CABINET

REPORT OF THE CABINET

The Cabinet met on 13 November 2024, 10 December 2024, 9 January and 28 January 2025. Attendees: -

Councillor Glazier (Chair) (4)
Councillors Bennett (4), Bowdler (3), Penny Di Cara (3), Claire Dowling (4), Maynard (4), and Standley (4).

1. Reconciling Policy, Performance and Resources (RPPR)

1.1 The County Council continues to provide vital services that underpin the quality of life for our residents, communities and businesses. Over the last year the Council has continued to deliver a significant positive impact for people across the county despite unprecedented financial challenges. We have been able to invest in extra support for families facing challenges to help them stay together wherever possible, further develop the integration of community health and social care services, and work with partners to publish the Economic Prosperity Strategy for the county and to create new jobs through business support programmes, all of which benefit our residents and communities. Independent reviews have shone a light on specific areas of work, the positive outcomes achieved by our services, and how they can continue to develop for the future. External assessment has confirmed that the Council continues to provide good value for money, is efficient and well-run. These successes, achieved despite many years of financial and service pressures, reflect the commitment of our staff, the strength of our valued partnerships and our clear focus on priorities based on the evidenced needs of East Sussex communities.

1.2 The past year has also required a robust and challenging response to the most difficult set of financial circumstances the Council has ever experienced. Growth in need and demand for the statutory, demand-led services for vulnerable children and adults which account for around three quarters of our budget, combined with ongoing escalation in costs right across the Council, have significantly increased the expenditure required to maintain core services. This picture reflects national trends following Covid and cost of living shocks to the economy and society, but has been pronounced here in East Sussex.

1.3 The demographic make-up and needs of our population, the nature of the local economy and the steps we have already had to take over many years to respond within limited and reduced resources, combined with funding mechanisms which do not properly reflect the level of need, means the issues are particularly acute locally. East Sussex is ahead of the national ageing population trend, with over a quarter (26.5%) of the county's population aged 65 or over, compared to 18.7% in England and 19.8% regionally. There are pockets of significant deprivation which also impact on demand, with 78,000 of our residents living in areas amongst the top 20% most deprived nationally. The county differs substantially from the wider south east in this respect. East Sussex offers an exceptional natural environment in which to live and work but this also places limitations on the development and infrastructure which support economic growth, prosperity and the related generation of business rates to help fund services. Earnings are below both the national and regional average and the percentage of people who are unemployed is higher in East Sussex than the South East.

1.4 Coupled with the significant needs within the county, we have fewer resources at our disposal than many other county councils. Our overall reserve balances have significantly reduced in recent years, and we have relatively limited assets. Our residents already experience relatively high Council Tax levels as there has been increasing reliance by Government on raising money to fund social care through this route. Business rates income is relatively flat, given the challenges in the local economy. Fundamentally, the national formula used to allocate funding to individual councils is long overdue for reform and does not reflect current local needs, particularly in places like East Sussex, with high demand for social care.

1.5 Increased costs have not been offset by sufficient additional income. Following extensive lobbying by East Sussex County Council (ESCC), with partners and across the local government sector, the Autumn Budget Statement provided some additional funding for local authorities. But it also included measures which further increased our costs, outweighing the support provided. The provisional Local Government Finance Settlement confirmed Government intentions to make significant changes to the way funding is allocated to councils in both the short and longer term, fundamentally shifting the distribution of resources according to a new assessment of needs. The impact of these changes on the Council in the longer term is not yet fully clear, but the outcome will determine the scale of the challenge for the future. Government has also signalled its welcome intention to move towards a more preventative approach to public services, something ESCC has long advocated for, and we await further detail of reforms and funding to support this. We will work hard to influence national decisions in these areas.

1.6 The immediate picture remains stark. Without sufficient national support to meet unavoidable costs in the coming year, and limited ability to raise funds locally, the Council still faces very tough choices in order to continue making the necessary investments to sustain essential services. The proposed budget for 2025/26 presented in this report is reliant on the delivery of substantial further savings proposals, on top of £140m delivered since 2010, all of which represent hard choices which will impact on local people, our staff and partners. As these savings still do not fully bridge the funding gap further use of our very limited reserves is also required as the only remaining way to balance the books for the coming year. Council Tax would need to increase by over 8% to cover the coming year’s gap, and well beyond that in future years, which would require a referendum. The size of the forecast financial gap in the medium term far outstrips remaining reserves. It is essential that national reforms to funding accurately recognise the real need for services in East Sussex, and the true cost of delivering them, if we are to find a sustainable way forward beyond the coming year.

1.7 The latest picture of both current and future pressures must be factored into our planning for the future and our detailed Council Plan which covers what we will do and the specific targets we will use to judge our performance. The Council Plan, revenue budget and capital programme are fully integrated through our robust business planning process, Reconciling Policy, Performance and Resources (RPPR). In the context of significant financial and service delivery challenges it is crucial that we maintain a clear focus on our four priority outcomes and their supporting delivery outcomes in our business planning. In June Cabinet agreed, for planning purposes, some changes to the delivery outcomes to ensure they remain up to date and these have been factored into the plans presented in this report.

1.8 The RPPR process matches available resources with our delivery plans for our priority outcomes so that we direct our spending where it will deliver our priorities most effectively. RPPR also ensures we have the demographic trends and performance information to monitor our progress. The process of planning, through RPPR, for 2025/26 and beyond has translated our full analysis of key trends and pressures into the updated service and financial plans set out in this report.

1.9 Despite taking every step we can, including instituting strict spending and recruitment controls, reprioritising spend, maintaining preventative approaches where they reduce higher level demand where possible, and reviewing and reducing our capital programme to minimise the need for borrowing, a large deficit remains, even after proposing further service reductions. Further use of reserves, on top of the forecast draw for the current year, greatly weakens our ability to protect services against unforeseen risks and to enable service changes. As reserves can only be used once and do not reduce longer term pressure, the deficit is simply deferred to another year. It is an untenable position which carries considerable risk. Further detail on the revenue budget position is provided at paragraphs 1.39 – 1.51.

1.10 The intense strain on resources also means we are not able to invest to the level we would want to in other important areas, such as the roads which support the county's economy and communities and our response to the climate emergency. Without the capacity in the budget to support borrowing to invest for the future, we have been forced to scale back our plans in these and other areas to match only the grant funding we receive. Detail of the revised capital programme is provided at paragraphs 1.58 – 1.62.

1.11 In addition, the budget reflects the continued national reliance on Council Tax to fund ongoing core pressures from rising demand, particularly for social care. Government has extended for a further year the level of Council Tax flexibility and the approach of expecting local authorities to apply an Adult Social Care Precept on bills to provide essential funding for care services. Council Tax now represents around 70% of our net budget. Given the very significant deficit we face in the coming year and beyond, we do need to apply these increases in order to deliver a balanced budget. We have long highlighted to Government that individual authorities' ability to raise Council Tax is unrelated to need for services and is particularly problematic for areas such as East Sussex with high need for social care services, but where capacity for local people to pay more to support these services is limited. We will strongly make this case as Government looks to reform how councils are funded.

1.12 We will also press Government, individually and through our networks and partnerships, to address the fundamentally unsustainable position we face by delivering both increased funding and service reforms which will enable better use of the resources we have. The consequences of funding shortfalls for people, communities and businesses in the county, and for the delivery of national priorities, will be clearly articulated. We will continue to work with partners and seek the support of local MPs in making these arguments to ministers. There is much uncertainty about the medium term in light of the Spending Review and significant planned service, funding and structural reforms. The need for sustainable reform and fair allocation of funding based on need will be key messages from the Council.

1.13 This report sets out:

- key changes to the national and local context since the report to Cabinet on 13 November 2024;
- the draft Council Plan 2025/26 and updated Medium Term Financial Plan (MTFP);
- key updates on performance since quarter 2;
- proposals for the 2025/26 revenue budget, taking account of changes in the financial picture since November and based on an increase in Council Tax of 2.99% and an Adult Social Care Precept of 2%;
- the savings planned for the next year;
- the position in relation to reserves;
- the reviewed and reprofiled capital programme in light of the revenue position; and
- feedback from engagement exercises and equalities impacts.

National and Local Context

1.14 Since the last report to Cabinet in November the national policy environment has continued to evolve, with significant announcements which will impact on us locally. Key developments are set out below along with detail of how we are responding:

1.15 **National economic outlook and Government spending plans:** Since the Autumn Budget Statement on 30 October, which was accompanied by new national economic forecasts from The Office for Budget Responsibility (OBR), there have been further developments in the economic outlook. Latest figures showed that the economy unexpectedly shrank by 0.1% in October, driven by declines in construction and production. Inflation, as measured by the Consumer Prices Index (CPI) stood at 2.6% in the year to November 2024, up from 2.3% in October. Rises since September have been driven by higher energy and fuel prices and further increases are expected in the coming months before rates stabilise. The Bank of England cut interest rates by a quarter of one percent to 4.75% in November but indicated that any further reductions were likely to be gradual in order to contain inflation. In line with this approach, and rises in inflation, rates were held at the same level in December.

1.16 The Chancellor launched Phase 2 of the Spending Review on 12 December. This confirmed line-by-line reviews of all expenditure as part of a 'zero-based review' and that the missions and milestones set out in the Prime Minister's Plan for Change would be prioritised. These include: raising living standards; building homes and major infrastructure; addressing NHS waiting lists; neighbourhood policing; giving children the best start in life; and securing home-grown and cleaner energy. Latest indications are that the outcome of the Spending Review will be announced in June. This will set the overall funding trajectory for public services, including local government, for the remainder of the parliament, and is expected to be accompanied by further significant plans for reform.

1.17 **Local government funding:** The provisional Local Government Finance Settlement, received on 18 December, provided the detailed funding picture for local government and was again for one year only. It indicated that Core Spending Power would increase by an average 6.0% for local authorities in England, based on the presumption that all councils will levy the maximum increase in Council Tax. The Council Tax referendum limit was maintained at 3% and the Adult Social Care precept at 2%. The detailed allocation of additional funding announced at the Budget was confirmed, including distribution of a significant proportion of new or repurposed grant based on formulas related to deprivation. This resulted in East Sussex receiving very limited allocations, despite the high levels of need for services in significant parts of the county. The settlement also confirmed additional funding for social care, but at a level which does not offset additional costs to the care sector of the taxation and pay measures announced at the Budget. Overall funding to compensate local authorities for the direct impact of increased employer national insurance contributions was announced, albeit at a lower level than the LGA's assessment of the impact on councils. The implications of the provisional finance settlement announcements for the Council's MTFP are set out in paragraphs 1.39 – 1.51.

1.18 The settlement was accompanied by the launch of a consultation on local government funding reform. From 2026/27, the Government will change the way councils are funded based on a new assessment of need and resources, building on the framework set out in the previous Government's review of Relative Needs and Resources (originally Fair Funding Review). The consultation focuses on the objectives and principles underpinning reforms and will inform the development of detailed proposals which will be consulted on following the Spending Review and ahead of the provisional multi-year settlement for 2026/27. We welcome the consultation, however the Government's intention to target funding based on deprivation creates risks that redistribution will impact negatively on the Council's future financial position. ESCC will be responding, making the case strongly for a fair and sustainable distribution of funding which reflects the real level of need and available resources in East Sussex.

1.19 **Devolution**: In December the Ministry of Housing, Communities and Local Government (MHCLG) published a Devolution White Paper setting out how Government plans to extend devolution to local government in England. The White Paper included an updated devolution framework detailing the range of powers available to local areas through devolution arrangements linked to different governance models. As anticipated, there continues to be a strong emphasis on the mayoral governance model, with the majority of powers reserved for areas taking up this approach. The document outlines Government's intended approach to devolution geographies, stating that it intends to achieve universal coverage in England of 'Strategic Authorities' covering a population of at least 1.5m, which should be a number of councils working together, covering areas that people recognise and work in. The White Paper also highlighted an ambition to align public service boundaries with Strategic Authorities, including across health, police and fire services as well as local authorities, and for the

Authorities to drive wider public service reform. The updated devolution framework and associated legislation will be set out in the upcoming English Devolution Bill, enshrining a ‘devolution by default’ approach.

1.20 To support the Government’s devolution plans, the White Paper also set out a broader direction for local government in England, outlining a programme of reorganisation for two tier areas and some existing smaller unitary authorities. All these areas have been invited to submit proposals for reorganisation, with an expectation that new unitary authorities would have a population of 500,000 or more. Government intends to undertake a first wave of reorganisation this parliament, particularly where it will support the delivery of devolution. More broadly, the White Paper confirmed intentions to consolidate and simplify funding streams and reporting arrangements, to prioritise reforms to enable a more preventative approach to public service delivery, and to empower local authorities as place conveners to bring together service providers and stakeholders to improve outcomes. It also set out plans to give councils greater controls over byelaws, to reform the standards regime and to simplify local audit systems. The Office for Local Government (Oflog) will close and a consultation has been launched on establishing a new Local Audit Office.

1.21 In response to the invitation by the Minister of State for Local Government and English Devolution to two tier councils for proposals to create unitary councils, and for expressions of interest from upper tier authorities without a devolution deal to join a Devolution Priority Programme, Cabinet approved in January 2025 for the Leader to respond to Government setting out a clear commitment to devolution and reorganisation. This included a proposal for the devolution of powers to a new combined authority for the Sussex area covering the areas of the three upper tier authorities; a proposal for a unitary government in East Sussex; and inviting the Government to postpone elections in May 2025, for a year, to enable the proposals for Local Government Reorganisation to be developed and the early implementation of the proposed devolution arrangements. Implications of joining the Devolution Priority Programme, including the financial resources required to develop proposals, will be reviewed if the Council is successful in gaining a place on the programme. The Council will continue to prioritise collaborative working with partners, stakeholders and communities throughout this process to secure the best outcome for residents.

1.22 **Children’s Services**: The Department for Education (DfE) began to outline the Government’s approach to reform of children’s social care, issuing a policy statement focused on addressing issues with the care market. The measures announced included a focus on supporting families so that, where safely possible, children are prevented from entering the care system; legislation to regulate the care market; and investment in the ‘key enablers’ of the social care system, including data sharing, the workforce and evidence based programmes. Further detail on the approach to social care reform is expected to be set out alongside the Spending Review. The Children’s Wellbeing and Schools Bill, published in December, contained legislation to support the Government’s policy intentions on social care and education. Measures in the Bill include strengthening Ofsted’s powers in relation to children’s social care providers, increasing families’ involvement in decision making around care, increasing support for care leavers, and the introduction of a backstop law to cap the profit providers can make. The Bill also introduces core national standards for schools, a commitment to deliver free breakfast clubs in primary schools, and the introduction of Children Not In School registers and new powers for local authorities to prevent children subject to a child protection enquiry or under a child protection plan from being home educated without local authority consent. We are analysing the impacts of recent announcements for our services and will continue to look to influence the national direction of travel.

1.23 In November, OFSTED and the Care Quality Commission (CQC) undertook an area Special Educational Needs and Disability (SEND) inspection of East Sussex. The inspection framework considers how local partners, including ESCC and NHS organisations, deliver statutory duties to provide support to children with SEND. We await the report which will inform the future development of these services. Nationally, the DfE has announced £740m of funding aimed at creating more specialist places in mainstream schools, with allocations and guidance on the use of this funding to be published in the spring. The funding forms part of a broader capital settlement for education for the next financial year, announced at the Autumn Budget. Longer-term the Government has signalled an intention to undertake wider reform of the whole SEND system to prioritise early intervention.

1.24 **Adult Social Care and Health**: The Government has consulted widely to inform a new 10 Year Health Plan for England which will be published in spring 2025. This plan is expected to include a shift towards neighbourhood health services and will have impacts for ESCC social care and Public Health services, directly and in terms of how we work with health partners. The Government has also confirmed social care will have a 10 year national plan which will run alongside the NHS plan. The social care 10-year plan is expected to be informed by a similar consultation process and published in the second half of 2025. In January an independent commission into adult social care was launched, to lay the foundations for a new National Care Service, which the Government committed to creating in its manifesto. Locally the health and care system continues to be under pressure from high demand which is exacerbated by winter pressures and ongoing workforce challenges.

1.25 CQC will undertake a site visit to East Sussex in February as part of its assurance process for assessing how local authorities, including ESCC, deliver their adult social care duties. Detailed information, including our self-assessment, was submitted to CQC in late summer 2024 as the first stage of the assessment.

1.26 **Economy and employment:** In November, Government set out plans in the Get Britain Working White Paper to tackle economic inactivity by encouraging place-led programmes that bring together employment, skills and aspects of health provision to support people into work. Councils will be empowered to join up and lead this work based on their understanding of local needs. Plans include: expanding access to mental health support, creating closer working between primary health care, the NHS Integrated Care Board and employment support providers to prevent worklessness; a new Youth Guarantee to give every young person access to education, training or a job; merging the national careers service with job centres; and transforming the Apprenticeship Levy in England into a more flexible Growth and Skills Levy. The health and disability benefits system will be reformed to better support people to enter and remain in work. ESCC will lead the Department for Work and Pensions Connect to Work scheme locally, a new supported employment programme matching economically inactive people including those with disabilities, health conditions, vulnerable adults, carers and care leavers into vacancies and supporting them in work. A further DfE fund, Skills Bootcamps, will be available to upper tier local authorities, including ESCC, in 2025/26. Skills Bootcamps are short vocational courses that improve the skills of the workforce. Subject to Lead Member approval, we will submit a proposal focused on local priority sectors which supports the East Sussex Economic Prosperity Strategy and priorities of Skills East Sussex.

1.27 **Environment and planning**: MHCLG published in December the revised National Planning Policy Framework (NPPF), alongside its response to the consultation which took place earlier in the year. The new NPPF, which sets out planning policies for England and how these are expected to be applied, took effect immediately, with the changes focused on supporting the Government's housing goals. The new framework includes: immediate mandatory housing targets for councils to increase housebuilding, new requirements and timescales in relation to the development of Local Plans which reflect the updated targets; a new approach to the green belt, whilst maintaining a brownfield first approach; and updated requirements in relation to affordable housing. The updated NPPF also confirmed a new requirement to adopt a vision-led approach to transport planning (rather than 'predict and provide'), an explicit requirement for the planning system to support the transition to net zero 2050, and a requirement for plans to take account of the full range of potential climate impacts. The Government has also published its first working paper for the Planning and Infrastructure Bill, which seeks views before finalising proposals for reforms to planning committees. This will be followed by a formal public consultation on these detailed proposals to coincide with the Bill's introduction later this year. The Devolution White Paper mentioned above set out that all areas, with or without a Strategic Authority, will be expected to produce a Spatial Development Strategy as part of Government's commitment to move towards a universal system of strategic planning within the next five years. The strategies will guide development for the Local Planning Authorities in the area, including apportioning housing need and identifying infrastructure requirements. Detailed policy and site allocations will continue to be through Local Plans.

1.28 The Department for Environment, Food and Rural Affairs (DEFRA) provided a policy update setting out the Government's plans to introduce Simpler Recycling, subject to spending review outcomes. The Simpler Recycling Policy aims to make recycling easier by making collections consistent for all households, businesses and relevant non-domestic premises (such as schools and hospitals). The update confirms implementation timelines and explains the updated position on co-collection of recyclable waste streams. DEFRA has also published guidance on ensuring good waste collection services for households from March 2026, the date by which weekly food waste collections must be provided by all collection authorities.

1.29 **Transport**: The Department for Transport has set out plans for a new Integrated National Transport Strategy, which aims to join up transport networks, empower local leaders and drive economic growth. To support this, consultation is taking place on how to best deliver integrated transport and the department will be recruiting a new Integrated Transport Commissioner. The Bus Services Bill, introduced to parliament in December, will bring in enhanced powers for councils to work with bus operators to improve services and lift the ban on local authorities establishing their own bus companies. The Bill will also aim to ensure that lifeline bus services cannot be removed or changed without councils reviewing their ability to serve communities, especially those in rural or deprived areas. Locally, we have received confirmation from Government of allocations of funding for the next phase of our Bus Service Improvement Plan (BSIP). Funding was allocated through a new needs-based formula rather than through a bidding process.

1.30 Allocations of road maintenance funding for 2025/26 were confirmed in December. ESCC was allocated new funding of £5.6m, bringing total funding to £21.0m which is £1.9m higher than our previous planning assumption. This has been added to the grant funding available to support our planned highways capital programme. Allocations beyond 2025/26, together with future funding conditions, are yet to be confirmed. The challenging revenue budget position, referenced throughout this report, has required the capital programme to be reviewed to minimise the borrowing costs of the overall programme within Treasury Management and the revenue budget. The level of investment in highways has been reduced to the updated Department of Transport grant funding levels, and it will not therefore be possible to deliver to the level originally envisaged.

1.31 **Looking ahead**, the coming year is likely to see further significant policy developments and reforms affecting ESCC services. Implications for the Council will continue to be factored into our ongoing planning through RPPR.

Council Plan

1.32 The draft Council Plan is attached at Appendix 1. The Council Plan continues to be built on the Council's four overarching priority outcomes: driving sustainable economic growth; keeping vulnerable people safe; helping people help themselves; and making best use of resources now and for the future. Making best use of resources now and for the future is the priority test through which any activity must pass. The remaining three priority outcomes guide our activities, direct our resources and are reflected in our Council Plan activities and targets. The delivery outcomes have been updated to reflect the changes agreed by Cabinet.

1.33 The Council Plan contains the targets and milestones used to judge our performance. The Cabinet and County Council actively consider performance during the year and may decide to adjust targets to reflect any changed circumstances. We have reviewed and updated our targets where necessary, ensuring these reflect the best performance we can deliver with the resources available. Clearly defining the outcomes we wish to achieve and monitoring our success in delivering these outcomes for the county's residents, communities and businesses is critical. We also keep track of a wide range of key data about East Sussex and related to our priority outcomes. These help us to assess our impact more fully and respond appropriately when we need to do so. Key data will be monitored annually as part of the State of the County report.

1.34 As part of our commitment to embed our work on carbon reduction within our business processes it is recommended that the key activities and performance measures from the Climate Emergency Action Plan are included within the Council Plan. Progress updates on delivering these activities and the outcomes we are seeking to achieve would be reported through the Council Monitoring process, replacing the current Annual Report. Detailed actions within the plan would be incorporated into Portfolio Plans. This would align our approach to the Climate Emergency Action Plan with other key corporate strategies and plans including the Corporate Digital Framework, Equality Diversity and Inclusion Action Plan and the People Strategy.

1.35 The Council Plan is still a work in progress until final budget allocations are made and firm targets can be set. It will be published in March 2025 and refreshed in July when final performance outturn figures for 2024/25 are available. Authorisation is sought for the Chief Executive to make final changes pre and post publication in consultation with Lead Members as appropriate.

Progress with Council Plan and Budget 2024/25 since quarter 2

1.36 Overall, our services are continuing to perform well despite challenging circumstances. There has been no significant change in performance to the position reported for quarter 2. We are continuing to see high levels of demand for core services including Adult Social Care. The numbers of patients being admitted to hospital with increasingly complex care needs has been causing an increase in the numbers of people in hospital beds who are medically fit for discharge, due to capacity issues within community support services across the health and care system. We are working with NHS Sussex and provider trusts to address these issues, which are reflected nationally.

1.37 In quarter 2 it was reported that the 2024/25 target was unlikely to be met for the measure 'Number of people receiving support through housing related floating support'. There is a savings proposal to significantly reduce funding for this service in future years. As a result of the potential changes to funding the provider has been operating a recruitment freeze since May 2024 and service capacity is expected to continue to reduce.

1.38 There is currently no significant change to the projected quarter 2 revenue budget forecast.

Revenue Budget 2025/26

1.39 The impact of the provisional Local Government Settlement has seen an increase in grant funding, including a £8.9m increase in the Social Care Grant, a £1.5m allocation of Children's Social Care Prevention Grant, offset by a loss of £0.5m Services Grant. However, the additional funding is not at a level sufficient to address the underlying service pressures we face. Furthermore, the Government has not yet confirmed ESCC's allocation of funding to compensate for the direct impact of the increase to employer national insurance contributions. The overall allocation announced indicates there is a risk that this will fall short of the cost to the Council. Outside of the provisional Settlement, the Council has been allocated £4.8m of funding as part of the new extended producer responsibility (EPR) for packaging. This will be included in the Waste Reserve.

1.40 The Council continues to make necessary investments in services to meet the needs of our residents. Following on from an increase of £51.1m in 2024/25, the Council is investing a further £54.9m in 2025/26. Available additional funding of £41.6m for 2025/26 is not sufficient to meet this investment, leaving an annual budget deficit of £13.3m, with an underlying deficit of £27.6m when accounting for the one-off reserve draw made in 2024/25. New savings proposals of £13.5m, the full year impact of savings delivered in 2024/25, and a draw from service specific reserves of £11.4m are required to present a balanced budget for 2025/26:

Summary of Budget Growth and Funding 2024/25 and 2025/26	**2024/25 (£m)**	**2025/26 (£m)**
Non-Pay Inflation	28.2	25.1
Pay Awards	7.9	6.4
Service Investment:		
Adult Social Care	3.9	7.5
Children’s Services	19.1	9.4
Other service budgets	(1.1)	4.9
Other corporate budgets	(6.9)	1.6
Total Budget Growth	**51.1**	**54.9**
Council Tax	(21.7)	(25.8)
Business Rates	(7.5)	(0.5)
Government Grants	(7.6)	(15.3)
Total Additional Funding	**(36.8)**	**(41.6)**
Annual Budget Deficit	**14.3**	**13.3**
Deficit carried forward from 2024/25	0.0	14.3
Total Budget Deficit	**14.3**	**27.6**
New savings delivered in 2024/25	0.0	(2.7)
New savings 2025/26	0.0	(13.5)
One-off use of reserves	(14.3)	(11.4)
Budget Deficit After Savings and One-Off Use of Reserves	**0.0**	**0.0**

1.41 The MTFP has been updated for regular calculated adjustments and the additional year of 2027/28, with the movements summarised below. This MTFP is presented in the context that 2026/27 will be the first year of a multi-year settlement, which will reflect the impact of funding reform; and 2027/28 could start to see the impact of local government reorganisation. As such, years two and three of the MTFP are to be taken as indicative at this stage. The overall position includes a deficit of £14.344m carried forward from 2024/25 that was temporarily funded from a one-off contribution from reserves. The full MTFP is provided at Appendix 2:

Medium Term Financial Plan Summary	2025/26 (£m)	2026/27 (£m)	2027/28 (£m)	Total (£m)
	Annual	Annual	Annual	Cumulative
Council 6 February 2024 DEFICIT	30.978	16.503	0.000	47.481
CARRY FORWARD OF 2024/25 DEFICIT	14.344			14.344
Total After Carry Forward	**45.322**	**16.503**	**0.000**	**61.825**
Normal Updates	(29.637)	13.799	11.887	(3.951)
Pressures added to / (removed from) the MTFP	11.954	(1.107)	8.063	18.910
Savings	(16.190)	(3.279)	(1.219)	(20.688)
DEFICIT AFTER NORMAL UPDATES	**11.449**	**25.916**	**18.731**	**56.096**
One-off use of reserves	(11.449)	11.449		0.000
DEFICIT AFTER ONE-OFF USE OF RESERVES	***0.000***	***37.365***	***18.731***	***56.096***

Savings

1.42 As set out to Cabinet in September and November 2024, departments have undertaken work to identify how further savings could be delivered, guided by the agreed areas of search:

- Discretionary and non-statutory preventative services;
- Directly provided services;
- Support services and back office functions;
- Income generation.

The approach taken by each department was outlined in more detail in the September and November reports.

1.43 In total, potential savings of £18.003m have been identified for the period 2025/26-2027/28, with £13.505m proposed for delivery in 2025/26. The detailed proposals are set out at Appendix 4a. The provisional Local Government Finance Settlement has not removed or reduced the requirement to identify savings given the legal requirement to balance the budget. Further difficult choices are required to address the financial gap for the coming year. The proposals affect a range of frontline and supporting services and have significant and wide ranging impacts – on residents, partners and staff. It is important to restate that savings are being brought forward out of necessity given the financial position we face. They are all tough choices. There are no easy options and these are not proposals that we would want to make.

1.44 A number of proposals have been subject to public consultation between October and November 2024. No decision has been taken as to whether or not they should be implemented, and it is not the purpose of the budget setting meeting to do so. These decisions will be taken by the Executive following consideration of the result of the consultation and other relevant considerations.

1.45 Full Council sets the budget for the Council, and in so doing determines the allocation of resources to each of the Council's service areas and essentially sets financial limits within which the Council must operate. The budget does not determine how particular services are delivered and, in setting the budget, Full Council does not take decisions on specific proposals and cannot direct or require the Executive to expend money in a particular way.

1.46 The proposals set out, if implemented, do not fully close the funding gap. After many years of service reductions, transformation and efficiencies, this reflects the very limited opportunity to make further savings whilst still meeting our statutory duties and basic operating requirements. The savings proposed would, however, make a significant contribution towards bridging the deficit.

1.47 As is clear from this report, and from the quarterly monitoring reports that Members have received throughout the year, the Council has faced very significant cost and demand pressures. This has resulted in a significant in year 2024/25 overspend and projected budget deficit which will have to be met from reserves. In an effort to mitigate the in-year overspend and to enable the Council to balance its budget for the year ahead measures have been taken in year to reduce spend. These have been, and will continue to be, taken in accordance with the Council's decision making framework.

Balancing the budget

1.48 The budget for 2024/25 included a one-off draw from strategic reserves of £14.3m. By Quarter 2, the Council was projecting to draw a further £10.5m from strategic reserves to cover the forecast net in-year overspend. Following these draws, the projected level of strategic reserves is only £9.4m as at 1 April 2025. This limited flexibility will need to be held to cover emergent financial challenges in 2025/26, such as future overspends or failure to deliver savings in full.

1.49 In order to present a balanced budget for 2025/26, the council will therefore need to draw £11.4m from service specific reserves, comprising a £9.4m draw from the Waste PFI Reserve and a £2.0m draw from the Insurance Fund. As service specific reserves are held specifically to mitigate volatile expenditure or known future cost, drawing from these reserves will constrain the Council's ability to manage future financial risk and known liabilities in these service areas.

1.50 As reserves can only be used once, the underlying deficit will be deferred into 2026/27, leaving a deficit of £37.4m. Even if it is assumed that Council Tax flexibility will continue into 2026/27, and that the maximum 4.99% is taken in 2026/27, the deficit would be £24.8m.

1.51 Having increased Council Tax by the maximum allowable amount, and the MTFP remaining in deficit, it would take an additional 3.06% in Council Tax to balance the budget for 2025/26 without using reserves. A total increase of 8.05% would require a referendum.

2025/26 and beyond

1.52 While the additional funding in the provisional Local Government Finance Settlement was welcome, it was not sufficient to address the ongoing impact of increased service demands and high levels of inflation in prior years, together with the impact of increases in the national living wage and increases in employers' national insurance contributions on our providers, especially in social care.

1.53 Whilst it is welcome to note the Government's commitment to a fair funding review, business rates reform and multi-year settlements from 2026/27, unless the Council receives a significant and permanent increase in funding, the cumulative deficit, which is currently projected to be £56.1m by 2027/28, will continue to grow, which would be a completely unsustainable financial position.

1.54 As such, the Council's financial sustainability and ability to meet the needs of our residents is wholly reliant on the multi-year settlement in 2026/27 and wider reforms. If this, and the associated fair funding review and business rates review, proves to be insufficient, we will have to consider further options, including seeking Exceptional Financial Support.

Council Tax requirement

1.55 The provisional Local Government Finance Settlement provided the ability for the Council to raise a maximum of 2.99% Council Tax and 2% ASC precept available in 2025/26 without a referendum. Considering the financial position, including the pressures in social care, it is proposed that this additional flexibility be included.

1.56 It is therefore proposed that the County Council be asked to consider increasing Council Tax in 2025/26 by 4.99% (2.99% Council Tax plus 2.0% Adult Social Care Precept). If agreed, the proposed band D charge for 2024/25 would therefore be:

Changes in Council Tax	£ per house at Band D	
	Council Tax Annual	Council Tax Weekly
Band D 2024/25	£1,778.31	£34.20
Council Tax increase*	£53.19	£1.02
Adult Social Care Precept* 2.0%	£35.55	£0.68
Indicative Band D 2025/26*	£1,867.05	£35.90

* Council Tax is rounded to allow all bands to be calculated in whole pounds and pence.

1.57 The formal precept notices for issue to the District / Borough councils will follow the formal recommendation by County Council. The current position is subject to change following final figures on Collection Fund and Business Rates provided by borough and district councils at the end of January 2025. The draft precept calculation is therefore set out at Appendix 5.

Capital Programme

1.58 Through the RPPR process the Capital Strategy and programme are reviewed annually to ensure that they support the Council's responsibilities and departmental service strategies. To manage investment to a sustainable level, the Capital Strategy focuses on the delivery of targeted basic need for the Council to continue to deliver services as efficiently as possible.

1.59 The current approved programme has now been updated to include normal updates in accordance with Capital Strategy principles and additional investment proposals considered by CMT. The planning horizon has also been extended to 2034/35 to maintain the 10 year programme.

1.60 The challenging revenue budget position, referenced throughout this report, has meant that the Capital Programme has been subject to a risk review undertaken during 2024 aimed at minimising the level of borrowing required to fund the future programme, reducing pressure on the MTFP by an estimated £3.9m of borrowing costs over the period to 2027/28.

1.61 It is proposed that a capital programme of £284.4m (net of the slippage risk factor) be set over the MTFP period from 2024/25 to 2027/28 (current year plus three), requiring £34.4m of borrowing, with the remaining years to 2034/35 being indicative to represent longer term planning. The update to the capital programme can be found at Appendix 8a.

1.62 The Council's 20 year Capital Strategy recommended for approval can be found at Appendix 8c. The Capital Strategy covers the period 2025/26 to 2045/46 and has been updated to reflect emerging risks, principles and corporate priorities. The strategy has been revised to acknowledge that capital investment decisions have a direct impact on the Council's revenue budget, particularly relating to borrowing costs, and are therefore to be considered in the context of their impact on revenue budget and wider Council financial position.

Robustness and Reserves

1.63 At Full Council in February 2024 there was an estimated total reserves balance of £83.8m by March 2028. Following usual updates, the balance at 31 March 2029 is now estimated at £51.3m.

1.64 The current reserves position is summarised in the table below. Total service and strategic reserves are projected to be £18.8m by 2029. This compares with a cumulative deficit of £56.1m by 2027/28. The projected balances at 1 April 2029 reflect the draws from specific reserves to balance the budget in 2025/26, and receipt and use of extended producer responsibility (EPR) for packaging funding:

Reserves Balance (£m)	**Balance at 1 Apr 2024** **£m**	**Estimated balance at 1 Apr 2025** **£m**	**Estimated balance at 1 Apr 2029** **£m**
Earmarked Reserves:			
Held on behalf of others or statutorily ringfenced	**31.3**	**26.1**	**22.5**
Named Service Reserves			
Waste Reserve	19.5	19.3	7.4
Capital Programme Reserve	9.9	9.5	0.0
Insurance Reserve	7.4	7.4	5.2
Adult Social Care Reform Reserve	3.0	0.6	0.0
Subtotal named service reserves	**39.8**	**36.8**	**12.6**
Strategic Reserves			
Priority Outcomes and Transformation	7.3	3.0	1.9
Financial Management	35.8	6.4	4.3
Subtotal strategic reserves	**43.1**	**9.4**	**6.2**
Total Earmarked Reserves	**114.2**	**72.3**	**41.3**
General Fund Balance	*10.0*	*10.0*	*10.0*
TOTAL RESERVES	**124.2**	**82.3**	**51.3**

1.65 A lack of Government funding to address pressures in social care, instead asking councils to use reserves to mitigate pressures, means that the Council will have used significant reserves to balance the budget for both 2024/25 and 2025/26.

1.66 In drawing £14.3m in 2024/25 from strategic reserves to present a balanced budget, plus a further £10.5m to cover the in year 2024/25 overspend reported at Quarter 2, the Council has had to abandon its usual approach of maintaining reserves to help future proof Council services from unforeseen risks. The £9.4m remaining in strategic reserves is the only flexibility the council has left to mitigate in year pressures. As such it will be maintained in 2025/26 to offset any emergent risk.

1.67 As a result, the Council has no choice but to draw upon service specific reserves to fund the budget deficit. These reserves are held specifically to mitigate volatile expenditure or known future cost. Drawing from service specific reserves will result in increased budgetary pressure in the future.

1.68 In addition to reserves, there is also a General Fund (unallocated reserve) balance of £10.0m, aligned to the Chartered Institute of Public Finance and Accountancy best practice, plus a general contingency within the base revenue budget equal to £5.7m for 2025/26, to cushion the impact of unexpected events and emergencies in year. This general contingency is set at 1% of net revenue expenditure (NRE) less Treasury Management. For 2025/26, the General Fund and contingency total £15.7m, which represents 2.65% of NRE.

1.69 Details of the reserves held, and the Chief Finance Officer Statement on Reserves and Budget Robustness, are set out in Appendix 6.

Engagement Feedback and Future Consultation

1.70 The views of the Scrutiny Committees are set out in Appendix 7. The views of partners, Trades Unions, young people and business ratepayers are also included in the appendix.

Equalities

1.71 An initial Equality Impact Assessment (EqIA) of each of the revenue savings proposals has been undertaken to identify potential impacts on people sharing legally protected characteristics and is set out in Appendix 4b. Where a detailed EqIA has been identified as required and completed it is available to Members. Further EqIAs will be undertaken where appropriate when individual proposals are being considered.

1.72 All proposed capital spending has been subject to an initial equalities assessment to identify potential impacts on people sharing legally protected characteristics and to identify whether a detailed EqIA is required (including if one has already been completed or is planned). Where the need for a further equality assessment has been identified, this will be undertaken when individual proposals are being planned in more detail, to enable accurate analysis. A summary of the equality consideration of proposed capital spending is set out in Appendix 8b and where a detailed EqIA has been completed it is available to Members.

1.73 In considering the proposals in this report, Cabinet Members are required to have 'due regard' to the duties set out in Section 149 of the Equality Act 2010 (the Public Sector Equality Duty) as summarised in Appendices 4b and 8b. EqIAs are carried out to identify any specific adverse impacts that may arise as a result of proposals for people sharing legally protected characteristics and to identify appropriate mitigations. The full version of relevant completed EqIAs for capital projects and savings proposals are available on the Cabinet pages of the Council's website. They can be inspected upon request at County Hall. Members must read the full version of the EqIAs and take their findings into consideration when determining these proposals.

1.74 Whilst the Cabinet is being asked to recommend, and subsequently the County Council asked to agree, the revenue budget and capital programme, the budget decision does not constitute final approval of what policies would be or what sums of money will be saved or spent under the service proposals. The recommendations in the report do not commit the Council to implement any specific saving or spending proposal. When the Executive come to make specific decisions on budget reductions or expenditure, where necessary, focussed consultations and the full equalities implications of doing one thing rather than another will be considered in appropriate detail. If it is considered necessary, in light of equalities or other considerations, it will be open to those taking the decisions to spend more on one activity and less on another within the overall resources available to the Council.

Fees and Charges

1.75 The Chief Finance Officer is delegated to approve all fees and charges and to report to Cabinet and County Council those set at a level above inflation; a reasonable inflation level with regard to the Consumer Price Index (CPI), Retail Price Index (RPI) and pay inflation. The OBR forecast for 2025/26 at October 2024 is 2.7% CPI and 3.5% RPI, and estimated pay inflation for 2025/26 (including the impact of NiC changes) is 4.6%. As such, it has been determined that fees increasing above 4% be reported. Appendix 9 is for noting and shows a schedule of the fees and charges approved at quarter 3 that have increased by more than 4%.

Conclusion

1.76 This Council has a firm foundation of sound and prudent financial management over many years, endorsed by external assessments. We have taken difficult decisions when we needed to in order to balance the books and make best use of stretched resources. Our robust RPPR process has enabled us to direct spending towards priorities and core services, in particular protecting services for the most vulnerable in our county.

1.77 However, despite this strong record, the scale of the challenge the Council now faces is substantial. The continuing escalation in costs and demand for statutory services, due to factors beyond local control, has not been matched with sufficient increased funding. Despite the action we have taken locally to address pressures wherever we can, there is a very significant deficit and substantial risk in the coming years. There also remains considerable uncertainty about the future funding regime for local government, as well as wider service and structural reforms, and how any changes will impact on the Council.

1.78 There is continued national reliance on raising funding for core pressures, particularly growing demand in social care, through local Council Tax which is unrelated to need and unsustainable. In this context we must again ask local people to contribute more to protect services for the most vulnerable for the future. This recommendation is not made lightly, given the ongoing pressures on household budgets, but it is essential if we are to protect services as far as possible. Support will continue to be available through local Council Tax Support Schemes for those residents eligible and we will continue to work with partners to signpost residents to sources of support with the cost of living, including access to benefits they may be entitled to.

1.79 Even after this contribution, the budget presented for the year ahead relies on delivering significant and difficult savings, which will impact on local people, our staff and partners, and on using further reserves to balance the books, removing this safety net for the future. This is an unsustainable position.

1.80 In this context, and with future funding for local government under review, our lobbying will also be vitally important. We will respond with clarity and with evidence to the Government's consultations on funding and service reform. We will ensure the hard choices already having to be made, and the impacts these will have on local residents, business and communities, are heard loud and clear. We will continue to work with our local, regional and national partners to highlight the specific needs of East Sussex and to press for fair, sustainable funding that enables us to meet the requirements of our residents for essential support. Until this is delivered our medium term financial position will remain extremely difficult and present significant risk to our ability to meet local needs in the future.

1.81 The Cabinet recommends the County Council to:

✡ (1) approve in principle the draft Council Plan 2025/26 at Appendix 1 and authorise the Chief Executive to finalise the Plan in consultation with the relevant Lead Members;

(2) approve the net Revenue Budget estimate of £579.6m for 2025/26 set out in Appendix 2 (Medium Term Financial Plan) and Appendix 3 (Draft) (Budget Summary) and authorise the Chief Executive, in consultation with the Chief Finance Officer, Leader and Deputy Leader, to make adjustments to the presentation of the Budget Summary to reflect the final settlement and final budget decisions;

(3) approve to incorporate Climate Emergency Action Plan activities and key performance measures within the Council Plan;

(4) in accordance with the Local Government Finance Act 1992 to agree that:

(i) the net budget requirement is £579.6m and the amount calculated by East Sussex County Council as its council tax requirement (see Appendix 5) for the year 2024/25 is £394.4m;
(ii) the amount calculated by East Sussex County Council as the basic amount of council tax (i.e. for a band D property) for the year 2025/26 is £1,867.05 and represents a 4.99% (2% of which relates to the Adult Social Care precept) increase on the previous year;

(5) advise the District and Borough Councils of the relevant amounts payable and council tax in other bands in line with the regulations and to issue precepts accordingly in accordance with an agreed schedule of instalments as set out at Appendix 5.

(6) agree the Reserves Policy set out in Appendix 6;

(7) approve the Capital Strategy and Programme at Appendix 8;

(8) note progress with the Council Plan and Budget 2024/25 since quarter 2 set out in paragraphs 1.36 to 1.38;

(9) note the Medium Term Financial Plan forecast for 2025/26 to 2027/28, set out in Appendix 2;

(10) note the comments of the Chief Finance Officer on budget risks and robustness, as set out in Appendix 6;

(11) note the comments from engagement exercises set out in Appendix 7; and

(12) note the schedule of fees and charges that have increased above 4% at Appendix 9.

2. Council Monitoring: Quarter 2 2024/25

2.1 This report sets out the Council's position and year-end projections for the Council Plan targets, Revenue Budget, Capital Programme, and Savings Plan, together with Risks at the end of September 2024.

2.2 Broad progress against the Council's four strategic priority outcomes is summarised in paragraphs 2.11 – 2.33 and an overview of finance and performance data is provided in the Corporate Summary at Appendix 10. Strategic risks are reported at Appendix 17.

Council Plan 2024/25 amendments and variations

2.3 The Council Plan 2024/25 and the Portfolio Plans 2024/25 – 2026/27 have been updated with available 2023/24 outturns and final performance measure targets. All plans are published on the Council's website. The Corporate Summary (Appendix 10) contains a forecast of performance against targets.

2.4 The target for 1 performance measure in Communities, Economy and Transport (Appendix 15) is recommended for amendment:

- Deliver a range of Family Learning programmes across East Sussex to provide high quality learning opportunities for parents/carers and their children to develop English, maths and language skills and to support a culture of learning in the family (subject to external funding).

The Education and Skills Funding Agency have announced that the type / categorisation for Family Learning is going to change, with the focus no longer solely on Family English, maths and Language and Wider Family Learning programmes. It is therefore recommended that the 2024/25 target be amended from ‘1,300 enrolments across Family English, maths and Language (FEML) and Wider Family Learning (WFL) programmes’ to ‘1,300 enrolments across Family Learning programmes’.

2.5 It is recommended that 6 additional measures are added to the Council Plan, to improve visibility of our performance against all 5 of the priorities for Adult Social Care and Health (Appendix 12). These five priorities are prevention, waiting times, safeguarding, quality and value for money. The proposed additional measures focus on waiting times and safeguarding:

- Median waiting time for adult Care Act assessments - proposed target is less than or equal to 21 days
- Median waiting time for carers’ Care Act assessments - proposed target is less than or equal to 7 days
- Median time from proposed start date to actual start for adult client reviews - proposed target is less than or equal to 6 days
- Median time from proposed start date to actual start date for carer reviews - proposed target is less than or equal to 6 days
- Number of people with a Deprivation of Liberty Safeguards (DoLS) episode awaiting allocation of a Best Interest Assessor - proposed target is less than or equal to 650 people
- Percentage of potential safeguarding concerns initially reviewed within 3 days - proposed target is greater than or equal to 99%.

2.6 The Strategic Risk Register, Appendix 17, was reviewed and updated to reflect the Council’s risk profile. Risk 1 (Roads), Risk 5 (Reconciling Policy, Performance and Resources) and Risk 20 (Placements for Children and Young People in Our Care) have updated risk definitions and risk controls. Risk 9 (Workforce) has updated risk controls and an amended risk rating. Risk 4 (Health), Risk 6 (Local Economic Growth), and Risk 15 (Climate) have updated risk controls. The ‘Delivery of Oracle Implementation’ risk has been escalated to the Strategic Risk Register. Risk 8 (Capital Programme) has been deleted as a standalone strategic risk and amalgamated into Risk 5 (Reconciling Policy, Performance and Resources).

Budget Outturn

2.7 The detailed revenue projections for each department are set out in the relevant appendices which show an aggregate total overspend of £24.2m (£23.4m at quarter 1). The main headlines are:

- Children’s Services is forecast to overspend by £13.9m (£12.5m at quarter 1); the main areas of projected overspend being Early Help and Social Care and Home to School Transport. The Early Help and Social Care overspend of £10.3m (£7.4m at quarter 1) is due in the main to pressures around agency placements and Children’s Homes within Looked After Children (LAC), and staffing costs within Localities: the largest movement being in LAC agency placements. Home to School Transport has a forecast overspend of £4.3m (£4.8m at quarter 1) due to growth in numbers of pupils and unit costs for transport that have far outstripped what was estimated during the budget setting process. The forecast has improved since quarter 1 due to a review of unit costs calculations for non-solo packages and additional government grant funding.

- The forecast overspend for Adult Social Care is £10.0m (£9.8m at quarter 1) which largely relates to the Independent Sector, where the overspend is forecast to be £12.3m (£10.3m at quarter 1). This is due to a combination of factors, primarily being increasing complexity of need and pressures arising from demand and demographic growth returning to pre-pandemic levels; challenges that are echoed nationally. Mitigations to manage the overspend down include improving income collection and reviewing high-cost packages to ensure care is at the appropriate level for clients. There is a forecast underspend in Directly Provided Services of £2.3m (£0.5m at quarter 1) due to staffing vacancies which reflects the difficulties in recruitment.

- There is a forecast overspend of £0.8m (£0.7m at quarter 1) for Business Services, mainly in Property Services as a result of increased accommodation and reactive maintenance costs.

- Communities, Economy and Transport is showing a forecast underspend of £0.6m (overspend of £0.2m at quarter 1). The main underspend is in Waste in Transport and Operational Services where higher than budgeted recycling income and lower Private Finance Initiative contract prices due to lower inflation, is partly offset by reduced electricity income. The largest overspend is in Highways where the cost of electricity for streetlighting and depots is much higher than budgeted.

2.8 Within Centrally Held Budgets (CHB), including Treasury Management (TM), and corporate funding there is an there is an underspend of £13.6m (£14.0m at quarter 1), which includes the general contingency:

- There is currently an estimated £1.6m underspend on TM (no change from quarter 1), based on a robust investment strategy approach and slippage on the capital programme reducing the need to borrow in 2024/25. It should be noted that there has been a fall in cash investment balances; the level of balances has fallen by 42% in one year to £166.9m at the end of quarter 2 2024/25.

- Within CHB the forecast underspend is now £6.1m; a reduction of £0.4m from quarter 1 due to an increase in the estimated debt impairment for the year. The underspend is mainly due to the General Contingency of £5.3m and £1.3m available from not transferring this contribution to the Capital Programme.

- Corporate Funding budgets are underspending by £5.9m (no change from quarter 1), due to the additional allocations of Social Care Services Grants totalling £5.4m, approved by Cabinet on 25 June 2024, plus an additional £0.5m received for business rates 2023/24 pooling and reliefs.

2.9 The net impact of the above is an unplanned draw from the financial management reserve of £10.5m in 2024/25 (£9.4m at quarter 1). This is in addition to the planned £14.3m draw to present a balanced position in setting the 2024/25 budget. The Council's projected level of strategic reserves was last assessed to be £7.2m as of March 2029, including the forecast unplanned draw of £9.4m at quarter 1. Making this additional draw would reduce this to £6.1m. For comparison, the latest published budget gap after likely funding scenarios for 2025/26 is £29.0m. Any reduction in unallocated reserves reduces the flexibility available in dealing with the challenge of addressing next year's projected deficit and setting a balanced budget, without having to seek further savings. In this context, to address the projected in-year overspend and reduce the required draw from reserves, the Council is taking a number of actions to reduce spending in 2024/25, including:

- Additional controls on spending, including the requirement for purchase orders above £1,000 to be supported by a business case and approved by a reviewing board.
- An updated recruitment protocol, including CMT approval of non-core role recruitment.

- Reviewing proposed savings for 2025/26 to identify whether actions can be brought forward into 2024/25.
- Asking departments to identify any further actions to reduce in-year spend across all budgets.

2.10 Capital Programme net expenditure for the year is projected to be £100.8m against a budget of £111.5m. A slippage risk factor has been applied to the capital programme to reflect likely slippage based on a risk assessment of historic levels of actual expenditure and slippage at a project/programme level. The risk factor will be held at a corporate level to enable services/project managers to manage project budgets at a local level, whilst ensuring greater robustness to the planning and monitoring process at a corporate level. The net forecast expenditure after applying this risk factor is £87.1m.

- The programme is forecasting total slippage of £20.5m across several projects, relating to various project specific factors. The largest areas of slippage include: the Bus Service Improvement Plan (£5.5m); Bridge Assessment and Strengthening (£4.9m); Exceat Bridge Replacement (£2.4m), Eastbourne Town Centre Phase 2a (£1.3m); Climate Emergency Works (£1.2m).

- The programme is projecting spend-in-advance of £9.9m, mainly relating to: an increased focus on patching within the Highways Structural Maintenance Core Programme (£4.3m); and Eastbourne Town Centre Phase 2b (£2.7m); and Core IT&D Digital Strategy Implementation (£1.0m) due to the bringing forward of device refresh work.

- In preparation for a large programme of surface dressing work planned for summer 2025/26, contracts need to be entered into in 2024/25. In order to fund this, a temporary transfer of funding is required. It is proposed to fund this by transferring funding of £4.3m from slippage on the Bridge Assessment and Strengthening Programme in 2024/25 to the Highways Structural Maintenance Core Programme. The proposed variation to the Capital Programme will improve our ability to maintain a steady state for road condition for the next 12 months, subject to weather conditions. The current approach to road maintenance aims to keep our network in a steady state condition as agreed by Cabinet in June 2023. That strategy and the road condition targets in the Council Plan was predicated mainly on resurfacing, alongside a small annual surface dressing programme. As funding is clearly going to be increasingly constrained over the MTFP period, our ability to deliver the agreed condition targets will be challenged. The volume of the annual surface dressing programme is determined by the level of patching over the previous 6 -12 months and is typically circa £1.0m a year. In view of the proposal in the budget papers noted at the last Cabinet meeting, to reduce highway maintenance funding to grant level only, we have devised a more extensive patching programme for the autumn and winter 2024 which will be followed up with surface dressing in summer 2025. The proposed variation to the Capital Programme in this report enables that approach to be enacted.

Progress against Council Priorities

Driving sustainable economic growth

2.11 The Council has spent £405m with 893 local suppliers over the past 12 months. This equates to 63% of our total procurement spend, compared to a target of 60%. During quarter 1, we have continued to work with suppliers to maximise the social value delivered by our contracts. The benefits seen from these contracts were equal to 22% of the applicable contract values achieved, against a target of 10%. The social value commitments made by suppliers during quarter 2 included apprenticeships, creating jobs for local people and offering work experience to local school children (Appendix 13).

2.12 Work on our highways has continued in quarter 2 using the extra funding approved by the Council in recognition of the deterioration of the network following last winter's prolonged, wet and cold weather. We completed 214 patch repairs across 142 sites in quarter 2. This has had an impact on the condition of the network and has enabled us to carry out works above and beyond our usual programmes. We also completed 186 drainage schemes, including replacing gully covers and clearing significant blockages. We completed 13 road improvement schemes in quarter 2 and repaired 3,552 potholes (Appendix 15).

2.13 39 pupils attended Open Doors visits during quarter 2, giving them an experience of a workplace. The Careers Hub ran 2 Apprenticeship Roadshow events in Hastings and Eastbourne in quarter 2. 850 young people, parents and adult job seeker attended the roadshows (Appendix 15).

2.14 Council delivered business support programmes have helped create a number of jobs in quarter 2. The Newhaven Business Grants programme has create 14 jobs so far in 2024/25. We also expect the Rural Business Grants programme to create over 32 further jobs during 2024/25. The target for the year is to create 45 jobs across all programmes. (Appendix 15).

2.15 6,602 children took part in the Summer Reading Challenge during quarter 2, exceeding the target of 5,200. The challenge aims to encourage primary school children to read books during the summer holidays. 117 promotional assemblies were delivered in schools to promote the challenge to over 27,000 children. 3,880 people completed the challenge (Appendix 15).

2.16 The Council launched our Excellence for All vision across our partnerships in September 2024. The vision was co-produced with representatives from across the education community. It looks ahead to 2030 and focuses collective ambitions on an education system that delivers for every child and young person in the county (Appendix 14).

Keeping vulnerable people safe

2.17 The rate of Looked After Children has increased from 684 (66.6 per 10,000) at the end of quarter 1 to 696 (67.7 per 10,000) at the end of quarter 2. The target for 2024/25 is to be below 635 children (61.8 per 10,000). This is an overall increase of 12 children compared to an increase of 29 children in quarter 1. However, there has also been a significant increase in admissions to care. 61 children were admitted to care in quarter 2, with 44 discharged from care. The number of children with a Child Protection Plan has increased slightly, from 642 (62.5 per 10,000) at the end of quarter 1 to 656 (63.8 per 10,000) at the end of quarter 2. The target for 2024/25 is to be below 661 children (64.4 per 10,000). The number of children stepped down from a Child Protection Plan has increased significantly in recent months, however, the continued escalation in demand means these have been offset with new plans starting (Appendix 14).

2.18 The Council’s Connected Families Intervention Practitioners (CFIP) have continued to provide dedicated support to parents, support families to stay together and improve the wellbeing and life chances of children. In quarter 2 CFIP were working with 262 families. During quarters 1 and 2 75% of CFIP cases closed had achieved their aims with regards to completing the intervention and reducing risks. The Council’s Edge of Care Connected Coaches worked with 51 children during quarter 2. During quarters 1 and 2 the outcomes were achieved in 25 of the 29 cases closed by Connected Coaches, enabling the children to remain with their families (Appendix 14).

2.19 In February 2024, the Council agreed to invest an extra £1.7m in our inhouse foster care programme. During quarter 2, the Local Authority Fostering South East Regional Hub went live. The virtual hub is a collaboration with 19 other local authorities in the South East, and will complement existing recruitment activities. There were 138 enquiries from potential new foster carers in quarters 1 and 2, an increase from 117 in quarters 1 and 2 2023/24. 12

new foster carer households were approved in quarter 1 and 2, an increase on the 6 approved in quarters 1 and 2 2023/24 (Appendix 14).

2.20 The Lansdowne secure children's home now has a full complement of staff, and we have been incrementally increasing the number of children resident in the home as staff join the team. At the end of quarter 2 there were 4 children resident at the home. Plans to have 6 children resident by the end of August were delayed slightly but the enhanced health offer now in place will support that ambition in the Autumn. We are looking to increase capacity, particularly amongst support staff. This will enable us to amend our registration and open the remaining beds. The education provision within the secure unit is operating well and delivering a creative, comprehensive curriculum. Ofsted completed a full inspection in September with the home receiving a rating of good in each of the four judgements (Appendix 14).

2.21 The Supporting Families transformation programme has continued to be a key part of the drive to develop a joined-up whole family, whole system approach to Early Intervention. In quarter 2 we brought our Supporting Families programme into the early help system, which will provide a better co-ordinated approach for families (Appendix 14).

2.22 Delivering effective and efficient early help services that provide targeted help and support to children and families at the earliest point is a key element of our demand management approach in children's services. BrightPip supports parents to have a better awareness of their response to their infant. 1,615 parents attended a parenting intervention in quarter 2. 91% of these parents reported having an increased confidence in parents with a better understanding of their child's learning and development. During quarter 2 early help keyworkers delivered intensive support to 964 families, which included 2,108 children. (Appendix 14).

2.23 A Domestic Abuse Small Grants Fund was launched in August 2024. The fund is for micro, small, and medium organisations and aimed at reaching people who are not currently engaging with support services. White Ribbon UK approved the final White Ribbon action plan in August. By the end of quarter 2, 25 White Ribbon Ambassadors and Champions had been recruited to share messages and raise awareness about harmful definitions of masculinity (Appendix 12).

Helping people help themselves

2.24 During quarters 1 and 2 3,281 clients were supported with housing related floating support, against a target for the year of 7,282. There are currently 86% of frontline staff posts filled in the service, and this is unlikely to improve until a decision on the future of the service is made in February 2025 (Appendix 12).

2.25 The Council, and partners, launched the UK's first free at the point of delivery online HIV Pre Exposure Prophylaxis (PrEP) service to provide people at risk of contracting HIV with easier access to preventative treatment in quarter 2. The pilot is being delivered in partnership with leading remote diagnostic provider Preventx, a not-for-profit community interest company, The Love Tank and Lloyds Pharmacy Online Doctor, and is attracting national and international interest. The service will help achieve the aim set out in the England HIV action plan to end HIV transmission occurring in England by 2030 (Appendix 12).

2.26 During quarter 1 (reported a quarter in arrears) 1.7% of eligible people received an NHS Health Check in East Sussex. The target for 2024/25 is for 9% of the eligible population to have received a Health Check. There was a large reduction in the number of Health Checks conducted in East Sussex in quarter 1, when compared to quarter 4 2023/24. This was especially true in areas of higher deprivation, such as Hastings. Since January, GP practices have seen several contractual changes and this in turn has created increased uncertainty over GP activity of locally commissioned services such as NHS Health Checks (Appendix 12).

2.27 In collaboration with Voluntary, Community and Social Enterprise (VCSE) partners, a new framework for a Community and VCSE Development Programme has been created, specified and agreed by the Lead Member for Adult Social Care and Health. This specification will be used to commission VCSE providers to provide information, advice and support to residents and assist the Council in meeting its duties under Sections 2 and 4 of the Care Act 2014 including the requirement to prevent, reduce or delay the need for care and support (Appendix 12).

Making best use of resources now and for the future

2.28 Shortly after the General Election, which took place early in quarter 2, all Council Group Leaders wrote to the local elected MPs to outline the unique challenges facing East Sussex as set out in the State of the County report. The letter explained the financial challenges facing the Council in the short and medium term and asked for MPs' support in lobbying for reforms in areas including special educational needs and disability, children's social care and concessionary fares. Following the publication of the September RPPR Cabinet report, the Chief Executive wrote to all local MPs with details of the proposed savings to be consulted on, and the impact they will have on their constituents and to ask for their support in emphasising to Government the need for urgent financial support for local government in the Autumn Budget (Appendix 16).

2.29 We completed 6 energy efficiency schemes in quarter 2. These schemes included 1 Solar PV energy generation project, 2 LED lighting schemes, 2 heat decarbonisation schemes, and 1 estate rationalisation. During quarter 1 and 2, we have completed 12 schemes, the target for 2024/25 is 23. The Council is reviewing its capital programme as part of the RPPR process. This review may result in some projects planned for 2024/25 being deferred into later years. Carbon emissions are reported a quarter in arrears, so there is not currently enough data to accurately estimate the end of year emissions outturn for 2024/25. However, if consumption for the remainder of 2024/25 is the same as that seen in 2023/24 then the projected reduction for 2024/25 would be 37%, compared to the baseline year 2019/20, against a target of 50% (Appendix 13).

2.30 The Council has continued to work with a range of partners to develop and deliver carbon reduction and climate change adaptation work in quarter 2. This included carrying out the first phase of an assessment on whether it would be feasible to develop a solar farm on the closed landfill site at Pebsham. We also began work on the development of a housing retrofit strategy with partners. Extensive engagement with stakeholders has also taken place to inform the priorities for the local nature recovery strategy (Appendix 15).

2.31 The quarter 1 and quarter 2 sickness absence figure (excluding schools) is 4.48 days lost per Full Time Equivalent (FTE) employee. This is an increase of 6.8% on quarter 1 and quarter 2 2023/24. The year end estimate is for an absence figure of 9.75 days/FTE, so we are predicting we will miss the target of 9.10 days/FTE. The predominant reason for the increase in absence rates is a rise in days lost due to flu-related sickness and COVID-19-related absence (Appendix 13). In order to minimise sickness absence over the winter period, the Council has offered to reimburse the cost of a seasonal influenza vaccination to those who are not eligible for one free of charge from the NHS. Additionally, as part of the approach to maintaining a healthy workforce, the Council is using national grant funding to offer workplace cardiovascular checks which include a body mass index score, blood pressure reading and cholesterol and blood sugar tests as well as referrals to weight management programmes and Swap to Stop smoking cessation offers (Appendix 12).

2.32 The Council continues to necessarily implement Oracle to replace SAP given that SAP will no longer be supported from 2027. Following an independent assurance review in late 2023, which confirmed that Oracle remains a suitable product for the Council, programme activity and governance have been re-established and a phased implementation is being progressed. During quarter 2, the first element of the Enterprise Performance Management module (phase 1) roll out ('Monitoring') successfully went live and is now being used. The next phase (phase 2) is the roll out of Finance (with dependant HR processes), Procurement, Recruitment and Helpdesk modules which is being progressed at pace (Appendix 13).

2.33 Work continued in quarter 2 to consider options for the future of the County Hall site (which includes the former St Anne's School site, Westfield House and the car parks). Specialist advice was obtained from external consultants who undertook a review of the site, with a view to maximising the potential of the site for the Council. Input was also sought from key stakeholders including the South Downs National Park Authority and Lewes District Council. Due to the complex nature of the County Hall site and current market conditions, the review established that options for the development of the site are not financially viable at the current time. Following the review, it was agreed that the Council would maximise its return by looking to relocate to Sackville House, Lewes, when its current leases expire in 2030 and dispose of the existing site at that time. In the meantime, work is going on to close down parts of County Hall to reduce running costs and to free up space for generating income through lettings (Appendix 13).

3. Scrutiny Review of Healthy Ageing

3.1 The Cabinet considered a report of the People Scrutiny Committee of its Review of Healthy Ageing. The report of the Scrutiny Committee is including elsewhere on the agenda (item 7).

3.2 The People Committee heard at its March 2024 meeting that a key priority for Adult Social Care and Health (ASCH) was responding to the needs of an increasing older population in East Sussex and that the Department would welcome scrutiny input into how preventative approaches could support people to age well in the county.

3.3 The review focussed on the Council's role in supporting people to age well through physical activity; how more positive attitudes towards ageing can help people to age well; and how to maximise on the opportunities of having an older population in East Sussex.

3.4 The Board considered that whilst an increasing older population can create service pressures, with multiple health conditions more prevalent as people age, this was not inevitable and preventative actions, as well as age inclusive principles, could enable people to age well and delay or reduce, if not prevent, the need for statutory services including social care. The Board also considered the benefits of an older population, including contributions to care, the workforce and volunteering.

3.5 The review considered a range of healthy ageing initiatives, including case studies from other local authorities. The review focussed on the benefits of physical activity and explored local engagement with physical activity programmes; barriers to participation; and opportunities to increase opportunities to inclusive activities.

3.6 The review considered how negative attitudes towards ageing, including internal ageism, could impact on people's ability to engage with healthy ageing initiatives and access support and found that inclusive communications and adopting a positive narrative of ageing locally could support people to age well in the county.

3.7 The Board found that the Department was progressing a number of projects and initiatives to support people to age well and work with partners was key to delivering these.

3.8 The Board recognised that there were many factors that contributed to a person's ability to age well, and although many of these were out of scope for this review, Public Health provided services and support across a number of these areas.

3.9 In welcoming the findings of the Scrutiny Committee, the Cabinet has considered a report by the Director of Adult Social Care and Health (as set out in Appendix 18) on the specific recommendations and endorsed it as its response to the recommendations.

3.10 The Cabinet, in welcoming the report, recommends the County Council to -

✡ approve the response of the Director of Adult Social Care on the implementation of the recommendations in the Scrutiny Committee's report.

4. Scrutiny Review of Local Speed Limit Policy

4.1 The Cabinet considered a report of the Place Scrutiny Committee of its Review of Local Speed Limit Policy. The report of the Scrutiny Committee is including elsewhere on the agenda (item 8).

4.2 In July 2024 the Place Scrutiny Committee established a Review Board to undertake a review of Local Speed Limit Policy. This was in response to the frequency with which concerns about road safety and speed limits were being raised with Members across the county, and followed a debate at Full Council in July 2023 of a Notice of Motion regarding reviewing and updating Policy PS05/02 on Local Speed Limits.

4.3 A decision was taken by the Review Board early in the review to split the terms of reference into two parts and to conduct the review in two phases, in recognition of both scrutiny time and capacity constraints, and the dependence of some elements on further progression of the Local Transport Plan 4 (LTP4). This initial review did not therefore consider the new scheme prioritisation process for the LTP4; the outcomes of the recent review of the speed limits on all 'A' and 'B' roads in the county; or evidence from officers of other local authorities and the Welsh administration on the implementation of 20mph limits and zones. The Place Scrutiny Committee may decide to include these topics in its future work programme through a second review, as outlined in paragraph 4 of the scrutiny review report (agenda item 8).

4.4 The scope of this review included:

- Consideration of the purpose of a local speed limit policy and examining how local speed limits are reviewed, assessed and delivered by East Sussex County Council (ESCC).
- Examining whether the ESCC local speed limit policy PS05/02 is in line with national Department for Transport (DfT) guidance.
- Reviewing examples of other local authority speed limit policies (e.g. our nearest neighbours and those with similar road networks to ESCC).
- Reviewing initial national and local written evidence on the impact and effectiveness of lower speed limits and zones (including 20mph limits).
- Exploring other measures local authorities and developments are bringing forward to deliver low speed environments in both urban and rural areas.
- Exploring how ESCC currently communicates the local speed limit policy and wider policy context to residents and considers potential improvements.
- Reviewing the amount of officer time spent carrying out assessments of road safety concerns and preparing petition reports.

4.5 Overall, the review found that the Council's local speed limit policy and approach to setting speed limits is in line with the current Department for Transport guidance and is broadly similar to the approach taken by other local authorities. The review has made a number of recommendations to better communicate the Council's policy approach and has suggested changes in the process for responding to the number of requests the Council receives for changes to local speed limits. The review has focused on developing recommendations which are realistically achievable within the Council's sphere of influence and available resources.

4.6 In welcoming the findings of the Scrutiny Committee, the Cabinet has considered a report by the Director of Communities, Economy and Transport (as set out in Appendix 19) on the specific recommendations and endorsed it as its response to the recommendations.

4.7 The Cabinet, in welcoming the report, recommends the County Council to -

✡ approve the response of the Director of Communities, Economy and Transport on the implementation of the recommendations in the Scrutiny Committee's report.

5 Annual Report of Looked After Children's Services

5.1 The Cabinet has considered the annual progress report for Looked After Children's Services which is attached as Appendix 20. It was presented to and discussed at the Corporate Parenting Panel on 23rd October. Some additional information regarding the budget for looked after children has been added to this version of the report.

5.2 Nationally the number of looked after children has continued to rise. During the course of 2023-24 a total of 888 children were looked after by ESCC (an increase of 23 compared to the previous year). At the end of the year there were four less children in care than the previous year, at 657 in total. Whilst it is positive that this figure stabilised, our rate of looked after children is of a significantly higher number than 2 years ago at 64 per 10 000 compared with 60 per 10 000 in 2020-21. The presentation of many of these children showed a rise in the levels of complexity both in terms of their mental health, neurodiversity, poor school attendance, behaviours that challenge and complex family dynamics.

5.3 30% of this cohort identified as being of a minority ethnic background or of mixed heritage. 118 were unaccompanied asylum seeking children (UASC) and 157 unaccompanied asylum seeking Care Leavers (CLs) aged 18+. 41 young people came to ESCC through the National Transfer Scheme and the remainder were spontaneous arrivals via Police involvement or directly from Newhaven Port. The home office hotels that accommodated UASC in East Sussex were closed in August/September 2023 following a High Court ruling that deemed them unlawful (East Sussex County Council were party to proceedings).

5.4 There was a slight decrease in children coming into care from 249 during 2022/23 to 244 during 2023/24. The number of 0-5 year olds admitted to care during 2023/24 decreased from 81 in 2022/23 to 76. The number of 6-12 year olds admitted to care during 2023/24 decreased very slightly from 57 in 2022/23 to 56 in 2023/24. The number of children aged 13+ admitted to care in 2023/24 was 112 compared to 111 in the previous year.

5.5 At year end there was an increase in the number of our LAC leaving care, from 217 in 2022/23 to 142 in 2022/23.

5.6 The annual report highlights that there has been an ongoing reduction in the number of children placed in foster care (in house, kinship or with independent fostering agencies) and a significant increase in children placed in agency residential children's homes. Since 2021 there has been a 4% reduction in foster care placements, and, however a 60% increase in the use of agency residential homes. This continues to be reflective of the significant and ongoing national sufficiency challenges regarding the sourcing of all placement types. There were a limited number of occasions when children were placed in unregistered provision for short periods of time as a consequence of the shortage of regulated placements. These arrangements were subject to robust risk assessments and carefully monitored. The 'Use of Resources' on page 121 (within Appendix 20) gives a very clear indication of the financial impact of the change in placement split. Many of the children with the most complex needs were placed in our in-house children's homes/fostering placements due to the independent sector being unable to meet their needs.

5.7 The overall ESCC performance remained largely stable with very little significant movement. There were improvements in performance in adoption timeliness, and the numbers of children adopted, looked after children (LAC) with 3 or more placement moves, the percentage of care leavers 19-21 in employment, education and training, and in suitable accommodation. Areas where performance declined included the percentage of looked after children who have been in care for over 2.5 years who have stayed in the same placement for 2 years, and the percentage of children placed outside the LA and these highlight the ongoing placement sufficiency challenges.

5.8 The services for Looked After Children (LAC) are supported via core funding from the CSA budget, a small proportion of the Dedicated Schools Grant and by the Pupil Premium for additional education support for children.

5.9 Further detail on the work undertaken by the Looked after Children's Services in set out in Appendix 20.

5.10 The Cabinet has welcomed the report and thanked all those involved in the provision of services for LAC.

6 Treasury Management Strategy 2025/26

6.1 The Cabinet considered a report proposing the Treasury Management Policy and Strategy Statement (TMSS) for 2025/26. The Council is also required to set Prudential Indicators as set out in the Prudential Code which are included in the strategy for approval. The Treasury Management Policy and Strategy Statement is attached as Appendix 21. This includes the Treasury Management Policy Statement, the Treasury Management Strategy Statement, the Annual Investment Strategy, Prudential and Treasury Indicators for the next three years and the annual Minimum Revenue Provision (MRP) Policy Statement.

6.2 The 2025/26 TMSS has been prepared within the context the financial challenge being faced by the County Council over the Medium Term Financial Plan. A summary of the outlook for Local Government finances is outlined in Annex F of Appendix 21 of this report. The treasury management strategy for the year seeks to compliment the Council Plan by:

- ensuring the investment portfolio is working hard to maximise income by seeking appropriate investment opportunities that meet the Council's security requirements during 2025/26;

- reviewing the Capital Programme to reduce the level of investment of core council funded programmes that would otherwise increase the Council's borrowing requirement;

- utilising cash balances to fund the Council's borrowing need in order to minimise borrowing costs as far as possible;

- ensuring effective management of the borrowing portfolio by exploring rescheduling opportunities and identifying and exploiting the most cost effective ways of funding the Council's borrowing requirement.

6.3 The 2025/26 Investment Strategy has been set in the context of moderate investment returns as a result of expected decreases in the Bank of England (BofE) Base Rate. The Base Rate peaked at 5.25% during 2024/25, with markets and economists' current expectation that rates will start to fall further into 2025/26 and beyond as the BofE is expected to tighten monetary policy in order to contain the impact of inflation. At the time of writing, Link Asset Services are forecasting that Monetary Policy Committee will cut Base Rate to 3.50% by December 2026. The investment performance for 2025/26 is therefore forecast at 4.10%. The average rate of return for 2023/24 was 4.89% and for the first six months of 2024/25 was 5.42%.

6.4 The Strategy is also being set in the context of the Council's deficit revenue budget forecast for 2025/26 and medium-term financial plan to 2027/28. Annex F of Appendix 21 will outline the context for the outlook of Local Government finances in general. Additionally, Paragraph 6.2 outlines the principles that will be applied during the year to ensure the Investment Strategy appropriately contributes to mitigating the Council's ongoing deficit revenue position.

6.5 The planned use of reserves, creditor spend and debt maturities have all contributed to the falling investment balances during 2024/25. Cash balances are expected to reduce further into 2025/26 due to the Council's forecast deficit position and borrowing need. However, in this context, the Council's risk appetite for investments will not be modified to increase income. The strategy will continue to prioritise security of the Council's funds. New investment options will be explored within the current risk appetite and strategy parameters.

6.6 There are no changes proposed in the Annual Investment Strategy for 2025/26.

6.7 Officers continue to seek out Environmental Social & Governance (ESG) investment opportunities with counterparties that meet the Council's investment parameters. There are currently limited available products within the market that meet both the Council's security requirements and the Council's shortened investment time horizon due to the strategy to use cash to initially fund the Council's liquidity and borrowing requirement. Nevertheless, appropriate ESG investment products will continue to be researched and considered into 2025/26.

6.8 The MHCLG (formally DLUHC) introduced a statutory over-ride following the introduction of IFRS9 in 2018 in respect of unrealised capital gains or losses on marketable pooled funds, which is due to end after 31st March 2025 subject to consultation. The Council's investment in the CCLA Pooled Property Fund would be subject to this provision and carries the requirement to account for any unrealised capital gain or losses on the fund in 2025/26 and beyond. The valuation of the fund is currently below initial investment, and therefore provision has been made in the 2025/26 revenue budget to account for an anticipated capital loss. Is should be noted that the investment also provides regular dividend income that contributes towards the Council's investment income budget.

6.9 The Borrowing Strategy and the Capital Programme identifies a borrowing need of £29m over the next 3 years (between 2025/26 and 2027/28). This level of borrowing is following a review of the Capital Programme outside of normal Capital Strategy updates, to reduce the level of investment of core council funded programmes that would otherwise increase the Council's borrowing requirement and therefore borrowing costs within the Treasury Management revenue budget. The review has reduced the borrowing requirement by £50m from £79m originally planned for the period between 2025/26 and 2027/28.

6.10 Officers will seek to use cash from the Council's own reserves to initially fund borrowing whilst interest rates remain relatively elevated. This will decrease the Council's cash balances, reducing counterparty risk, and reduce borrowing costs. Modelling of the Council's capital plans and cashflows has identified an appropriate level of internal borrowing of around £75m in the longer term. This has not changed from 2024/25, when it was increased from £50m on the basis that it is preferable to maximise internal borrowing as far as possible at a time where interest rates are higher. This strategy will be kept under constant review as there are risks that are required to be managed and balanced during the year.

6.11 The Capital Programme will need to be funded in the most cost-effective way. Maximising internal borrowing will reduce investment balances and therefore investment income. Therefore officers will review the interest rate forecast, cashflow needs, the revenue deficit and the Capital Programme to ensure this remains the most appropriate strategy through the year. The budget within the Medium Term Financial Plan (MTFP) is calculated using the Treasury Management Tool that reflects the costs of borrowing in support of the targeted basic need programme offset by returns on investment of the Council's balances. It is therefore reflective of a point in time. The treasury management tool, developed as part of the Capital Strategy, is reviewed regularly for reasonableness.

6.12 The liability benchmark in Section 2.3 of Appendix 21 demonstrates that if the Council were to internally borrow to utilise its cash-backed reserves and balances whilst maintaining a buffer for cash requirements, external borrowing could be avoided until 2026/27. The benchmark also suggests that if reserve balances continue to decrease as currently anticipated, then the Council may need to borrow to finance day-to-day activity in addition to its capital programme by 2029/30. This indicator will be used to assist with future borrowing decisions, in conjunction with the Treasury management Tool.

6.13 The Treasury Management budget within the MTFP supports the cost of borrowing which includes MRP provision and interest. It is proposed that an increase of £3.7m is made to the Treasury Management budget in 2025/26 due to the current falling interest rate environment in conjunction with reducing investment balances. With interest rates expected to normalise at a lower level in the medium term, alongside increasing costs of capital programme borrowing, it is modelled that further increases to the budget will be required in future years. Due to the Council's challenging revenue budget position, the capital programme will continue to be reviewed to minimise the borrowing costs of the overall capital programme within Treasury Management and the revenue budget.

6.14 In addition to the annual strategy, the CIPFA Code requires the Council to report (as a minimum) a mid-year review and an annual report at the close of the year. The Council meets this requirement with the Treasury Management Annual Report 2023/24 and mid-year report 2024/25 presented to Cabinet on 10 December 20234 Additionally, the treasury management quarterly monitoring position is reported to Cabinet as part of the Reconciling, Policy, Performance and Resources quarterly monitoring.

6.15 The Council takes advice from Link Asset Services on its treasury management activities. A detailed view of the current economic situation and forecasts, as prepared by Link Asset Services is included in Appendix 21 (Annex B) to this report.

6.16 The Cabinet recommends the County Council to –

✡ (1) approve the Treasury Management Policy and Strategy Statement for 2025/26;
(2) approve the Annual Investment Strategy for 2025/26;
(3) approve the Prudential and Treasury Indicators 2025/26 to 2027/28; and
(4) approve the Minimum Revenue Provision (MRP) Policy Statement 2025/26 at section 3 of Appendix 21 of the report.

7. The Conservators of Ashdown Forest – 2024/25 forecast outturn position and updated medium term financial plan including the 2025/26 budget.

7.1 The Cabinet considered a report which sets out the financial position of the Conservators of the Ashdown Forest (COAF) for 2024/25 at Appendix 22, against the approved budget agreed by the Board of Conservators at their meeting on 20 November 2023 and was presented to Cabinet in January 2024. It also shows the COAF Medium Term Financial Plan (MTFP).

7.2 The 2024/25 original budget set out a deficit budget of £130,129, being a surplus on the Core Budget of £1,402, and a deficit on the Countryside Stewardship (CS) budget of £131,531. At the end of September there is a forecast surplus of £15,990 in the Core budget.

7.3 Core budget expenditure is higher than budgeted. This is mostly due to the building of a boardwalk from the visitor centre and is funded from a Farming in a Protected Landscape grant (other restricted funding). There was a capital purchase of a new vehicle for the deer ranger and this has been funded by donations.

7.4 The current 2024/25 Core budget projections indicate that no additional contribution from ESCC will be required.

7.5 The current Countryside Stewardship (CS) budget is forecast to overspend by £25,996 this year. This is less than the budgeted overspend of £131,531 and similar to the previous year. The position reflects the difficulties that have been had securing contractors to undertake works on the forest. The Conservators are developing a three-year forest management plan and new procurement policy to lock in contractors over the coming three years. The deficit will be funded from the CS reserve.

7.6 The COAF 2025/26 budget and MTFP is shown at Appendix 23. There is a small, budgeted surplus in the Core budget. It is therefore unlikely that ESCC will need to make an additional financial contribution. CS has a budgeted deficit of £24,726 which reflects an increase in planned works for 2025/26. The CS deficit will be funded from the CS reserve.

7.7 The CS programme comes to an end at the end of 2025; the Conservators will apply for the replacement CS scheme when the government announces the funding schemes available. The CS expenditure and income streams included from 2026/27 are therefore indicative pending that announcement.

28 January 2025 KEITH GLAZIER
(Chair)