussex, together with Children’s Services Authorities across the country, are experiencing pressures from increasing demand and complexity in Children’s Social Care. Whilst there will only be a small increase in the school age during the next planning period, we continue to see pressures on the number and cost of Looked After Children and children with SEND. The funding the Government has made available for Unaccompanied Asylum Seekers does not meet the real cost of service provision. These pressures, together with the risks to DSG funding referred to above are being drawn together and will be included in future reports as they become clearer and the RPPR process progresses.
- The main issues arising for ASC are in relation to the establishment of the shadow Accountable Care Organisation via the East Sussex Better Together (ESBT) Alliance and the developing improved partnership arrangements with Connecting4You in the remainder of the county.
 - ESBT Alliance –there is a need to review the existing Strategic Investment Plan (SIP – attached at Appendix 3) to ensure that the health and social care system is in financial balance across the mutually dependent relationships between ESCC and the Clinical Commissioning Groups (CCGs) as well as between the CCGs and East Sussex Healthcare Trust (ESHT).
 - General ASC Pressures – there continue to be some market pressures within ASC, reflecting market weaknesses where providers have withdrawn or failed to deliver the desired quality of service. In addition, as a consequence of the national conditions attached to the Improved Better Care Fund, the emphasis upon meeting aspirational targets for reducing delayed discharges from hospital may result in budget pressures, not least if funding is reduced if nationally set targets are not met.
- There are a number of other areas in other services which are affected by excess inflation levels – for example, bus contract prices continue to rise sharply due to increased fuel costs.

5. Reserves

5.1 Strategic Reserves remain unchanged since the State of the County report but have been refined into three reserves to simplify their management and ensure flexibility and robustness. The current position is set out in the table at Appendix 4.

6. Capital

6.1 The latest approved Capital Programme as at State of the County in June was £447.7m gross. There is an ongoing review of the Programme and its funding sources. A full Capital Programme update will be provided to Members later in the year.

7. RPPR for 2018/19

7.1 In identifying savings suggestions, Chief Officers have taken account of the priorities and operating principles (Appendix 5). The saving and spending plans aim to enable the Council to fulfil a number of key ambitions:

- ESBT – in partnership, deliver the first fully integrated and financially sustainable health and social care system in the country.
- Transport for the South East – in partnership, lead on work to ensure that the South East's infrastructure needs are understood by Central Government and its agencies and that the area receives a fair share of available resources.
- A thriving economy – by intervening where needed to create the right environment for business by providing resources and support and promoting the county.
- Digital infrastructure – to achieve the best connectivity, mobile and broadband, of any rural county and to use this connectivity to improve productivity and to support individuals and communities.
- Skills – bring together businesses, providers and learners to direct all available resources at ensuring the workforce can get high quality employment now and in the future.
- Roads – work with delivery partners to improve the condition of our roads.
- Children – help to create stable environment in which children can thrive and develop resilience.
- Education – all children achieve their educational potential through a good, sustainable school system.
- Innovative Support Services – provided in partnerships which facilitate service delivery.
- Make the best use of the East Sussex “pound” through partnership working.
- Leadership – Support Members to provide honest, open and transparent leadership to East Sussex ensuring that the case is made externally for the county and that locally people understand decisions made and the service offer, using all appropriate channels and media.

7.2 Chief Officers have, throughout the year, been refining the savings plans presented to Cabinet in February, in the light of current performance and pressures and the ambitions set out above. The financial pressures the Council has been dealing with since 2010 means that there are no easy choices for savings at scale which do not have a direct or indirect effect on service users. The amount of early intervention and prevention work the Council has been able to undertake has reduced severely and this is likely to increase demand in future. The reductions being put forward for 2018/19 and beyond will increase the longer-term demand and costs facing the East Sussex public sector. They are, therefore, not those Chief Officers would choose to make if resources were no object, but those likely to be least damaging to those we serve from remaining services. They seek to make the best use of the available resources to meet the evidenced needs of the residents of East Sussex. The proposals are set out in the tables in Appendix 2.

8. 2019/20 & 2020/21 and beyond

8.1 The level of uncertainty about the Government's plans and funding for services provided by Local Government means that there could be fundamental changes in both the resources the Council has available and its expectations for service delivery, so the process for the latter two years of the Council's MTFP will, necessarily be iterative. Currently, the MTFP is predicated on the need to make £36.2m of savings during these two years.

8.2 If there are no new resources from Government, by 2021/22 the Council will be left with a minimum service offer. It will provide safeguarding for all ages, will still meet critical and substantial need in ASC and will deal with the highest level of need and risk cases in Children's Services. We will continue to use our influence to assist with the economic development of the county, but will not be able to invest directly in the way we have in the past. We will be able to carry out maintenance on our roads so that they are safe for users. Central services will be reduced to a democratic core with minimum support for departments and more self-service. We will not be able to fund early intervention or prevention services in Adult and Children's Social Care or support to schools to improve attainment. We will have to move away from assets management in highways towards more reactive maintenance, leading to long-term deterioration of condition.

8.3 This challenging outlook places a premium on our lobbying work and the need to explore all our options. Cabinet is asked to endorse a renewed focus on commercialisation and income generation, partnership working and the following areas of search for savings in future years, in order that a balanced budget, focused on priorities, can be achieved in 2019/20 and 2020/21:

- All areas of ASC not directly involved in providing for critical and substantial need;
- Standards and Learning Effectiveness Service;
- Remaining Children's early help offer;
- Highways maintenance;
- Public transport and concessionary fares;
- Road safety and school crossing patrols; and
- All support services.

9. Communication, Consultation and Lobbying

9.1 The Council will continue to lobby for a fair deal for local people, including:

- The need for infrastructure support to help the county to reach its full economic potential and to enable it to better support the needs of its residents through locally raised funds. Key to this will be empowering and funding our Sub-National Transport Body - Transport for the South East - so that it can tackle our infrastructure deficit, support growth and boost productivity;
- The need for the Government to provide sufficient funding so we can deliver the services our residents need now and in the future. The introduction of 100% locally funded services needs to include provision for those Councils who currently import Business Rates;
- Urgent action is needed to address the funding gap in ASC that will emerge in 2019/20 when the interim funding provided ceases;
- Long-term fully funding ASC and Children's Services is crucial to prevent a service crisis and to give Authorities the capacity to develop health and social care integration plans that will reduce pressure on acute care in the long-term;
- The need for clarity on Authorities' duties in schools so that we are not left with inadequate funding for services we still have a duty to provide;
- The need for Councils to be able to charge for some services to fill the funding gap;
- A fundamental review of Home to School Transport requirements and approach; and
- A recognition that the funding challenges for the Government are significant and our lobbying will be underpinned with a genuine offer to talk to the Government. We have the knowledge and skills and the Government should consult with us on how services can be improved. Most fundamentally, the Government cannot build a sustainable ASC system without Local Government's input.

9.2 As well as lobbying Government directly, we will work with our MPs, the LGA and County Council Network, the SE7 Councils and Borough and District Councils to raise

awareness of the issues affecting us locally. We will also ensure that residents/partners are aware of the issues we face through a campaign seeking a fair deal for East Sussex.

10. Next Steps

10.1 We will continue to engage with Members on proposals in the build up to Council setting the budget through Scrutiny Committees and Boards, Whole Council Forums and other support.

10.2 We will consult residents, service users, partners, staff and trade unions both on plans for the Council as a whole and on individual proposals.

11. Conclusion

11.1 This report has set out a stark vision by 2020/21 in which the County Council is only able to meet the needs of the most vulnerable and provide the most basic of statutory services. If that is all that resources will allow, the Council will seek to mitigate the impact by:

- continuing to be relentless in our pursuit of our priority outcomes and value for money;
- seeking alternative sources of funding; and
- being bold and creative in the extent of our partnership working across and beyond East Sussex.

11.2 We are not, however, prepared to accept that minimum position as inevitable. The case for investment in East Sussex and for the role of Local Government to help our residents, communities and business fulfil their potential is strong and undiminished by austerity. We will work with others to make this case in the strongest terms and, through all our efforts, will ensure that local services are in the strongest state possible in 2020/21.

Becky Shaw
Chief Executive

Appendix 1

Medium Term Financial Plan	Dept	17/18 Approved Budget £m	18/19 Estimate £m	19/20 Estimate £m	20/21 Estimate £m
CORPORATE FUNDING					
Business Rates		(71.879)	(73.970)	(76.559)	(78.090)
Revenue Support Grant		(26.727)	(14.966)	(3.491)	
Council Tax		(254.044)	(268.105)	(283.033)	(289.890)
Council Tax - Adult Social Care Precept		(7.355)	(7.785)		
Transition Grant		(2.696)			
New Homes Bonus		(2.250)	(1.589)	(1.524)	(1.500)
TOTAL CORPORATE FUNDING		(364.951)	(366.415)	(364.607)	(369.480)
PLANNED EXPENDITURE					
Net Service Expenditure	ALL	318.399	329.116	328.353	341.198
Pay Award/Inflation/National Living Wage	ALL	9.767	15.090	10.859	12.848
Adult Social Care Growth & Demography	ASC	5.119	4.500	5.000	5.300
Extension of Foster Care to 21	CSD	0.900	0.700		
Education Services Grant	CSD	2.278	1.178		
Dedicated Schools Grant	CSD	0.500	0.250	0.250	0.250
Children's Services pressures	CSD	1.800	5.500		
ESBT/C4Y Investment	ASC	4.500			
Waste Housing Growth	CET	0.119	0.124	0.130	0.136
ASC Support Grant	ASC	(2.597)	2.597		
Improved Better Care Fund	ASC	(0.286)	(7.528)	(7.088)	
Improved Better Care Fund - Supplementary	ASC	(11.027)	3.684	3.694	3.649
Economic Development Grants	CET	1.000	(1.000)		
Home to School Transport	CET/CSD	0.200			
Highways	CET	1.300			
Community Match	CET	0.150			
Youth Services	CSD	0.130			
Transition Funding for Schools	SCH	0.750	(0.750)		
Add'l spending funded by additional IBCF	ASC	3.239	(3.239)		
Savings adjustment re additional IBCF	ASC	7.788	(0.445)		
Savings	ALL	(14.913)	(21.424)		
NET SERVICE EXPENDITURE		329.116	328.353	341.198	363.381
Corporate Expenditure		50.913	35.835	39.142	40.913
Treasury Management		(6.630)	0.500	0.500	0.500
Funding Cap Programme - base contribution		(2.000)			
Funding Cap Programme - New Homes Bonus		(0.628)	(0.661)	(0.065)	(0.024)
General Contingency		0.050	0.010	(0.020)	0.040
Contribution to balances and reserves		(6.765)	2.762	0.554	
Pensions		0.157	0.746	0.784	0.885
Apprenticeship Levy		0.600			
Levies		0.133	(0.050)	0.018	0.014
Other		0.005			
TOTAL CORPORATE EXPENDITURE		35.835	39.142	40.913	42.328
TOTAL PLANNED EXPENDITURE		364.951	367.495	382.111	405.709
DEFICIT/(SURPLUS)		0.000	1.080	17.504	36.229

NOT INCLUDED IN FIGURES ABOVE

Care Act (shown at medium risk for 2020/21)

(Full range - low risk £2.5m; medium risk £10.6m; high risk £21.3m)

10.577

State of the County	0.000	0.000	15.362	33.079
Council tax – base increase reduced to 0.8%		0.540	1.112	1.717
Collection Fund surplus – reduced projection		0.500	1.000	
Pay Award - 2% projection				1.403
General Contingency + minor adjustments		0.040	0.030	0.030
Cabinet 10th October 2017	0.000	1.080	17.504	36.229

