Report to:	**Cabinet**
Date:	**11 November 2025**
By:	**Chief Executive**
Title of report:	**Reconciling Policy, Performance and Resources (RPPR) – update on planning for 2026/27 and beyond**
Purpose of report:	**To update Members on the latest policy context, Medium Term Financial Plan and capital programme.**

RECOMMENDATIONS:

Cabinet is recommended to:

i. **note the updated policy context as set out in paragraph 2;**

ii. **note the updated Medium Term Financial Plan as set out in paragraph 3 and appendix 1;**

iii. **note the reserves summary set out in paragraph 3;**

iv. **note the CIPFA Assurance Review report and recommendations at appendix 2 and the proposed response to recommendations at appendix 3;**

v. **note the capital programme update as set out in paragraph 6 and appendix 4;**

vi. **agree that officers bring forward further savings proposals as part of work towards a balanced budget for 2026/27;**

vii. **agree to receive a further update on the planning position, including proposed savings, in December; and**

viii. **note recent lobbying activity and agree to continue pressing Government for sustainable funding to meet the needs of the residents of East Sussex.**

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1. Background

1.1 The State of the County report considered by Cabinet in June laid out the complex and challenging context in which we are planning for 2026/27 and beyond, including the considerable uncertainty on a number of fronts – funding, policy reform and changes to the structure of local government itself. As we move through the autumn, much of that uncertainty remains and key information we need to inform our planning, particularly on future funding arrangements, is still awaited. Despite these missing pieces of the planning jigsaw, we continue to work proactively and in partnership to deliver our local priorities, respond to ongoing high levels of demand for support from local people and make best use of the limited resources we have, including shaping the future direction for local government in the county. This report sets out what we know at this point about the outlook for the coming year and beyond, the detail still awaited and the next steps in our planning.

1.2 June's report to Cabinet highlighted the wide range of national and local challenges impacting on the Council's services and the vital support they provide to East Sussex residents, businesses and communities. The County Council's annual budget of almost £580m net (over £1.1bn gross) is spent on services and support which have a big impact on quality of life and prosperity in the county and deliver both local and national priorities. However, the State of the County report also set out the stark reality that, despite our track record of efficient and effective services and partnerships, there remains a fundamental mismatch between the needs of East Sussex residents for essential statutory support, the cost of delivering these services and the funding we currently expect to have.

1.3 Like other councils nationally, we have seen the enduring impacts of Covid and cost of living increases, alongside wider demographic changes, translate into sustained higher demand for services and more complex needs amongst those seeking support. In addition, factors beyond local control have significantly increased our costs, notably higher levels of inflation and market conditions, particularly in children's services and adult social care. Our projections for the current year show demand for support and the costs of providing it continuing to outstrip our best estimates in these areas as pressures continue and urgently needed national reforms are awaited.

1.4 The particular profile of the population and economy in East Sussex, and the actions the County Council has been required to take over the past decade or more to sustain statutory services within increasingly stretched resources, mean that national pressures are felt especially sharply here. East Sussex is ahead of the national ageing population trend, with amongst the highest proportion of over 85s in the country, and has pockets of significant deprivation which also impact on demand. The county is notably different from the wider south east region in this respect. The protected landscapes in large parts of East Sussex represent a major environmental asset but also constrain economic growth, infrastructure and the related generation of business rates to help fund services.

1.5 East Sussex County Council (ESCC) is also more restricted in the resources available to us than many others. Our funding gap has already required the use of substantial reserves as a temporary solution to make ends meet in recent years, meaning remaining balances have significantly reduced and our resilience to risks compromised. We also have very limited assets and the county's residents already experience relatively high Council Tax levels as there has been ongoing reliance on this route by successive Governments to generate funding for social care. Most significantly, the national formula used to allocate funding to individual councils does not reflect current local needs, particularly in places like East Sussex, with high demand for social care. It is vital that Government reforms to funding formulas properly recognise the true levels of need, costs and local resource-raising ability in East Sussex when final plans are confirmed imminently.

1.6 In light of these challenges, over the past year we have had to take further unavoidable but difficult decisions to reduce services, with significant impacts on residents, staff, our partners and communities. Even as these previously identified savings continue to be implemented, the growing funding gap means we need to consider additional steps from the very limited options remaining. Without substantial additional national funding, of which there is currently no indication, there will continue to be a large shortfall in the money available to the Council to meet escalating needs and costs now and in the future. Whilst we recognise the potential benefits from local government reorganisation, devolution and new technologies, and we are pursuing these with determination and pace, the impacts are not immediate or of a scale which will fully bridge the gap. These developments also require additional capacity to implement in the short term at the same time we are taking every step possible to minimise day to day spend and maintain service delivery in a difficult and evolving context. These concurrent challenges will place considerable demands on the organisation over the next two years.

1.7 The Reconciling Policy, Performance and Resources (RPPR) process enables us to approach our policy, business and financial planning and risk management in an integrated way to support the Council in navigating the challenges ahead. As part of our ongoing RPPR planning, we are updating our Council Plan for 2026/27 and beyond to reflect the latest policy and financial context as it develops. The updated Council Plan will ensure we direct the resources we have as effectively as possible on delivery of our evidence-based priorities for the county:

- Driving sustainable economic growth;
- Keeping vulnerable people safe;
- Helping people help themselves; and
- Making best use of resources, now and for the future - the test applied to all activities to ensure sustainability of our resources, both in terms of money and the environment.

1.8 This report provides our latest assessment of the financial position at this point, as well as the significant additional information awaited from final funding reform plans, the national Budget later this month and the provisional finance settlement, all of which are expected to have material impacts on our financial outlook. It also provides an overview of key national developments since the State of the County report which we need to take account of in our planning.

1.9 The report also sets out the actions we need to set in motion now as we work towards meeting the Council's legal duty to set a balanced budget in February and to safeguard the provision of our essential services for the coming year. As always, we will take a prudent and responsible approach, ensuring that all avenues are explored to inform Members' final decisions in the new year. We will work with the county's MPs and partners locally, regionally and nationally to amplify the voice of the Council in our vigorous lobbying for the interests of East Sussex. We will also continue to be open and honest with local people, our staff and partners about the scale of the challenge, the limited options open to us and the impact of the tough choices we must necessarily make.

2. Policy context update

2.1 The key areas in which there have been developments since the State of the County report, or in which further developments are expected, are detailed below.

2.2 **Government changes** – The September 2025 Government reshuffle brought significant changes at the Ministry of Housing, Communities and Local Government (MHCLG) and the Department for Education (DfE), with implications for local government policy and delivery. Steve Reed MP was appointed the new Secretary of State for MHCLG, along with new ministers for local government (Alison McGovern MP) and devolution (Miatta Fahnbulleh MP). Following his appointment the Secretary of State signalled continued focus on progressing devolution and local government reorganisation, funding reform, empowering communities and accelerating housing delivery. At DfE, Bridget Phillipson MP retained her role as Secretary of State, while a new ministerial team was appointed, including Georgia Gould MP as Minister for School Standards, which incorporates responsibility for Special Educational Needs and Disability (SEND) reform, and Josh MacAlister MP, who led the Independent Review of Children's Social Care under the last Government, as Minister for Children and Families. These changes come at a critical time, with major reforms underway in education and children's social care.

2.3 **National economic context –** Inflation, as measured by the Consumer Prices Index (CPI), remains above the Bank of England's 2% target, standing at 3.8% in the 12 months to September 2025, unchanged from the previous two months, following increases earlier in the year. The latest Bank of England forecasts expect CPI to gradually fall to its 2% target next year. Reflecting the above target rate of inflation, the Bank has held interest rates steady at 4% since August 2025. Although there remains a possibility of a further cut this year, analysts have predicted that any further reduction may be delayed to next year. The economy is expected to grow by just over 1.0% this year, a similar rate to 2024, rising to 1.9% in 2026, before falling to around 1.8% over the remainder of the Office for Budget Responsibility's current five year forecast, which will be refreshed for the autumn Budget.

2.4 Persistently higher levels of inflation and the associated cost of living pressures have continued to impact on households, with ongoing implications for the support required from services. The Government confirmed earlier in the year that the Household Support Fund (HSF) which runs until March 2026, will be replaced by a new Crisis and Resilience Fund running for three years from 2026/27. More recently, Government funding for the Holiday Activities and Food (HAF) programme which provides targeted support with food and activities for children eligible for free school meals, has also been extended for three years to March 2029, allowing the ongoing commissioning of this support by Children's Services.

2.5 **Local government funding** – A report on the financial sustainability of local government, published by the Communities and Local Government Select Committee in July, highlighted that local government finance is in a precarious state, with funding failing to keep pace with rising demand, population growth, and service delivery costs. Over the summer MHCLG consulted on the detail of proposed reforms to the formulae used to allocate national funding to individual councils through its Fair Funding Review 2.0. These reforms could see significant shifts in how resources are allocated to different areas based on updated assessments of need and local resources. A Government response to the consultation, setting out final intentions which will underpin a multi-year settlement from 2026/27, is expected imminently within a finance policy statement due later in November.

2.6 Further significant information is expected from the autumn Budget on 26 November including any changes to taxation, and we await an update to the level of the National Living Wage from April 2026 which will impact on our providers and potentially the costs of commissioning services, particularly in the care sector. Higher than expected inflation will further affect costs across a range of services. We will assess the impact for ESCC as we receive detail from Government in all these areas in the coming weeks. Further analysis of the potential impact of awaited announcements is set out in section 3.

2.7 The Government has committed to simplifying funding arrangements by moving away from fragmented, ringfenced grants and burdensome reporting requirements towards increased local flexibility in the use of resources. To support this, it is introducing the Local Government Outcomes Framework (LGOF), which will apply from April 2026. The framework sets out 15 priority outcomes that local authorities are expected to deliver which cover areas such as social care, health, education, environment and highways and transport. These outcomes are supported by metrics drawn from existing data sources which will be used to track councils' progress. Performance against LGOF will form part of the assessment of councils' compliance with the Best Value Duty. Details of these arrangements and the final framework will be published alongside the provisional local government finance settlement later this year.

2.8 Throughout 2025, Government has continued to position artificial intelligence (AI) as a central pillar of its strategy to modernise public services. Through the AI Playbook and the AI Opportunities Action Plan, central government departments and public sector bodies are being encouraged to adopt AI technologies to streamline operations, reduce costs, and enhance service delivery across both support functions and frontline services. There is an emphasis on responsible deployment, with clear expectations around transparency, data protection, bias mitigation, and robust governance. Nationally, councils are at varying stages of adoption, and barriers such as limited funding, staff capacity, and technical expertise are significant. However, the Government and Local Government Association anticipate that AI will play a transformative role and are working to ensure councils have the tools and support needed to deploy AI safely and effectively. Locally, we have been piloting and researching the use of AI applications to maximise efficiency in recent months, particularly in areas of high demand, and we are working to scale up adoption across the council with associated safeguards in place and within the resources available.

2.9 **Devolution and local government reorganisation** – In July, the Government introduced the English Devolution and Community Empowerment Bill to parliament which legislates for the policy intentions set out in the December 2024 English Devolution White Paper. Further detail on the content of the Bill, and implications for devolution and local government in Sussex was reported to Cabinet in October. Government intends for the Bill to have received Royal Assent by April 2026, in order to ensure the relevant powers can be conferred ahead of the inaugural elections for Devolution Priority Programme (DPP) areas, including Sussex, in May 2026.

2.10 While the Bill's core focus is on expanding devolution, it also introduces a range of other reforms related to local authority governance and community empowerment. These include a streamlined process for transitioning to single-tier local government structures, mandating the leader and cabinet governance model and a requirement on councils to establish effective neighbourhood governance arrangements to strengthen local voice and accountability. A new statutory Community Right to Buy will give local groups first refusal on assets of community value. The Bill also establishes a Local Audit Office to oversee public audit. Taken together, these measures aim to modernise governance, improve transparency and accountability, and empower communities alongside the broader devolution agenda.

2.11 DPP areas were required to submit proposals for local government reorganisation by 26 September. Ahead of this deadline Cabinet agreed to submit the One East Sussex proposal for a new single unitary council on the current County Council footprint and we await the Government response to this and other proposals submitted across Sussex. A Government-led consultation on proposals considered viable is expected to start before the end of the year ahead of a final decision on future structures in the spring of 2026. In the meantime we continue to progress, with district and borough council partners, our local planning for reorganisation and the challenges and opportunities it presents.

2.12 **Children's services** – Significant pressures arising from demand and complexity of need, alongside wide-ranging service reforms, continue to impact children's services nationally and locally. The Children's Wellbeing and Schools Bill, which introduces 39 new policies to reform children's social care and education, is nearing the final stages in parliament and will have significant implications for local services. Children's Services continues to work towards implementing these reforms, including through our Transformation Programme focused on integrating targeted early help with social work teams and strengthening our partnerships to improve outcomes for children.

2.13 In July the Government published its Giving Every Child the Best Start in Life strategy and announced funding to support the roll out of Family Hubs across every local authority, improvements to health services, increased government funded childcare and the promotion of inclusion. The Government also announced a new Better Futures Fund - a £500m 10-year fund aimed at providing opportunities for vulnerable children and young people and addressing issues such as school attendance, mental health and youth employment. For young people not in education or employment (NEET) a Youth Guarantee has been confirmed whereby every eligible unemployed young person on Universal Credit for 18 months without earning or learning will be provided guaranteed paid work. It is also expected that the autumn Budget will respond to recommendations from the Child Poverty

Taskforce to lift the two-child limit for universal credit and tax credit and will coincide with the publication of a Child Poverty Strategy.

2.14 High demand and complexity in SEND also continues, along with related pressure on home to school transport. National reports, including from the Education Select Committee in September, have continued to warn of an unsustainable system with increasing demand for education health and care plans (EHCPs) and a need for greater inclusion in mainstream schools. In October it was announced that promised reforms to the system which are due to be set out in a Schools White Paper have been delayed from this autumn to early 2026, to allow a further period of co-production and testing with stakeholders. SEND reforms are urgently needed and without sufficient steps being taken to address the sustainability of the system nationally, councils will continue to face significant pressure on resources for SEND at local level for the foreseeable future.

2.15 In response to wider educational challenges, the Government has announced a new support package for schools and the roll out of RISE (Regional Improvement for Standards and Excellence) Attendance and Behaviour Hubs which aim to tackle poor attendance and behaviour in schools. The forthcoming Schools White Paper is also expected to build on these aims. In inspection and regulation, Ofsted, as part of wider reforms, has set out its new approach based on ‘report cards’ that include a 5-point grading scale and additional information for parents and carers.

2.16 **Adult social care and health** - Given rising demographic and demand pressures, there remains an urgent need for a comprehensive plan for the funding and reform of adult social care which will ensure that those in need of care services can receive appropriate and timely care. The Government-commissioned Casey review has started work, including holding cross party discussions on potential reforms; however, it is not expected to report on phase 1 until 2026 and charging reform will not be addressed until phase 2 which will report in 2028. Locally, we have received the report of our Care Quality Commission assessment of how the Council meets its duties under the Care Act. The significant strengths of our adult social care services were recognised in the overall ‘good’ rating, along with the challenges faced and areas for development which we will continue to progress.

2.17 The Government’s 10 Year Health Plan, Fit for the Future, published in July 2025, included further detail on plans to implement the ‘three shifts’ of analogue to digital, hospitals to communities and sickness to prevention. Key impacts for Adult Social Care include a greater emphasis on neighbourhood health and closer working between social care and health services, with neighbourhood health plans to be drawn up by local government, the NHS and local partners; development of the NHS App to support unpaid carers; and changes to statutory organisations including the proposal to abolish Healthwatch (the independent voice of people with lived experience of health and care services) and Integrated Care Partnerships. The Better Care Fund is also set to be reformed from 2026/27 with a focus on providing consistent, joint funding to services which are essential to deliver in a fully integrated way, such as discharge, intermediate care, rehabilitation and reablement.

2.18 Hastings and Rother have been confirmed as pilot areas for Neighbourhood Health Services which will draw together a range of professionals from health, care and the voluntary sector to develop a neighbourhood health team and aim to provide people with the right care and support in their area. The 10 Year Plan also confirmed further NHS structural change including changes to how local services are planned and commissioned, with a more focussed role for Integrated Care Boards (ICBs), reforms to health care providers, and a streamlined national oversight. The Government has confirmed a single joint executive team will be established at the Department of Health and Social Care and NHS England as part of the transition to one organisation. Locally, the merger of NHS Sussex and NHS Surrey ICBs has been confirmed, with the two ICBs working more closely together from autumn 2025 ahead of the creation of the new, larger ICB from April 2026.

2.19 In September, the Government launched a public consultation to gather views on the design of a social care Fair Pay Agreement (FPA) process, as set out in its roadmap for implementing the Employment Rights Bill. We will work with our providers to form a response to the consultation which sets out our local needs and any risks related to the introduction of the FPA. Following the consultation, the Adult Social Care Negotiating Body will be established through regulations in 2026 to negotiate changes to pay and terms and conditions for care workers, with the first FPA coming into effect in 2028. The Negotiating Body will aim to improve recruitment and retention and an initial £500m funding has been committed with an expectation that by 2028, care workers will see an increase in their yearly wages.

2.20 **Economy, transport and environment** – The Government's Modern Industrial Strategy, announced in June 2025, has been expanded through sector-specific plans published from August onwards. The strategy is explicitly place-based, recognising that regional growth is essential to national competitiveness and councils are expected align economic and spatial planning with the strategy's sectoral goals. Locally, we continue to focus on implementation of our evidence-based East Sussex Prosperity Strategy, including the development of a strategic investment plan. In September, the Prime Minister announced a new Pride in Place Strategy focused on directing funding to deprived areas and empowering local communities to drive change. The Pride in Place programme builds on the 75 areas, including Hastings and Eastbourne, already identified through the Plan for Neighbourhoods and each allocated a £20m 10-year fund. Hastings has been allocated a further £1.5m investment over two years from the new Pride in Place Impact Fund, intended to support the development of shared spaces, revitalise local high streets and improve public spaces.

2.21 The Government published a 10-year National Infrastructure Strategy in June in support of its economic growth mission. The strategy brings together economic, social and housing infrastructure under one strategy and aims to speed up the development of infrastructure and provide longer-term certainty for investors. In September the Secretary of State for Transport confirmed approval for the use of a second runway at Gatwick airport, with potential to increase the airport's capacity from around 45 million passengers per year to up to 80 million. The approval came with conditions, including additional noise controls and increased use of public transport to access the airport.

2.22 The creation of a Mayoral Strategic Authority (MSA) in Sussex will reshape the role of councils by transferring strategic powers such as transport, skills, and economic development, to the mayoral level. While responsibility for day-to-day service delivery in some areas will remain with local councils, funding streams are consolidated under the MSA. While we await details of the funding arrangements, including transfers, an assessment is being undertaken of the implications of devolution on funding streams, staffing and policy which will be factored into our planning.

2.23 **Migration –** Since the publication of the Restoring Control Over the Immigration System White Paper in May 2025, the Government has implemented its reduced list of jobs eligible for Skilled Worker visa sponsorship and ended the recruitment of overseas social care workers. The standard qualifying period for permanent residence will be increased from five years to ten years under new proposals, and changes to English language standards, as well as a new framework for family visas, are expected to be implemented by the end of the year. A public consultation is also due to take place this year on the use of digital ID cards as part of measures to combat illegal working and check Right to Work.

2.24 We expect detail on the Government's approach on these and other key areas, and the resulting implications for the County Council, to become clearer in the coming months and will continue to factor this information into planning for 2026/27 and beyond.

3. Medium Term Financial Plan

3.1 Planning for 2026/27 and beyond remains highly challenging. With demand for services, and the cost of providing them, continuing to rise within the current year, the total level of expenditure required to deliver our services continues to grow. The level of Government funding that ESCC will receive between 2026/27and 2028/29 is yet to be confirmed. Following consultation over the summer, the outcome of the Fair Funding Review 2.0 is expected later in November. The Autumn Budget Statement at the end of November may also contain measures which materially impact the Council's position. Detailed allocations will not be clear until we receive the provisional Local Government Settlement for 2026/27 in mid-December.

3.2 At this point the Medium Term Financial Plan (MTFP) has been updated for the best estimated available information, including developments since State of the County in June. The MTFP does not currently account for the effects of funding reform, the financial impacts of which will be worked through as final proposals are set out and detailed council allocations are published. However, our modelling suggests that ESCC could lose £18m of annual settlement funding by the end of the MTFP period. Transitional protections limit any loss of grant funding to one third of the total loss over each of the next three years, so the estimated loss in 2026/27 is £6m.

3.3 The MTFP presented within the State of the County report estimated a deficit budget position by 2028/29 of £70.8m. Since then, the MTFP has been updated to include our latest assessment of departmental service pressures and updated financial modelling. The impact of the updates is summarised in the table below and provides a deficit budget position by 2028/29 of £88.3m.

Medium Term Financial Plan	**2026/27 £m**	**2027/28 £m**	**2028/29* £m**
Council 11 February 2025 DEFICIT	**25.916**	**18.731**	**0.000**
Carry Forward of 2025/26 Deficit	11.449	-	-
Annual Budget Deficit after Carry Forward	**37.365**	**18.731**	**0.000**
Annual Budget Deficit after Updates	**55.844**	**9.809**	**22.659**
Cumulative Budget Deficit after Updates	**55.844**	**65.653**	**88.312**

*Notional due to LGR

3.4 A detailed MTFP after normal updates is shown at appendix 1. It shows that ESCC will face a deficit of £55.8m for 2026/27, and £88.3m at the end of the MTFP period, subject to any impacts from funding announcements yet to come.

3.5 The Council reported a projected overspend for 2025/26 of £14.9m at Quarter 1, which will require a further draw on strategic reserves. The updated projected revenue outturn at Quarter 2, which will be available in December, will provide a further indication of the likely impact. The latest projected reserve balances as at 1 April 2029 are set out in the table below. This position reflects the additional draw to balance 2025/26, based on the

Quarter 1 forecast, but is prior to any draw on balances required to set a balanced budget for 2026/27.

Reserves Balances	**Balance 1 Apr 25 £m**	**Estimated 1 Apr 2026 £m**	**Estimated 1 Apr 2029 £m**
Earmarked Reserves:			
Held on behalf of others or statutorily ringfenced	**25.5**	**21.2**	**19.9**
Named Service Reserves			
Waste Reserve	19.8	14.7	7.4
Capital Programme Reserve	9.1	0.0	0.0
Insurance Reserve	7.7	3.7	3.5
Local Government Reorganisation Reserve	0.0	0.0	0.0
Subtotal named service reserves	**36.6**	**18.4**	**10.9**
Strategic Reserves			
Priority Outcomes and Transformation	5.2	5.1	4.4
Financial Management	11.3	6.0	5.0
Subtotal strategic reserves	**16.5**	**11.1**	**9.4**
Total Earmarked Reserves	**78.6**	**50.7**	**40.2**
General Fund Balance	*10.0*	*10.0*	*10.0*
TOTAL RESERVES	**88.6**	**60.7**	**50.2**

3.6 The projected level of strategic reserves of £11.1m as of 1 April 2026 means that the Council will have insufficient scope to use reserves to address the budget deficit or any emergent pressure, without further action over and above current steps. We continue to take a range of robust measures to contain costs in-year, including the ongoing application of stringent spending and recruitment controls on top of our existing robust governance and financial management systems. Whilst important in maintaining discipline, these measures will have limited impact in the context of the overall deficit and ongoing pressures on services.

3.7 In addition to the measures already in place, further opportunities for savings will continue to be explored across all departments. This work will focus on identifying any remaining areas where efficiencies can be achieved, while recognising the limited potential for further savings and the potential impacts on service delivery. Officers will assess the feasibility and implications of additional reductions, with a view to informing future budget planning and supporting efforts to close the funding gap. Further detail is at section 5.

3.8 Given the scale of the projected deficit and the limited scope for further savings, there is no realistic path to setting a balanced budget. As a result, the Council needs to prepare for requesting Exceptional Financial Support (EFS) from Government. EFS is not ‘free’ money to the Council as it would involve either borrowing to fund revenue (day to day service) costs and/or increasing Council Tax by an additional amount above the referendum limit which is already factored into the MTFP.

4. CIPFA Financial Assurance Review

4.1 The Ministry of Housing, Communities and Local Government (MHCLG) look to the Chartered Institute of Public Finance and Accountancy (CIPFA) to provide assurance for any EFS requests. In anticipation of having to approach MHCLG for EFS, CIPFA was commissioned to undertake the required financial assurance review of ESCC. The review, undertaken over the summer, focused on the Council's financial management and sustainability, capital programme (including investments assets and debt levels), and internal governance.

4.2 CIPFA's report, attached at appendix 2, presents a positive assessment of the Council's financial management, with no major failing identified. In summary, whilst acknowledging that the Council faces a serious shortfall in funding, it finds that the Council benefits from strong governance, respected financial leadership, and prudent treasury management, which provide a solid platform to address the significant financial challenge.

4.3 The report makes 10 recommendations. These are welcomed and reflect an endorsement and continuation of the ongoing work we have been undertaking in response to the financial challenge, with additional areas of focus on data and analytic capability and risk management. Our response to the individual recommendations is set out in appendix 3.

4.4 CIPFA's assessment will be shared with MHCLG as part of the evidence base for any EFS request. In light of the current financial outlook formal discussions will be held with MHCLG in the coming weeks to explore the options for Exceptional Financial Support available to the Council to enable a balanced budget to be set for 2026/27.

5. Savings

5.1 The 2025/26 balanced budget and MTFP agreed by Council in February already includes planned savings of £16.2m. Coming on top of over £140m already delivered since 2010, the impacts on our residents, staff and partners are significant. The scope to find more savings and efficiencies is very small given the high proportion of our budget directed to delivering or supporting statutory services and duties. Most discretionary areas of work have already been reduced or removed in earlier rounds of savings. However, in light of the serious financial position the Council faces, and the very limited options remaining, Cabinet requested in June that officers explore areas of search for further savings and service reductions across all departments to help reduce the financial gap.

5.2 In this context, all departments are undertaking work to identify any scope for further reductions and to understand the impacts. At this point, any further savings proposals are expected to have significant impacts on residents, partners and staff, as well as the organisation's capacity to respond to new demands and transform services. Despite this, given the current financial outlook, it is recommended that officers bring forward specific savings proposals for consideration to support the budget position.

5.3 We are doing what we can to mitigate the impacts of the savings we are having to make out of necessity rather than choice. There is some scope from the rapid development of artificial intelligence (AI) and other digital tools to increase efficiency in frontline services, helping to absorb some of the increases in demand with our current workforce. In support services, new technology can help offset the reductions in staffing capacity arising from savings to some extent. In addition, we continue to take forward our transformation programme in Children's Services and investment in prevention where we have good evidence that it is having an impact on managing demand and reducing pressures on statutory services. We will also work with partners to ensure we make best use of resources and seek any further ways to mitigate the impact of savings.

5.4 Income generating assets and planned capital receipts are routinely incorporated into the core budget and the capital programme. We will continue to maximise returns from surplus assets and minimise the costs of office and other accommodation.

5.5 Ahead of further detailed funding announcements we will continue to take all opportunities to impress on Government the position faced by ESCC, the impacts on the people, businesses and communities of the county, and we will seek the ongoing support of local MPs in making this case.

6. Capital programme

6.1 The capital programme has been updated in accordance with Capital Strategy principles and ongoing review of the programme and profiled expenditure. Appendix 4 presents a revised programme of £672.5m, of which £288.7m is planned for delivery in the period to 2028/29. The programme will be updated further to reflect the impact of the Budget once detailed allocations are known.

6.2 The capital programme is funded from several sources and can be split into the elements that are funded from identified specific sources (such as grants, developer contributions and earmarked specific reserves), and elements considered to be Core Council Funded. Core Council Funded relates to those projects funded from Council resources that ultimately increases the Council's need to borrow.

6.3 During budget setting 2025/26, in order to reduce the cost of borrowing, the Council approved changes to the capital programme outside of normal Capital Strategy updates, to reduce the level of investment in Core Council Funded programmes. The projected impact of this review was an annual reduction in borrowing costs of £3.9m by the end of the MTFP period. Since this review was undertaken, the Council is now projecting that the capital reserve will be used to offset the revenue overspend in 2025/26. This will increase the level of borrowing required to fund the ongoing programme and increase borrowing costs in future years.

7. Engagement, lobbying and communications

7.1 Over the summer we have been actively making the case for East Sussex in meetings with national and local politicians and officials. In August we responded to the Fair Funding Review 2.0 consultation, clearly articulating the potentially negative overall impact on our funding, despite recognition of increased need. Whilst we welcomed the principles of the review, we made four key asks of Government in order to avoid worsening the Council's funding gap and to ensure the reforms more closely reflect need, costs and resources in East Sussex. These were:

- to review the shift in focus of adult social care funding towards working age adults, which does not reflect the costs of supporting the county's older than average population;
- to use a more detailed assessment of the costs of delivering services in different parts of the country, to reflect the true labour costs in the care sector in East Sussex - a key area which impacts ESCC's expenditure;
- to reduce the extent to which funding allocations are altered for assumed local ability to raise Council Tax – the proposed 100% Council Tax 'equalisation' is unfair, does not reflect the reality of ESCC's ability to raise income locally and is a key reason the Council is projected to lose funding despite an assessed increase in need; and
- to recognise that there remains a fundamental need for increased overall funding for local government, a review of the statutory requirements councils are expected to

deliver and an urgent need for sustainable reforms in key areas of increasing demand such as Adult Social Care and SEND.

7.2 As a Council we have been clear we need Government to act on these crucial points if we are to sustain essential services and we await its response. We shared our concerns with local MPs and received welcome support in raising these issues with Ministers. We continue to work through our networks and with our partners locally, regionally and nationally to articulate our position, and to influence national policy decisions on funding and service reform.

7.3 The outcome of funding reform consultation, when received, will provide a clearer picture of the financial outlook to inform the focus for further lobbying. Given the size of the projected financial gap we expect it to be essential that we continue to press Government as strongly as possible for additional funding and support to be provided to East Sussex ahead of the provisional financial settlement in December and the final settlement in February.

7.4 We will also continue to call for national action on unavoidable costs and market conditions over which we have very limited control locally and highlight the lack of funding to invest in the preventative approaches which are the only way to mitigate increasing need, as well as to achieve the best outcomes for our residents.

7.5 Alongside this, we will maintain open and honest communication with our residents, partners and staff on our approach to the financial position and the impacts of specific savings proposals.

8. Looking ahead

8.1 This report outlines the substantial challenges we face, including a projected funding gap which means we must seek further savings and service reductions, as well as preparing to request Exceptional Financial Support from Government in order to be in a position to set a balanced budget for the year ahead.

8.2 However, there are some key gaps in our knowledge at this point and crucial further information expected in the coming weeks. We will re-assess our position in light of the additional detail we expect to have soon, which should enable us to model the funding outlook for 2026/27 onwards with more accuracy, alongside refining our own understanding of future levels of demand and the associated costs.

8.3 This analysis will feed into our ongoing business and financial planning, and we expect to update Cabinet again in December, ahead of bringing forward final proposals for the 2026/27 budget and Council Plan to Cabinet in January for consideration, and Council in February for decision.

8.4 Members will continue to be involved in developing plans through Cabinet, County Council, Scrutiny Committees, and specific engagement sessions throughout the 2025/26 RPPR process.

BECKY SHAW
Chief Executive