

Report to: Cabinet
Date: 13 July 2021
By: Chief Executive
Title of report: Reconciling Policy, Performance and Resources (RPPR) – State of the County
Purpose of report: To update Members on the issues which need to be taken into account in the priority and budget setting process for 2022/23 and beyond

RECOMMENDATIONS:

Cabinet is recommended to:

- i. note the evidence base on demographics (appendix 1) and the national and local policy outlook (appendix 2);**
 - ii agree the revised Medium Term Financial Plan as the basis for financial planning (appendix 3);**
 - ii agree officers review the Capital Strategy and Programme as set out in appendix 4;**
 - iv agree the priority outcomes and delivery outcomes (appendix 5) as the basis of the Council’s business and financial planning, subject to the amendment set out in paragraph 4.4;**
 - v agree to receive reports on more detailed plans for 2022/23 and beyond in the autumn when there is greater certainty about future resources; and**
 - vi request officers bring forward proposals in the autumn for a financial strategy that includes options for further investment in highways, infrastructure and climate change.**
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1. Background

1.1 The State of the County report is part of the Council’s Reconciling Policy, Performance and Resources (RPPR) process, its integrated business and financial planning cycle. The report sets out the current context and provides an overview of the latest position in preparation for more detailed planning for 2022/23 and beyond. It builds on our recent year-end monitoring report to reflect on our achievements over the last year, the challenges in the year ahead arising from both local and national factors and, in light of this, begins to refine our plans to guide our business planning and budget setting processes.

1.2 This report contains the normal elements included in the State of the County report: the demographic evidence base; the national and local policy context; Medium Term Financial Plan and Capital Programme. It gives our up to date understanding of how we will need to continue to respond to the wide range of policy, demographic and financial drivers which influence the outlook for the Council, including the implications of Covid-19, both in the short and longer-term.

1.3 Significant uncertainty continues to dominate the context within which we are working. The ongoing impact of Covid-19 remains hard to predict, both in terms of the potential for further waves of infection, and the scale and nature of the undoubted far-reaching implications on our residents and businesses which will influence need and therefore demand for our services. The financial outlook remains unclear with a further one-year financial settlement anticipated for 2022/23 and key national reforms having been subject to further delay. The national policy agenda continues to evolve rapidly, with legislative and policy changes that respond to the UK's departure from the EU and new global positioning, societal changes brought and exacerbated by the pandemic, and the climate emergency. This is alongside a range of public service reforms signalled by Government, the impacts of which are not yet fully clear.

1.4 The Council spends over £800m gross each year (£400m net) and it is vital that these resources are deployed, in partnership with others, in the most effective way to support our priorities and core service provision. By managing our resources carefully over many years, and with the additional Government Covid support we could not have predicted, we have been able to maintain stability in service provision through the period of the pandemic and our current position is secure. However, the financial outlook in the medium term remains very challenging and uncertain. We have a limited window of opportunity now to consider any further preparations we can make for the period ahead, including any areas for one-off investment which would help us better manage future demand for services.

1.5 Against this background the report sets out the proposed lobbying and communications focus to help us ensure that the Government is aware of the needs of our county and the urgent need for a sustainable multi-year funding settlement for local government as a whole, and Adult Social Care specifically, if we are to maintain core services in the future in light of growing demand and ever diminishing resources.

2. Current Position

2.1 The County Council plays a key role in the quality of life of the residents, communities and businesses of East Sussex through services, employment, purchasing and how we work in partnership with others. The past year has placed an even sharper focus on this essential role as local families, communities and businesses sought support to deal with the impacts of Covid-19. It has been a year of extreme challenge but also significant achievements, from supporting the local health and care and education sectors with the challenges they faced, to adapting our own services and ways of working at pace to cope effectively with the emergency. Our assessments of the ongoing levels of need arising from the pandemic are constantly being refined and will continue to influence our plans as we better understand the longer-term implications and our role in recovery.

2.2 In developing our medium and longer term plans we will need to have regard to the broader context in which we will be working. This includes:

- The impact of operating in an economy recovering from the Covid driven recession. The Government will have to consider how it begins to pay off the borrowing it has undertaken during the pandemic – this could mean a mixture

of higher taxation, with possible impact on economic recovery, and reductions in public service expenditure. Both would impact on the Council's income and ability to spend.

- The shape of the post-Brexit and post-Covid economic and policy agenda, the impact of new post-EU funding regimes and the Government's Levelling Up programme.
- Specific uncertainty over the future of local government funding, and delays to key reforms. The level of Government funding that ESCC will receive from 2022/23 onwards is not confirmed; Spending Review 2020 was for a single year and therefore funding for this planning period will be announced at Spending Review 2021 which is likely to be in the autumn. Additionally, the Fair Funding Review and Business Rate Retention reform have now been confirmed delayed until at least 2022/23. These are significant areas of change that currently are not fully understood and cannot be fully quantified but will have potentially significant financial impact.
- The lasting impact the pandemic will have on young people in terms of education and employment opportunities.
- The growing impact of climate change, the national and local commitments to achieve carbon neutrality and the introduction of a range of new measures through the Environment Bill.
- The impact of Government reviews and reforms of public services – for example legislative developments in health and social care integration, measures to support NHS recovery post-Covid, structural changes in Public Health, reviews of children's social care and Special Educational Needs and Disability (SEND), and the nature of planned reforms to Adult Social Care and the role of local government in the future.
- Significant national policy developments related to infrastructure, transport and planning and, locally, the re-procurement of our highways contract and refresh of our Local Transport Plan.
- The opportunity to build on positive work with our public and Voluntary and Community Sector (VCS) partners during the pandemic to further develop our ability to tackle issues in partnership in the future, including building community wellbeing and responding to the increased need that is likely to persist in our communities for some time to come.
- The ongoing need to support post-Covid recovery and adjustment, both in our services and for society and the economy, against a backdrop of residual risk of further waves of infection and the potential need for an ongoing vaccination programme.
- The opportunity to adapt the back office support provided to the organisation to ensure it remains relevant and resilient in light of changing national and local priorities.

- Reviewing the way that we work and accelerating our planned changes to move towards a more hybrid way of working, and evolving our working practices to ensure we have modern, flexible workspaces and workstyles.

2.3 The local and national policy context at Appendix 2 sets out the latest thinking on these and other current issues, although plans will continue to develop over the summer as more information emerges.

2.4 Against a background of ever diminishing resources and increasing demand, especially in social care, the Council has made significant savings over the past 10 years to live within our means. Taking these difficult decisions in a timely way, together with one-off additional support from Government, has enabled the Council to weather the Covid storm without needing to propose further savings at a time when our communities were in acute need of our support. Sound financial management has placed the Council in a relatively stable position for the current year and provided us the ability to offer support to the county's immediate Covid recovery. However, the outlook in the medium term is far more challenging and there remains a significant gap between the income we expect to receive and the costs of providing core services. Fundamentally, without further Government support or sustainable reform of local government finances we will not have the funding we need for the future. Further detail on the financial outlook is provided at paragraph 5.

2.5 In all our activities, and in planning for the future, the County Council continues to work to our guiding principles that:

- What we do represents good value for money;
- Our activities are transparent and we can be held to account;
- We operate as One Council and focus on key areas for County Council action;
- We prioritise the investment available for front line service delivery by maximising the resources available to us through treasury management, working to secure sustainable national funding and working in partnership with other organisations;
- We work towards achieving carbon neutrality in our activities as soon as possible and take account of the climate impact of what we do;
- We remain focused on delivering our priority outcomes;
- We carry out all we do professionally and competently; and
- We remain ambitious, optimistic and realistic about what can be achieved.

3. Demographic and Demand Changes and Financial Background

3.1 Appendix 1 sets out the key factors affecting the County in relation to demography, housing, deprivation, health, the environment and economy, and the impact these are having on demand for our services. The main issues driving demand are:

- **Older People** - form a high proportion of the population of the County which has an impact on the demand for services and the Council's finances. The older population is at greater risk from Covid-19 and its longer-term health implications.

- **Children and Young People** – since 2018 our numbers of looked after children have remained fairly stable, however our active participation in the National Transfer Scheme has seen a rise in the number of Unaccompanied Asylum Seeking Children looked after by the authority. The number of children and young people with Education, Health and Care Plans (EHCPs) has continued to increase over the last six years, the majority of the increase is due to increasing numbers of young people in the Key Stage 5 and post 19 age groups with EHCPs.
- **Economy**- the percentage of people claiming unemployment benefits has risen due to the pandemic and its impact on the economy. Younger adults have been particularly affected, with 10.2% claiming unemployment benefits. Parts of the County have higher percentages of people employed in the retail and wholesale and accommodation and food sectors than the national average, these are sectors that have been more affected by both Covid-19 restrictions and the impact of Brexit.
- **Climate change** – CO2 emissions were falling in all sectors in East Sussex except transport before the pandemic. Although we had the lowest emissions of carbon dioxide per person of all the County Council areas in England, further reductions will be needed.

3.2 Covid-19 has affected levels of demand for our services and the short-term impact of the pandemic can be seen across a number of themes in Appendix 1. However, the longer-term effects will take longer to emerge, and for some key indicators the latest available data is from before the pandemic.

3.3 The ongoing pandemic continues to have an impact on Business As Usual in-year, and therefore there are budget adjustments required which are set out in Appendix 3 section N. Quarter 1 monitoring will provide an update to this.

4. Council Priority Outcomes

4.1 The Council's business and financial planning is underpinned by its four priority outcomes, which provide a clear focus for decisions about spending and savings and direct activity across the Council.

4.2 The current four priority outcomes are:

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

The priority outcome that the Council makes the “best use of resources in the short and long term” is a test that is applied to all activities to ensure sustainability of our resources, both in terms of money and environmental assets.

4.3 The priority outcomes, and their subsidiary delivery outcomes, were reviewed and updated during 2020/21 to ensure that the priorities we are working to deliver, and the way we measure the performance of our activities and services, remain

appropriate in the new post-Covid operating context which will continue to form the backdrop for our work in the medium term.

4.4 Our ongoing work to respond to climate change as an organisation has been reflected within the 'making best use of resources in the short and long term' priority outcome and its associated delivery outcomes. It is recommended that the wording of the priority be changed to 'making best use of resources now and for the future' to better reflect the greater emphasis that is being placed on addressing and adapting to climate change. This will ensure that the future impact of the choices we make about using resources is actively considered across all that we do, as well as the here and now. Cabinet is asked to review the current priority and delivery outcomes (appendix 5) and agree them as the basis for future business and financial planning, subject to this amendment.

4.5 Our Core Offer also continues to underpin our business and financial planning. It represents a level of service below which we should not go in order to meet the needs of residents, not only for the services we provide but to play our part in supporting them in their wider health and wellbeing needs. This includes access to well-paid jobs, decent affordable housing and good mental and physical health. The Core Offer was also reviewed during 2020/21 and some changes made to reflect new responsibilities arising from Covid to ensure it remained up to date.

5. Medium Term Financial Plan, Savings and Reserves

5.1 The Medium Term Financial Plan (MTFP) and associated updates is set out at Appendix 3.

5.2 The updated MTFP has a revised total deficit of £18.415m by 2024/25 (with a £1.734m deficit in 2022/23), compared to £14.448m when the budget was set in February 2021. The MTFP will be developed during the RPPR process and, through scenario planning of future funding and pressures, may take us to a balanced or surplus position in 2022/23, whilst maintaining an overall reduced deficit over the life of the MTFP.

5.3 Outside of the MTFP a potential risk should be noted around the Local Council Tax Reduction scheme: Lewes District Council approved at its Cabinet meeting on 10 June 2021 to commence the statutory consultation process to make changes to their Local Council Tax Reduction Scheme. The proposal will see a move from 80% to 100% reduction in a person's Council Tax liability, if qualifying conditions are met. This report projects an annual loss of Council Tax income for the County Council of £989,000. If implement this would increase the overall deficit on the Medium Term Financial Plan currently presented.

5.4 An update on savings is provided at Appendix 3, section 2. The impact of Covid-19 and funding implications has enabled a review of the deliverability of these targets. The detailed savings schedule at Appendix 3a shows revised planned savings of £4.561m, after the removal of Children's Services safeguarding savings, and slipped savings from previous years of £2.874m bringing the total to £7.435m.

5.5 Appendix 3 also provides an update on reserves which total £136.4m as at 1 April 2021. Given the level of financial and operational uncertainty, the level of

reserves is still considered reasonable given the General Fund Balance (£10.0m), an in-year budgeted contingency (£4.0m), and the balance estimated to be remaining on the Financial Management Reserve (£25.1m).

5.6 With the impact of COVID-19 providing the opportunity to reset the 2021/22 budget and release £8.855m (Appendix 3, reference N) as a one off reserve contribution, proposals will be brought forward in the autumn for potential further one-off investment in highways, infrastructure and climate change. These will be either aligned to the MTFP or the refresh of the Capital Strategy and investment principles as appropriate.

6. Capital Programme

6.1 The approved Capital Programme has now been updated to reflect the 2020/21 outturn and other updates in accordance with the approved governance and variation process, revising the gross programme down to £527.5m to 2029/30. The details are set out in Appendix 4, together with the revised programme.

6.2 As well as updating the programme for year end and approved variations, the appendix also outlines areas of work that are being developed in priority basic need areas, including highways, Environmental and Social Governance (ESG), school places and Special Educational Needs and Disability (SEND) provision. The programme is already supported by borrowing of £227.9m to 2029/30 which has an associated revenue impact. Revised targets and new need are likely to add to this and any impact will be presented for consideration.

6.3 Further updates will be made to the programme and Capital Strategy as part of the RPPR 2022/23 process to extend the programme by a further two years to maintain a 10-year planning horizon and to link into and support the Council's other strategies.

7. Lobbying and Communications

7.1 Our track record of running our services effectively and efficiently, coupled with additional one-off Government support during the pandemic, has meant we have been able to provide relative stability for our residents during the Covid emergency. This strong local foundation and temporary national funding also enables us to support recovery, prepare for the future and respond to additional demand in the short-term. We will continue to engage with local communities, organisations and networks to understand the changing nature of need in the county. This includes the disproportionate impact of Covid-19 on some groups and how this may influence the future demand for support services for some time to come.

7.2 However, the medium term outlook remains highly challenging. We face a significant financial gap, the uncertain impact of national reforms in major service areas and a lack of clarity on long-term funding arrangements, particularly for Adult Social Care, which makes planning for the future difficult. In the context of this ongoing uncertainty, and the potential for volatility in future funding as the impact of the Covid pandemic continues to unfold on the economy and public purse, our lobbying will continue to call for certainty of future funding for local government, and funding that is appropriately reflective of local need. This will be paramount to

ensuring we secure adequate resource to deliver what will be required to support East Sussex residents, communities and businesses with the core services they require, including opportunities to continue positive preventative work that could most effectively manage future demand for services.

7.3 We will continue to work with local MPs and local, regional and national partners to make this case. Through work with South East 7 partners we will highlight the particular strengths and needs of the South East and the benefits of investment in the region through a joint approach to lobbying at regional level.

8. Next Steps

8.1 Work will continue over the summer to further refine our understanding of the medium term impacts on our services of the coronavirus pandemic, national reforms and the financial resources that will be available to us in the coming years. We will continue to press the case for a multi-year financial settlement which enables us to plan ahead with more certainty but if there is a further one year settlement we will use our RPPR process to plan accordingly

8.2 We will report back to Members in the autumn with an updated assessment of our service demand and funding expectations to inform more detailed business and budget planning for 2022/23 and beyond.

8.3 Members will continue to be consulted on plans as they are developed through Cabinet, County Council, Scrutiny Committees, Whole Council Forums and specific engagement sessions throughout the 2021/22 Reconciling Policy, Performance and Resources process.

BECKY SHAW
Chief Executive