

Report to: Cabinet
Date: 27 June 2022
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 2023/24 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 officers update the Medium Term Financial Plan as the basis for financial planning when more information is available, as set out in paragraph 5;**
 - ii agree officers update the Capital Strategy and Programme (Appendix 4) as set out in paragraph 6;**
 - iv review the priority outcomes and delivery outcomes (Appendix 3) and agree these as the basis of the Council’s business and financial planning, subject to the proposed amendments set out in paragraph 4.4;**
 - v receive reports on more detailed plans for 2023/24 and beyond in the autumn when there is greater certainty about future resources; and**
 - vi endorse draft criteria for the use of one-off investment as set out in paragraph 5.9 for consultation with scrutiny committees, and request officers bring forward final criteria and investment proposals for consideration in the autumn.**
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1. Background

1.1 The State of the County report is a key part of the Council’s Reconciling Policy, Performance and Resources (RPPR) process, its integrated business and financial planning cycle. The report sets out an overview of the current context in preparation for more detailed planning for 2023/24 and beyond. In conjunction with our 2021/22 year-end monitoring report, it reflects 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 outlook; and updates on the 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 in the short and longer term.

1.3 Significant uncertainty continues to dominate the context within which we are working. The challenging national economic environment and recent increases in the cost of living directly affect us locally, both in terms of the impact on our residents, particularly the most vulnerable, and in terms of cost and resource pressures on the Council itself. These new economic challenges come as local businesses and households recover from Covid impacts, creating new risks alongside the new opportunities we have sought to maximise in the county. The financial outlook for the Council remains unclear with a further one year financial settlement anticipated for 2023/24 and key national reforms to local government funding likely to be delayed. Many of our major, demand-led, services are, or are likely to be, subject to significant national reforms, with accompanying service and financial risks to manage, and there is a continuing pressing need to work towards addressing the impacts of climate change. Although we have now moved to a position of living with Covid, the impact of the pandemic is ongoing and will continue to have consequences for people, businesses and services in the short and longer term. We are also playing an increased role in supporting people displaced by global conflicts and seeking refuge in East Sussex. All these factors combine to create the volatile and highly challenging backdrop against which we must plan for the future.

1.4 In light of the multi-faceted pressures we face, it is essential that we continue to direct our resources, in partnership with others, in the most effective way to support our priorities and core service provision. The Council spends over £900m gross each year (in the region of £450m net) on services for the county. RPPR provides the vehicle by which we ensure our financial and other resources are aligned to delivery of our priority outcomes and that we are informed by a clear understanding of our effectiveness. This approach, additional short-term Government support, and many years of careful financial management enabled us to maintain a secure financial position during the past two years defined by the Covid pandemic, providing stability during this difficult time. However, the financial outlook in the medium term remains very challenging and uncertain with a number of key risks which cannot yet be fully defined.

1.5 In this context the report sets out our proposed lobbying and communications focus to help us ensure that the Government is aware of the needs of our county and the ongoing and urgent need for a sustainable multi-year funding settlement. In particular we will highlight the need for full funding of the major reforms to social care provision for adults and children and to support for Special Educational Needs and Disability (SEND), if we are to maintain core services in the future in light of growing demand and stretched resources.

2. Current Position

2.1 The past year continued to illustrate the key role the County Council plays for the residents, communities and businesses of East Sussex as the county emerged from the peak of the Covid pandemic and attention turned to recovery. Through our services, employment, purchasing and how we work in partnership with others the Council makes a significant contribution to quality of life for people across our

county. The need for our support is heightened by the enduring impacts of the pandemic and the current pressures on cost of living, both of which disproportionately impact on the most vulnerable. More recently, we have worked with partners and communities across the county to mobilise a local response to the situation in Ukraine and the arrival of hundreds of refugees. Our assessments of the ongoing levels of need arising from recent developments continue to be refined and will influence our plans as we better understand the longer-term implications.

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. The national policy environment is rapidly developing, with significant reforms brought forward by Government across a wide range of services, requiring a significant and often rapid response across all departments. The national and local context includes:

- The challenging and uncertain national economic situation, current high levels of inflation and the increased cost of living, particularly rising energy, fuel and food prices. This environment is likely to impact on the demand for our services as well as directly on the costs of providing services.
- The Government's economic and policy agenda, as set out in the recent Queen's Speech, in particular the programme outlined in the Levelling Up White Paper and Levelling Up and Regeneration Bill, the impact of new post-EU funding regimes and changes to arrangements for driving economic growth locally.
- Specific uncertainty over the future of local government funding. A planned funding review, covering the formula on which funding allocations to individual local authorities are based, now appears likely to be deferred, increasing the likelihood of a further one year financial settlement for 2023/24. In addition, major national reforms to Adult Social Care and Children's Services (see below) carry considerable financial risks for local authorities. 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 impact of Government reviews and reforms of public services – In September 2021, the Government announced plans to increase funding for health and social care over the next three years and to reform the way that Adult Social Care is funded, with significant changes to the way individuals' financial contribution to their care is managed, as well as the fees paid for care. Further reforms were set out in the subsequent People at the Heart of Care and Integration White Papers. Taken together, these amount to a major system change with significant impact on our services.
- In addition to the reforms to Adult Social Care there are significant changes to our responsibilities arising from the Education White Paper and Schools Bill and Special Educational Needs and Disability (SEND) Green Paper, and further impacts arising from the recommendations of the national review of children's social care, the Government response to which is currently in development.

- The growing impact of climate change, the national and local commitments to achieve carbon neutrality, the need to adapt to the impacts of climate change, and the introduction of a range of new measures through the Environment Act.
- Significant national policy developments related to planning, infrastructure, and transport and, locally, the re-procurement of our highways contract, and taking forward our Bus Services Improvement Plan and refresh of our Local Transport Plan.
- The increasing need to support refugee resettlement in light of global conflicts and increased numbers of people seeking asylum, including unaccompanied children.
- The impact of current low rates of unemployment and significant workforce shortages in key sectors on our ability to recruit and retain staff, coupled with the need for our workforce to adapt to service reforms and post-pandemic changes to working patterns.
- Opportunities to continue to build on positive work with our public, Voluntary, Community and Social Enterprise Sector (VCSE) and private sector partners during the Covid pandemic, and more recently to deliver the Homes for Ukraine scheme in East Sussex. We will look to further develop our ability to tackle issues in partnership in the future, including building community wellbeing and responding to the increased need in our communities.
- The ongoing need to support post-Covid recovery and adjustment, both in our services and for society and the local economy.

2.3 The local and national policy outlook 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 Faced with diminishing resources and increasing demand, especially in social care, the Council has made significant savings over the past decade to live within our means. These difficult decisions, together with short-term additional support from Government and sound financial management has placed the Council in a relatively stable position for 2022/23 and enabled us to avoid the need for further savings. However, cost pressures have already increased in the current year and the outlook in the medium term is far more challenging. There remains a significant gap between the income we currently expect to receive and the costs of providing core services, with significant additional risk arising from Adult Social Care and other reforms. 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.
- **Children and Young People** – we have seen an increasing demand for support for Children's Social Care which has resulted in a higher number of child protection cases. The number of children and young people with Education, Health and Care Plans (EHCPs) continues to increase.
- **Economy**- there are signs that our local economy is recovering from the effects of the pandemic, with a decrease in unemployment. However, recent increases in utilities costs and the cost of living may affect growth in the short-term.
- **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.

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 now and for the future.

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

4.3 The priority outcomes, and their subsidiary delivery outcomes, were reviewed and updated during 2020/21 with some amendments made to delivery outcomes to ensure that they appropriately reflected the operating context as it had been impacted by Covid. Although the impact of Covid persists, we have now moved to a position of living with the virus longer term and it is considered timely to review priority and delivery outcomes once again to ensure the priorities we are working to deliver, and the way we measure the performance of our activities and services, remain appropriate.

4.4 The current priority and delivery outcomes are attached at Appendix 3 (section a) and the following changes are proposed to delivery outcomes:

Driving sustainable economic growth

In light of the changed context, and the intention to move forward, during 2023/24, from the Economy Recovery Plan developed to support the immediate recovery of the county’s economy from Covid, it is proposed to amend the below delivery outcome as shown below:

- East Sussex businesses are supported to ~~recover~~ **succeed** and grow **sustainably** ~~through the delivery of the Economy Recovery Plan~~

Reflecting both current and future workforce challenges and the opportunity to capitalise on changes in working patterns following Covid, the following amendments are proposed:

Delete:

- The county’s employment and productivity rates are maximised

To be replaced with:

- **The county is an attractive place to live, work and do business**
- The workforce has and maintains the skills needed for good quality employment to meet the needs of the **current and** future East Sussex economy

To reflect up to date terminology and pathways the following wording amendments are proposed:

- All children progress well from early years ~~to~~ **through** school ~~leaver~~ and into **post-16** education, training and employment

Keeping vulnerable people safe

To reflect the importance of family, friend and community support networks to vulnerable adults and children, which was highlighted during Covid-19, it is proposed make an amendment and addition as below:

- People feel safe at home **and well supported by their networks**

- **Children grow up supported by enduring, loving relationships**

To reflect the evolution of the Covid response and the ongoing focus on health and social care integration, it is proposed to broaden the following delivery outcome beyond Covid-19 by making amendments as follows:

- We work with the wider health and care system to support people ~~affected by Covid-19~~ to achieve the best ~~health~~ outcomes possible

Helping people help themselves

In light of the strengthening of mutual support systems during Covid and the Ukraine crisis and the continuing role of these in responding to ongoing levels of need in communities, it is proposed to change the below delivery outcome to better reflect our partnership with the VCSE sector and the role community-based support is playing:

Delete:

- Through our work with others, individuals and communities are encouraged to maintain and develop local mutual support systems

To be replaced with:

- **Through working well with the voluntary, community and social enterprise sector, individuals, families and communities are supported to be independent and to thrive**

Making best use of resources now and for the future

To simplify and make clearer our focus on working as a single organisation across our activities it is proposed to shorten the following delivery outcome:

- ~~Working~~ **We work** as One Council ~~both through the processes we use and how we work across services~~

To fully reflect our effective and valued partnerships, including with the VCSE sector, which have been further strengthened through joint work in relation to challenges such as Covid and support for Homes for Ukraine, it is proposed to amend the following delivery outcome as shown:

- ~~Delivery through~~ **We work in** strong and sustained partnership **with** working ~~across~~ the public, voluntary, community, **social enterprise** and private sectors to ensure that ~~all available~~ **our collective** resources **and influence** are used to deliver maximum benefits ~~to local people~~

To address current and future workforce challenges and the need to focus on effective recruitment and retention of staff to support service delivery it is proposed to add the following delivery outcome:

- **We are an employer of choice and support our staff to achieve and develop**

The proposed updated delivery outcomes, including all the above amendments and additions, are also shown at Appendix 3 (section b).

4.5 Cabinet is asked to review the current priority and delivery outcomes and agree them as the basis for future business and financial planning, subject to the amendments outlined in paragraph 4.4 above.

5. Medium Term Financial Plan

5.1 When the 2022/23 balanced budget was approved by Full Council on 8 February 2022, the deficit on the Medium Term Financial Plan (MTFP) to 2024/25 was £9.608m. Updating the MTFP for normal factors (such as the latest inflation rates and an additional year), the position would have been a deficit budget position by 2025/26 of £14.999m:

| Medium Term Financial Plan | 2023/24 | 2024/25 | 2025/26 |
|--|----------------|----------------|----------------|
| | £m | £m | £m |
| Total Budget Deficit / (Surplus) | 6.480 | 5.056 | 3.463 |
| Annual Budget Deficit / (Surplus) | 6.480 | 11.536 | 14.999 |

5.2 The impact of the pandemic, global supply chain issues and levels of inflation not seen for decades, combined with the Ukraine situation, has led to an unprecedented level of financial uncertainty. At a national level, the Government funding that ESCC will receive between 2023/24 – 2025/26 is yet to be confirmed. Although the Chancellor of the Exchequer presented a three-year financial plan in his budget in 2021, the Local Government Financial Settlement was only a one year settlement for 2022/23. We therefore await the provisional settlement for 2023/24, which will be in the late autumn of 2022.

5.3 Although Government has given a strong commitment to update the current local government funding regime, it is considered increasingly likely that funding reforms will be delayed until after 2023/24, due to lack of time available to undertake a full consultation and implement major funding changes. The Queen’s Speech did however list a Non-Domestic Rating Bill, which includes reducing the rates revaluation cycle from five years to three years from 2023, which has been the subject of previous consultations. On 30 May the Department for Levelling Up, Housing and Communities also issued a consultation seeking views on the transitional arrangements to be adopted at the 2023 Business Rates Revaluation. The nature of any further reform and how this will impact the continuation of existing Business Rates pooling arrangements for 2023/24 and onward, is not clear.

5.4 As a result of the major national Adult Social Care reforms (outlined at paragraph 2 above and in more detail at Appendix 2), local authorities will become responsible for funding care for a larger number of people as more residents become eligible for local authority funded care and support. The rate local authorities will need to pay providers for individual placements will increase. There will also be a significant increase in demand for both Care Act and financial assessments which will increase operational costs. Modelling work is underway to inform the MTFP in the autumn; the current assumption is that, as the costs of reform are new burdens, they will be fully funded; the reality may well be different. A report by the County

Councils Network (CCN) and Newton, released on 25 May, provides the first independent analysis of these reforms. It estimates that the cost of reforms in the nine years from when they are introduced to 2032 could be a minimum of £10bn higher than currently estimated and could create a further workforce crisis in social care, with over 5,000 extra staff projected to be required to carry out extra care and financial assessments for those seeking to benefit from the reforms. The analysis also indicates a significant regional variation in the costs of implementing the reforms, with councils in county and rural areas disproportionately impacted. Councils in England's counties account for 57% (£14.3bn) of the total estimated minimum costs of the reforms over the next decade. There is also very significant regional variation, primarily driven by the variation in population wealth and house values; this looks to be of particular impact in the South East. Counties in the South East, such as East Sussex, are expected to be most significantly affected given the current high levels of people paying for their own care (self-funders) and relatively high fee rates compared to other parts of the country (meaning the care cap would be reached more quickly).

5.5 In addition to Adult Social Care reforms, there are a range of other significant policy and legislative changes across services, particularly within Children's Services and Communities, Economy and Transport as outlined in paragraph 2 and Appendix 2. The impacts of these changes are still being explored and, at this point, the MTFP assumes that, as new burdens, the pressures will be fully funded by government, therefore net nil.

5.6 At a local level, the impact the economic downturn and cost of living crisis has had, and will have, on collection rates and base growth for Council Tax and the levels of Business Rates remain unclear, and local Council Tax Reduction Schemes will see a further reduction in the collection of Council Tax.

5.7 With all this uncertainty, it is not possible to present a draft MTFP to 2025/26. It is planned to work through the details required over the summer as more information becomes available and also factor in the budget requirements for services. After this work, modelling will provide a set of balanced budget scenarios considering the local and national position that presents itself.

5.8 As reported at Full Council in February 2022, the Local Government Settlement provided the Council with a Services Grant of £5.175m. The government statement supporting this funding highlights that this is a one-off grant and will not be taken into consideration for transitional protection when future system changes are made (but will be used for transitional support). As such, in future years the distribution formula may change with regard to transitional support provided. It was agreed therefore that this grant will be held in reserves for one-off investment opportunities.

5.9 Ideas and opportunities are now being considered for use of this one-off resource, which can be revenue and/or capital in nature and can be spread across multiple years. It is proposed that any investment ideas should focus on, and be assessed against, the following principles:

- enabling a significant improvement in delivering to the Council's priorities and/or performance targets
- managing service demands

- avoiding future costs
- proactively addressing known future issues; or
- having a positive impact on the Medium Term Financial Plan.

Cabinet is recommended to endorse these draft criteria and seek views from scrutiny on them through discussion at the July meetings of People and Place Scrutiny Committees. A final set of criteria and investment proposals for consideration will be reported as part of the RPPR process through the autumn.

6 Capital Programme

6.1 The approved programme has now been updated to reflect the 2021/22 outturn and other approved variations, revising the gross programme down to £676.0m to 2031/32. The details are set out in Appendix 4, together with the revised programme.

6.2 As part of the Queen's Speech in May, the government announced new measures to address excessive risk arising from borrowing and investment practices. The measures, to be taken forward through the Levelling Up and Regeneration Bill, will put in place statutory powers allowing the government to investigate local practices and, where necessary, require remedial action by an authority where there is excessive risk to financial stability from capital practices. The intent of the powers is to provide the government with the ability to take targeted and precise action where it has concerns, without the need for further reform to the Prudential Framework as a whole. This is in response to long-running concerns that a small number of authorities are taking on very high, disproportionate levels of debt or become excessively exposed to risk from commercial investment strategies.

6.3 The risk metrics to be used will be put in place through regulations being developed and any impact or considerations will be reported in the normal way through the RPPR process.

6.4 The 10 year capital programme to 2031/32 and 20 year Capital Strategy 2022/23 to 2042/43 will be updated as part of the RPPR process over the autumn to add a year and to include consideration of the impact and management of inflation and supply chain issues, alongside any updates relating to Government funding and the risk metrics being developed as well as the procurement of the highways contract and other investment basic need.

7. Lobbying and Communications

7.1 Our strong local foundation of efficient and effective service delivery, coupled with additional Government funding received during the pandemic and in the finance settlement, has enabled us to provide another year of relative stability and a further window of opportunity to prepare for the uncertain future. Opportunities for one-off investments to support delivery of the Council's priorities, particularly where this can help manage future pressures, are being identified.

7.2 However, the medium term outlook remains highly challenging. We face a significant financial gap, the undefined impact of national reforms in major service areas and a lack of clarity on long-term funding arrangements. There are significant

risks and uncertainties arising particularly from social care and SEND reforms, which makes planning for the future difficult. In the context of this ongoing uncertainty in our position, coupled with wider volatility in the economy and its impacts on our residents, our lobbying will continue to call for certainty of future funding for local government, and funding that is appropriately reflective of local need and that fully reflects the impact of reforms. 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 need, 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 7 area and the benefits of investment in the region through a joint approach to lobbying.

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 national reforms, economic volatility, changing demand for services 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 2023/24 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 2022/23 Reconciling Policy, Performance and Resources process.

BECKY SHAW
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