

REPORT OF THE CABINET

The Cabinet met on 16 December 2025 and 27 January 2026.

Attendees: -

Councillor Glazier OBE (Chair) (2)
Councillors Bennett (Vice-Chair) (2), Bowdler (2), di Cara (2), Claire Dowling (2)
Maynard (2), and Standley (2)

1. Reconciling Policy, Performance and Resources (RPPR)

1.1 This report marks an important, if unwelcome, milestone in this Council's relentless drive to meet local needs as effectively as possible with inadequate resources. Despite a solid foundation of sound and prudent financial management over many years, as endorsed by multiple external assessments, and taking very difficult decisions to reduce services over time to manage within increasingly limited resources, we will now need to rely on borrowing to balance the budget for the coming year. For the first time, we are not able to present a balanced budget drawing on our own resources and the proposed revenue budget for 2026/27 presented in this report is contingent on Government's agreement to additional support in the form of exceptional permission to borrow to fund day to day services.

1.2 The past year has seen the Council rise to significant new challenges, as well as continuing to deliver the effective services local people need and deserve, despite considerable pressures and resource constraints. The vital difference our services make for residents and communities has been recognised in a range of external reviews. From the positive assessment of our adult social care provision by the Care Quality Commission, to Ofsted's praise for work on child protection and the Chartered Institute of Public Finance and Accountancy's (CIPFA) endorsement of the organisation's strong financial management and governance, time and again independent evaluations clearly demonstrate that we are doing all we can to make the best possible use of our resources for the benefit of East Sussex residents. The commitment of Members, staff and strong East Sussex partnerships is vital in delivering these achievements and continuing to progress our priorities, which are based on the evidenced needs of the county's diverse communities.

1.3 We have also experienced growing demands on the organisation during this time as local needs continue to evolve and funding to meet those needs has come under ever greater strain. Demands on the statutory, need-led services for vulnerable children and adults which account for around three quarters of our budget, combined with ongoing cost increases across the Council, mean that the expenditure required to maintain services has grown further. These local trends are in line with national developments, but the impacts are especially stark here in East Sussex due to the demographic make-up of our population, the challenges in the local economy and the actions we have already had to take over many years to respond within increasingly stretched resources. These factors, combined with funding mechanisms which do not accurately reflect the level of need, particularly affect places like East Sussex, with high demand for social care from a much older than average population and significant areas of deprivation.

1.4 On top of these sustained pressures in our major service areas we have responded, at pace and in partnership, to Government's reforms to the overall structure of local government, ensuring that we are in pole position to secure maximum benefits for our residents. Within one year of intensive activity, the groundwork has been laid for both local government reorganisation and devolution and the opportunities they will bring to the county. We and our local partners have done all that has been asked of us to map out a positive future direction

for the county and we will continue to do all we can to secure the best possible outcomes for local people from these developments as they progress.

1.5 Changes to the structure of local government will not, however, address the basic mismatch between the level of demand for support and the resources we have available locally to provide it. The growing costs the Council faces have not been offset by sufficient additional income. The Government's Fair Funding Review 2.0, whilst recognising an increased level of need in East Sussex, has resulted in a significant loss of funding, worsening our already substantial budget gap. Despite extensive lobbying by the County Council, with partners and across the local government sector, the Autumn Budget Statement provided no additional funding for local authorities and included updates which further increase our costs. The provisional Local Government Finance Settlement confirmed the impact of the significant changes to the way funding is allocated to councils. Independent modelling confirms a loss of almost £17m funding to East Sussex over the next three years compared to what the Council would have received under previous funding formulae. This translates to a cash loss of over £12m over the next three years, failing to fairly reflect the increasing costs and demand for statutory services which we need to meet locally.

1.6 This leaves the County Council in a critical financial position. Without sufficient national support to meet unavoidable costs in the coming year, and limited ability to raise funds locally, the Council has been left with no choice but to seek Exceptional Financial Support from Government, in the form of permission to borrow in order to sustain essential services and set a balanced budget. This is not additional funding. In reality, it only compounds the funding gap, since further borrowing comes with a long-term cost which will also have to be accounted for in future budgets. Although we are not alone in being in this position, with numerous councils now making similar requests to Government, it is significant that a council as widely recognised as effective and efficient as East Sussex is in this situation. It highlights the underlying funding issues that must still be addressed, as well as the need for appropriate national reforms to put statutory services on a sustainable footing for the future.

1.7 We have done everything possible over the past decade and a half to live within our means, including making tough decisions to deliver over £156m in savings and service reductions since 2010. On top of this we have implemented strict spending controls, with senior management approval required for recruitment and all significant purchasing, and worked hard to transform services. As signalled in December, this report sets out a further £3.5m savings proposals, representing more difficult choices to be made over the next three years. But the scope for savings is now very limited and, having drawn on reserves in recent years to balance the books, those remaining cannot come close to bridging the funding gap. Council Tax would need to increase by over 19% to cover the coming year's gap, and well beyond that in future years, which would require a referendum, and even if passed would place a significant burden on residents. Whilst we will maintain all our discipline in managing resources and containing spend, ultimately it is essential that national funding accurately recognises the real need for services in East Sussex, and the true cost of delivering them. Funding reforms have redistributed available funding, to the detriment of East Sussex, and there continues to be an urgent requirement for additional overall resources for local government to meet growing demands. We will continue, with determination and evidence, to make this case to Ministers on behalf of local people who ultimately bear the impact of sustained underfunding in their day to day lives.

1.8 Our latest assessment of our financial and operating context underpins our planning for 2026/27 and beyond, and our detailed Council Plan which covers what we will do and the specific targets we will use to judge our performance. Through our robust business planning process, Reconciling Policy, Performance and Resources (RPPR), the Council Plan, revenue budget and capital programme are fully integrated. In the context of the significant financial and service delivery challenges we are responding to, a clear and ongoing focus on our four

priority outcomes and their supporting delivery outcomes is vital. These remain consistent, and our ability to deliver against these within the current context has been factored into the service and financial plans presented in this report, but is dependent on additional funding. We are maintaining our ambition for the county whilst also being realistic about matching our delivery plans with the resources we have. RPPR also ensures we have the demographic trends and performance information to monitor our progress throughout the year.

1.9 As well as relying on Government granting Exceptional Financial Support, the budget proposed in this report reflects the continued national reliance on Council Tax to fund ongoing pressures from rising demand, particularly in social care. Council Tax represents over 60% of our net budget. Government has continued the approach of expecting local authorities to apply an Adult Social Care Precept on bills to provide essential funding for care services. The level of Council Tax flexibility has also been maintained, and it is assumed in Government funding calculations that this will be taken by all councils. It is also expected that authorities requesting exceptional support will maximise local resources, including the full allowable Council Tax increase, first. Without additional Council Tax income we would see a reduction in our Core Spending Power (CSP) of almost 6% in the next three years. Even assuming Council Tax income at the maximum allowable level, spending power would increase by only 11% in that time, well below the national average of 15% and well behind the pace of demand and cost increases expected.

1.10 Given the financial position we face in the coming year and beyond, we do need to apply the allowable Council Tax increase as part of delivering a balanced budget. We have long highlighted to Government that individual authorities' ability to raise Council Tax is unrelated to need for services and is particularly problematic for areas such as East Sussex with high need for social care services, but where capacity for local people to pay more to support these services is limited. Further detail on the revenue budget position is provided at paragraphs 1.34 to 1.39.

1.11 We continue to make substantial investments in services to meet the growing and changing needs of local residents for statutory support, and to adopt digital and artificial intelligence (AI) technology which will help enable services to maximise efficiency with the resources available. However, our funding gap means we are not able to invest to the level we would want to in other important areas, such as the roads which support the county's economy and communities. Whilst long-term funding allocations for highways are welcome, as is the increase in grant, available national funding falls short of our ambition which requires more central government investment to maintain road condition. Without the capacity in the revenue budget to support borrowing to invest for the future, as funding fails to match growing demand for care and support services, we must continue to restrict our plans in planned roads maintenance and other areas to match only the grant funding we receive. Detail of the revised capital programme is provided at paragraphs 1.67 to 1.71.

1.12 Although the year ahead will undoubtedly have many challenges, we continue to be hugely optimistic about the capacity of the people, communities and organisations in East Sussex to work together to find the best possible way forward. The coming months will also bring some certainty about structural change. We will have significant opportunities to help shape future democratically-led organisations which reflect the unique needs, assets and aspirations of this vibrant county. Through this once in a generation change we will continue to press Government, individually and through our networks and partnerships, to make the fundamental reforms needed to put more control and choice in the hands of local people and leaders and enable better use of the resources available locally. We will also continue to highlight the consequences of funding shortfalls, now and in the future, for people, communities and businesses in the county, and for the delivery of national priorities.

1.13 This report sets out:

- key changes to the national and local context since the report to Cabinet on 16 December 2025;
- the draft Council Plan 2026/27 and updated Medium Term Financial Plan (MTFP);
- key updates on performance since quarter 2;
- proposals for the 2026/27 revenue budget, taking account of further financial information received since December's report and based on an increase in Council Tax of 2.99% and an Adult Social Care Precept of 2%;
- the savings planned for the next year;
- the position in relation to reserves;
- the updated capital programme; and
- feedback from engagement exercises and equalities impacts.

National and Local Context

1.14 Since the last report to Cabinet in December there have been further national policy developments we need to take into account in our planning for the coming year and beyond:

1.15 **National economic outlook and Government spending plans:** Since the Autumn Budget Statement on 26 November, which was accompanied by new national economic forecasts from The Office for Budget Responsibility (OBR), there have been further developments in the economic outlook. Latest figures from the Office for National Statistics showed that the economy grew by 0.3% in November 2025, driven by an increase in industrial output and services and increased certainty following the national Budget. Inflation, as measured by the Consumer Prices Index (CPI) fell further than expected to 3.2% in the year to November 2025, down from 3.6% in October. The Bank of England cut interest rates from 4% to 3.75% in December, the lowest level since February 2023, following the sharper than expected fall in inflation, but indicated that any further reductions were likely to be gradual. The Chancellor has set 3 March 2026 as the date of the Spring Budget Statement and has commissioned updated OBR forecasts to be released alongside it.

1.16 **Local government funding:** The provisional Local Government Finance Settlement, received on 17 December, provided the first multi-year settlement for councils in a decade. The settlement translated the policy intentions outlined in November's finance policy statement and Fair Funding Review (FFR) 2.0 consultation response into detailed funding allocations for individual authorities, confirming for the first time exactly how specific councils are impacted by significant changes to the distribution of funding. Overall, the provisional settlement indicated that Core Spending Power (CSP) would increase by an average 15% for local authorities in England over the three year period, based on the presumption that all councils will levy the maximum increase in Council Tax. As previously indicated, the Council Tax referendum limit was maintained at 3% and the Adult Social Care precept at 2% and this is the intention throughout the settlement period. Total CSP for local government in 2026/27 was confirmed as £77.7bn, up from £73.5bn in 2025/26, including Council Tax income. Grant funding was allocated largely in line with the FFR 2.0 methodology with the exception of a small number of specific grants, transitional arrangements and the continuation of the Recovery Grant. The FFR 2.0's significant negative impact on funding for East Sussex was confirmed, with well below average increases in CSP despite the high levels of need for services in significant parts of the county and growing demand which is not reflected in the allocations the Council received. We have responded robustly to the Ministry of Housing, Communities and Local Government's (MHCLG) consultation on the provisional settlement which closed earlier in January. The detailed implications of the provisional finance settlement announcements for the Council's MTFP are set out in paragraphs 1.34 to 1.39.

1.17 **Local government reorganisation:** Consultation on local government reorganisation in Sussex closed on 11 January and a Government decision on the future shape of councils in the area is expected in the coming weeks.

1.18 **Children's Services:** In December the Department for Education (DfE) announced investment of £3bn to fund an expansion of specialist places in mainstream schools for children with special educational needs and disabilities (SEND) across the country, with allocations to local areas for 2026/27 to be made in the spring. This comes ahead of the Schools White Paper, due in early 2026, which is expected to set out significant reforms to the SEND system with a focus on inclusion in mainstream settings. All local authorities are being provided with advisers to support the application of learning from national SEND support programmes. Government has also confirmed community-based early intervention for SEND support through Family Hubs. Councils are being tasked with recruiting a dedicated SEND practitioner in every hub to provide direct, family-facing support. The Budget announced that from 2028/29 the Government would cover the costs of SEND incurred from that financial year and beyond. However, there was no funding announced to support the current SEND deficit position. By the end of the financial year 2027/28, the national SEND deficit is estimated to be in the region of £14bn, which it is currently expected by Government that local government will need to address. The financial risk for SEND remains.

1.19 DfE has also launched a consultation on the powers and structure of a new national Child Protection Authority (CPA), intended to provide national leadership and oversight as part of a shift towards a more proactive multi-agency child protection system, linked to the significant social care reforms being introduced through the Children's Wellbeing and Schools Bill. The CPA is expected to use data and intelligence to identify risks early, advise on policy at local and national level, and spread good practice, and it will absorb the work of the Child Safeguarding Practice Review Panel. The Department for Culture, Media and Sport has launched a National Youth Strategy, a 10 year plan outlining cross-Government support for young people aged 10 to 21, and up to 25 years for those with SEND. The strategy includes £500m investment in youth facilities and activities, with a focus on deprived or under-served areas, and to widen access to youth workers and other trusted adults. It also includes plans to strengthen youth services through improving local partnerships, better information sharing, and digital infrastructure.

1.20 **Adult Social Care and Health:** A National Plan to End Homelessness was published in December by MHCLG, setting out a cross-Government approach to preventing and addressing homelessness and rough sleeping. The strategy sets out roles and responsibilities across central and local government and wider public services, including services such as public health, the NHS, adult and children's social care, the police, jobcentres, prisons and immigration services. Every council with housing responsibilities will be required to publish an action plan to accompany their local homelessness strategy, which should include local targets aligned with the metrics in the new Local Outcomes Framework. In addition, new legal duties will be placed on key public services to identify, act and collaborate to prevent and address homelessness. In relation to social care support, Government intends to review and update the relevant areas of the Care Act 2014 statutory guidance, particularly in relation to councils' safeguarding responsibilities and how they should act on these to support people at risk of homelessness and rough sleeping. The strategy also commits that, by summer 2026, a cross-government action plan will be developed to reduce the proportion of care leavers under 25 experiencing homelessness. The East Sussex Housing Partnership recently developed a shared housing strategy, which reflects the priorities in the national plan. The partnership is now developing an action plan for the next 12 months, which will support the implementation of the national plan locally.

1.21 As part of a new Violence Against Women and Girls (VAWG) Strategy, launched in December, Government announced an uplift of £19m to national funding for councils to

support delivery of the Domestic Abuse Safe Accommodation Duty. The VAWG Strategy focuses on prevention and tackling the root causes of abuse, including new approaches to education, additional support for young people at higher risk and a review of the legal framework for domestic abuse to ensure it properly represents adolescents' experiences.

1.22 Transport and environment: Allocations of active travel funding from a £626m national package announced as part of the Government's Spending Review in June were confirmed by Active Travel England in December. East Sussex County Council (ESCC) has been allocated £3.38m for active travel over the next 4 years. Allocations of road maintenance funding for 2026/27 were confirmed in December. ESCC was allocated funding of £21.7m, in line with our previous planning assumptions, with a further £25.3m in 2027/28 and £27.4m in 2028/29. This has been included within the grant funding available to support our planned highways capital programme. The funding allocations were issued in a format aligned with the new Combined County Authority (CCA), and the implications of this approach for future funding and governance will need to be fully understood.

1.23 The Planning and Infrastructure Act gained Royal Assent in December. MHCLG has also launched a consultation on proposed significant further changes to the National Planning Policy Framework (NPPF) which aim to support delivery of the Government's house building targets. The proposed changes aim to optimise land use through well-designed, higher-density development, simplify biodiversity rules for smaller sites and fast-track housing projects that meet national standards for energy efficiency. The revised NPPF separates out policies for plan-making and decision-making. The changes are designed to make planning policy easier to use, underpin the development of faster and simpler local plans, and be more directive of decision-making in support of both appropriate housing and commercial development.

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

Council Plan

1.25 The draft Council Plan is attached at Appendix 1. The Council Plan continues to be built on the Council's four overarching priority outcomes: driving sustainable economic growth; keeping vulnerable people safe; helping people help themselves; and making best use of resources now and for the future. Making best use of resources now and for the future is the priority test through which any activity must pass. The remaining three priority outcomes guide our activities, direct our resources and are reflected in our Council Plan activities and targets. The priority outcomes are supported by 21 delivery outcomes which were agreed by Cabinet as part of the June State of the County report.

1.26 The Council Plan is aligned to the MTFP and covers the same three-year period of 2026/27-2028/29. The Council Plan includes details of the key activity that we need to take forward over this period to support the delivery of the priority outcomes. Business planning for this period is particularly challenging as we need to respond to national policy reforms at a time when we are facing both an increase in demand for services and a real-term reduction in funding. There are also likely to be changes in how services are delivered resulting from the creation of the Sussex and Brighton Combined County Authority and local government reorganisation over this period. We have reviewed and updated the activity in the Council Plan based on the latest information. The plan reflects the changes that we expect to take place and will continue to be updated ahead of publication based on the latest available information. It should be noted that the Council Plan only includes planned activity for 2028/29 that will continue under any new unitary authority.

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

1.28 The Council Plan is still a work in progress until final budget allocations are made and firm targets can be set. It will be published in March 2026 and refreshed in July when final performance outturn figures for 2025/26 are available. Authorisation is sought for the Chief Executive to make final changes pre and post publication in consultation with Lead Members as appropriate.

Progress with Council Plan and Budget 2025/26 since quarter 2

1.29 Overall, our services are continuing to perform well despite challenging circumstances. There are two performance measures where forecasted performance has changed since the quarter 2 monitoring report which need to be considered in advance of the quarter 3 monitoring report which will go to Cabinet on 10 March 2026. We continue to see rising levels of demand for core services including Adult Social Care (ASC).

1.30 **Average Attainment 8 score for state funded schools** – provisional results for the academic year 2024/25 have been released and these suggest that the final result may be below target for the year. The provisional result for East Sussex is 43.0, against our target of 44.0. The provisional result for England is 45.9. This measure will be reported as amber in quarter 3. Final data for this measure will be issued by the Department for Education early in 2026 and reported in the quarter 4 monitoring report.

1.31 **The average Attainment 8 score for disadvantaged pupils** – provisional results for the academic year 2024/25 have been released and these suggest that the results may be below the target for the year. The provisional result for East Sussex is 30.3 against our target of 30.5. The provisional result for England is 34.9. This measure will also be reported as amber in quarter 3. Final data for this measure will be issued by the Department for Education early in 2026 and reported in the quarter 4 monitoring report.

1.32 There is an increasing complexity of need amongst people accessing support, with demand for services exceeding pre-pandemic levels and continuing to increase. Some examples include:

- There has been a 6.9% increase in assessments (Care Act, Carers, Continuing Health Care, Occupational Therapy and Sensory) completed between January and November 2025 compared to the same period in 2024, and a 22.2% increase compared to the same period in 2019 (pre-Covid).
- Safeguarding enquiries for adults (S42) have increased by 2.2% when comparing January to November 2025 to the same period in 2024. Safeguarding enquiries completed have increased by 80.6% when compared to the same period in 2019.
- Contacts to our Health and Social Care Connect Access are continuing to increase, with a 3.5% increase when comparing January to November 2025 to the same period in 2024, and a 23% increase when compared to January to November 2019 (17,284 more contacts).

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- There has been a 3.8% increase in people receiving Long Term Support when comparing a snapshot on 30 November 2025 to the same point in 2024, and a 11.5% increase compared to the pre-pandemic snapshot on 30 November 2019.

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

Revenue Budget, Pressures and Savings 2026/27

1.34 The provisional Local Government Finance Settlement published on 17 December 2025 has confirmed the assumptions in our initial modelling of the Fair Funding Review 2.0 (FFR 2.0). As anticipated, the changes to formulae have significantly reduced the Council's share of settlement funding, now known as the Fair Funding Assessment (FFA), which will reduce by £12.6m over the settlement period. As a result, the Council's non-Council Tax Core Spending Power (CSP) will reduce by 5.8% by 2028/29. The change in grant funding from 2025/26 to 2026/27 is cash neutral, but with inflation currently between 3% to 4%, represents a significant reduction in real terms.

1.35 This loss of funding is driven by several key factors in the new funding methodology: the impact of council tax equalisation; the absence of a metric that reflects the significant proportion of residents aged over 85; the limitations of using median wages as a proxy for the labour costs borne by the Council; and the Government's decision, announced with the Policy Statement, that rurality was to be removed as a factor from all but the ASC needs formulae. This is compounded by the continuation of the Recovery Grant (which has been top-sliced from the overall quantum to be paid to qualifying authorities). These changes fail to capture the true cost pressures in delivering statutory services in a county with high social care demand and a dispersed population, with limited opportunities to raise income locally.

1.36 When including Council Tax, CSP increases by 11.0% from 2025/26 to 2028/29. This is significantly below the national average of 15.1% and far short of the scale of cost increases that the Council has incurred in recent years. For example, the net budgets for ASC and Children's Services increased by 40% and 54% respectively in the three-year period between 2022/23 and 2025/26.

1.37 The impact of the settlement on the Council's CSP is set out in the table below:

Core Spending Power – ESCC	2025/26 (£m)	2026/27 (£m)	2027/28 (£m)	2028/29 (£m)
Revenue Support Grant (RSG)	103.5	94.3	113.0	105.7
Baseline Funding	81.4	87.6	89.6	91.4
Local Authority Better Care Grant	26.9	26.9	0.0	0.0
Fair Funding Assessment	211.8	208.8	202.6	197.1
Families First Partnership (within Children, Families and Youth Grant)	3.5	6.7	6.7	5.7
Homelessness, Rough Sleeping and Domestic Abuse Grant	1.4	1.4	1.4	1.4
Total non-Council Tax (CT) Core Spending Power	216.8	216.8	210.7	204.2
Council Tax Requirement*	394.5	419.4	445.9	474.1
Total Core Spending Power	611.2	636.2	656.6	678.2
Cumulative non-CT Core Spending Power (% Change)	-	0.0%	-2.8%	-5.8%
Cumulative Council Tax Requirement (% Change)	-	6.3%	13.0%	20.2%
Cumulative Total Core Spending Power (% Change)	-	4.1%	7.4%	11.0%

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*N.B. Figures are from MHCLG's settlement publication so there will be roundings. Council Tax Requirement shown will differ slightly from figures in the ESCC MTFP due to local projections.

1.38 In addition, the settlement introduces a consolidation of several specific grants into new, simplified funding streams which, while simplifying administration, creates uncertainty over future allocations and flexibility. A detailed comparison of the grants rolled into the Fair Funding Assessment and Consolidated Grants is set out in Annex 2 of Appendix 2.

1.39 Despite the challenge of ongoing service pressures, particularly in social care, and a growing deficit, compounded by the impact of FFR 2.0, the Council continues to make necessary investments to meet residents' needs. Following an increase of £54.9m in 2025/26, a further £71.7m investment is planned for 2026/27, against additional funding of just £21.2m and savings of £6.3m, leaving an annual unfunded deficit of £44.2m and an underlying deficit of £55.6m after accounting for the one-off reserves in 2025/26. Departments have been asked to identify savings and efficiencies to help close this gap, but the scope for reductions is extremely limited after more than a decade of sustained cuts to services:

Summary of Budget Growth and Funding 2025/26 and 2026/27	2025/26 (£m)	2026/27 (£m)
Non-Pay Inflation	25.1	19.5
Pay Awards	6.4	5.9
Service Investment:		
Adult Social Care	7.5	18.9
Children's Services	9.4	22.8
Other service budgets	4.9	3.8
Other corporate budgets	1.6	0.8
Total Budget Growth	54.9	71.7
Council Tax	(25.8)	(21.5)
Business Rates (within the Fair Funding Assessment from 2026/27)	(0.5)	0.0
Government Grants (within the Fair Funding Assessment from 2026/27)	(15.3)	0.0
Impact of FFR 2.0 on non-Council Tax CSP	0.0	0.3
Total Additional Funding	(41.6)	(21.2)
Savings	(16.2)	(6.3)
Annual Budget Deficit	(2.9)	44.2
Deficit carried forward from previous year	14.3	11.4
Total Budget Deficit	11.4	55.6
One-off use of reserves	(11.4)	0.0
Budget Deficit	0.0	55.6

Savings

1.40 As set out to Cabinet in December 2025, in light of the serious financial position, departments have undertaken work to identify how any further savings could be delivered as part of work to address the funding gap and to put the Council in a position to set a balanced budget for 2026/27. The approach taken by each department was outlined in more detail in the December report and recognised the limited scope for further service reductions after a decade and a half of savings which have removed or scaled back most discretionary functions and reduced supporting services to a minimum. After many years of service reductions, transformation and efficiencies, and with ongoing growth in demand for support, there is very limited opportunity to make further savings whilst still meeting our statutory duties and basic

operating requirements. There will also be considerable demands on the organisation over the coming year to deliver major national reforms.

1.41 In total, potential further reductions of £3.5m have been identified across all departments. Added to those set out earlier last year this means a total of £8.0m savings have been identified for the period 2026/27-2028/29, with £6.3m proposed for delivery in 2026/27. The detailed proposals are set out at Appendix 4a. The provisional Local Government Finance Settlement has not removed or reduced the requirement to identify savings wherever we can, given the legal requirement to balance the budget. Given the hard decisions already made, and current pressures on services, additional savings are expected to have further significant impacts on our residents, partners and staff, as well as affecting the organisation's capacity to respond to new demands and transform services. These are not proposals we would wish to make, but at this point there are no desirable options.

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

1.43 All savings proposals identified will be taken forward through our usual governance, decision making and HR processes. Progressing potential savings will entail consultations, in some cases with the public, and in others with our staff on restructures and potential redundancies. In some instances it has been necessary to begin these processes already in order to be in a position to implement agreed changes ahead of the new financial year and deliver a full year saving to support the budget position. Decisions will be taken as required on individual savings following consideration of the results of any consultations and all other relevant considerations.

1.44 The proposals set out, if implemented, go only a small way towards closing the substantial funding gap but make an important contribution to the Council's financial sustainability. As reported to Members throughout 2025/26, the Council continues to face significant cost and demand pressures, resulting in a large projected in-year service overspend which will require a further unplanned draw from very depleted reserves. In an effort to mitigate the overspend and to enable the Council to balance its budget for the year ahead, measures have been taken in year to reduce spend. These have been, and will continue to be, taken in accordance with the Council's decision-making framework.

1.45 Across all departments any opportunities to maximise income are considered on a regular basis. This includes pursuing opportunities to realise income from our assets, however planned income from the disposal of any surplus assets is already factored into the capital programme. We will continue to maximise these returns and minimise the costs of office and other accommodation and to review all other sources of income.

Robustness and Reserves

1.46 At Full Council in February 2025 there was an estimated total reserves balance of £50.5m by March 2029. Following usual updates, the balance at 31 March 2030 is now estimated at £46.0m.

1.47 The current reserves position is summarised in the table below. Total service and strategic reserves are projected to be £28.9m on 1 April 2026 and reflect draws to balance the budget and mitigate the overspend in 2025/26. This compares with a deficit of £55.6m in

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2026/27. The projected balances at 1 April 2029 reflect further projected draws from reserves but do not assume any further reserves will be used for budget stabilisation:

Reserves Balance (£m)	Balance at 1 Apr 2025	Estimated balance at 1 Apr 2026	Estimated balance at 1 Apr 2030
	£m	£m	£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	-	-
Insurance Reserve	7.7	3.7	3.5
Subtotal named service reserves	36.6	18.4	10.9
Strategic Reserves			
Priority Outcomes and Transformation	5.2	4.4	1.9
Financial Management	11.3	6.1	3.3
Subtotal strategic reserves	16.5	10.5	5.2
Total Earmarked Reserves	78.6	50.1	36.0
General Fund Balance	10.0	10.0	10.0
TOTAL RESERVES	88.6	60.1	46.0

1.48 In recent years, the use of reserves to cover budget deficits and overspends (which includes a further projected £12.2m to cover the in-year 2025/26 overspend reported at Quarter 2), means the Council has had to abandon its usual approach of maintaining reserves to help future proof Council services from unforeseen risks. The forecast balance of £10.5m remaining in strategic reserves at 1 April 2026 is the only flexibility the council will have left to mitigate in year pressures or volatile expenditure.

1.49 In addition to reserves, there is also a General Fund (unallocated reserve) balance of £10.0m, aligned to CIPFA best practice, plus a general contingency within the base revenue budget equal to £6.7m for 2026/27, to cushion the impact of unexpected events and emergencies in year. This general contingency is set at 1% of net revenue expenditure (NRE) less Treasury Management. For 2026/27, the General Fund and contingency total £16.7m, which represents 2.41% of NRE.

1.50 In addition to the reserves position set out above, Members should note the significant accumulated deficit in the Dedicated Schools Grant (DSG) relating to SEND. This deficit is currently subject to a statutory override, meaning it does not appear in the Council's usable reserves and is therefore not reflected in the figures presented above. However, the liability is real and represents a substantial future financial risk. The SEND deficit is forecast to be £20.1m on 1 April 2026, rising to £76.5m by 1 April 2028, when the statutory override is due to end. At that point, the Council will be required to recognise the full deficit on its balance sheet. While benchmarking shows that ESCC is in a better position than most authorities with SEND responsibilities, this will still have serious implications for the Council's financial position and borrowing requirement, as the deficit will need to be funded alongside existing pressures.

1.51 In accordance with Section 25 of the Local Government Act 2003, the Chief Finance Officer (CFO) has a legal duty to report on the adequacy of reserves and the robustness of

estimates when setting the budget. Given the current financial position and the significant depletion of service and strategic reserves, the CFO considers the remaining reserves to be at the absolute minimum level required to safeguard the Council against unforeseen risks and volatility. Any further draw on reserves to support the planned revenue budget would compromise the adequacy of reserves and leave the Council exposed to an unacceptable level of financial risk. Consequently, no additional use of reserves can be recommended to bridge the budget gap for 2026/27, so the only recommended option to set a balanced budget will be the flexibility granted under the government's Exceptional Financial Support (EFS) framework.

1.52 Details of the reserves held, and the CFO Statement on Reserves and Budget Robustness, are set out in Appendix 6.

Balancing the budget and Exceptional Financial Support

1.53 The Council is legally required to set a balanced budget under the Local Government Finance Act 1992. This requires the Council to make estimates of gross revenue expenditure and anticipated income, leading to a calculation of a budget requirement and the setting of an overall budget and Council Tax. The amount of the budget requirement must be sufficient to meet the Council's legal and financial obligations, ensure the proper discharge of its statutory duties, and lead to a balanced budget. The Council should be satisfied that the proposals put forward are a reasonably prudent use of resources in both the short and long term, and that the interests of both Council Taxpayers and ratepayers on the one hand and the users of Council services on the other are both taken into account. Failure to set a balanced budget would oblige the Section 151 Officer (the CFO) to issue a Section 114 report.

1.54 The Government's November 2025 policy statement confirmed that the EFS framework remains available to councils facing exceptional financial pressures and to avoid the need for the CFO to issue a Section 114 report. EFS provides flexibility through capitalisation directions, allowing specified revenue expenditure to be treated as capital. This enables councils to use borrowing or capital receipts to meet immediate pressures without breaching statutory requirements to set a balanced budget. The removal of the previous 1% borrowing premium improves the affordability of such directives. Councils must demonstrate a credible plan for financial sustainability and safeguard any community and heritage assets.

1.55 For 2026/27 the Council is facing an unfunded revenue gap of £55.6m. Whilst the Council has some reserves, the use of these at this stage would expose the Council to an unacceptable level of financial risk. Therefore, to address this position, the Council has submitted an indicative request for up to £70m of capitalisation to MHCLG. This includes a £12.5m contingency, which has been earmarked to cover emergent financial pressures, as well as investment aimed at bringing the Council back into financial balance over the MTFP period. Any use of this fund will be subject to robust internal controls and be supported by a robust business case demonstrating a clear and measurable return on investment that contributes to financial recovery and long-term sustainability. This approach ensures compliance with the principles of the EFS framework, safeguarding resources while prioritising investments that strengthen the Council's financial position.

1.56 The statutory basis for capitalisation directions is set out in Section 16(2)(b) of the Local Government Act 2003. Given the unfunded deficit and lack of strategic and service reserves, if MHCLG do not grant the capitalisation request the Council will not be able to balance the 2026/27 budget. This situation, in the absence of other measures, would trigger the duty on the CFO to issue a Section 114 report.

1.57 Capitalisation does not provide additional funding; it is a temporary measure to enable councils to meet statutory duties while implementing sustainable solutions. If financed through borrowing, rather than the use of capital receipts, the financing cost will fall on the revenue

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budget over a 20-year period starting in 2027/28. For example, a £70 million direction used in full would result in an annual cost of approximately £2.9m in Minimum Revenue Provision (MRP) and £3.7m in interest, totalling £6.6m per annum. Given ESCC's limited asset base, it is anticipated that the whole capitalisation will need to be financed by borrowing, with any future capital receipts continuing to be used to reduce the borrowing requirement in the Council's 10-year capital programme, in line with the council's capital and treasury management strategies.

1.58 Members should note that this proposed budget is therefore contingent upon the Government granting a capitalisation direction of £70m under the EFS framework. This permission is essential to enable the Council to meet its statutory duty to set a balanced budget for 2026/27 without further depletion of reserves, which are already at the minimum level required to safeguard against financial risk.

1.59 The capitalisation request includes provision for a contingency to manage emergent pressures and targeted investment to support financial recovery over the Medium Term Financial Plan (MTFP) period. While this measure provides short-term stability, it does not represent additional funding and will result in future borrowing costs that will need to be managed within the Council's financial strategy. Members are therefore asked to approve the budget on the basis that this capitalisation direction is secured and to recognise the significant implications on future years.

1.60 The MTFP has been updated for regular calculated adjustments, identified savings, the impact of FFR 2.0, and the additional year of 2028/29, with the movements summarised below. This MTFP is presented as balanced for 2026/27 on the basis the capitalisation directive will be granted. The MTFP is also presented in the context that local government reorganisation will impact from 2028/29. As such, year three of the MTFP is to be taken as indicative at this stage. The full MTFP is provided at Appendix 2:

Medium Term Financial Plan Summary	2026/27	2027/28	2028/29	Total
	(£m)	(£m)	(£m)	(£m)
	Annual	Annual	Annual	Cumulative
Council February 2025 DEFICIT	25.916	18.731	0.000	44.647
CARRY FORWARD OF 2025/26 DEFICIT	11.449			11.449
Total After Carry Forward	37.365	18.731	0.000	56.096
Normal Updates	(14.255)	(5.602)	5.444	(14.413)
Pressures added to / (removed from) the MTFP	35.572	5.877	31.457	72.906
Savings	(3.051)	(0.464)	(0.008)	(3.523)
BUDGET DEFICIT	55.631	18.542	36.893	111.066
Exceptional Financial Support (EFS)	(70.000)	70.000		0.000
Cost of Financing EFS	1.833	4.714	0.058	6.605
Contingency	12.536	(12.536)		0.000
BUDGET DEFICIT AFTER EFS	0.000	80.720	36.951	117.671

2026/27 and beyond

1.61 The provisional Local Government Finance Settlement for 2026/27 marks the first multi-year settlement for many years. While the move towards longer-term certainty is welcome, the level of funding provided remains insufficient to meet the needs of East Sussex residents. The settlement does not address the structural gap created by rising demand for statutory services, particularly in social care. Without a significant increase in the overall

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quantum of funding or fundamental reforms to statutory services at a national level, the Council's financial position will remain extremely challenging

1.62 In the absence of further funding or major statutory reforms, it is anticipated that further EFS will be required in 2027/28 to enable the Council to set a balanced budget. While EFS provides the ability to meet need in the short term, reliance on this mechanism in future years will increase the Council's borrowing requirement and result in higher debt financing costs over the MTFP period. In addition, the national requirement to recognise and address the accumulated SEND deficit from April 2028 will add further pressure to the already limited reserves, compounding the financial challenge.

1.63 Local government reorganisation, expected to take effect from 2028/29, is not anticipated to resolve the underlying financial issues facing the Council. While structural changes may deliver efficiencies over the longer term, they will not address the immediate funding gap or the growing demand for services. As such, even with reorganisation, significant financial challenges are expected to continue beyond the current MTFP period.

Council Tax requirement

1.64 The provisional Local Government Finance Settlement provided the ability for the Council to increase Council Tax by a maximum of 5% (3% council tax and 2% social care levy) without a referendum. Considering the financial position, it is proposed that this additional flexibility be included.

1.65 It is therefore proposed that the County Council be asked to consider increasing Council Tax in 2026/27 by 4.99% (2.99% Council Tax plus 2% social care levy). If agreed, the proposed band D charge for 2026/27 would therefore be:

Changes in Council Tax	£ per house at Band D	
	Council Tax Annual	Council Tax Weekly
Band D 2025/26	1,867.05	35.90
Council Tax increase*	93.24	1.80
Indicative Band D 2026/27*	1,960.29	37.70

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

1.66 The formal precept notices for issue to the district and borough councils will follow the formal recommendation by County Council. The current position is subject to change following final figures on Collection Fund and Business Rates provided by borough and district councils at the end of January 2026. The draft precept calculation is therefore set out at Appendix 5.

Capital Programme

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

1.68 The current approved programme has now been updated to include normal updates in accordance with Capital Strategy principles and additional investment proposals considered by the Corporate Management Team. The planning horizon has also been extended to 2035/36 to maintain the 10 year programme.

1.69 It is proposed that a capital programme of £331.0m (net of the slippage risk factor) be set over the MTFP period from 2025/26 to 2028/29 (current year plus three), requiring £80.2m

of borrowing, with the remaining years to 2035/36 being indicative to represent longer term planning. The update to the capital programme can be found at Appendix 8a.

1.70 The Council's 20-year Capital Strategy recommended for approval can be found at Appendix 8c. The Capital Strategy covers the period 2026/27 to 2046/47 and has been updated to reflect emerging risks, principles and corporate priorities. The strategy has been revised to recognise investment in digital and artificial intelligence (AI) being part of basic need, and confirmation that there will be no change in the approach to using capital receipts in light of EFS.

1.71 Within the Highways programme, several roads scheduled for inclusion in the 2026/27 resurfacing programme are already showing early signs of deterioration and may require intervention before the end of the current financial year. While the extent of this need will depend on winter weather conditions, it is recommended that £1.5m from the 2026/27 capital programme be earmarked for potential early use, ensuring the Council can act promptly should conditions worsen – as is consistent with previous years' practice. Cabinet has approved this spend in advance.

Engagement Feedback

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

Equality Duty Considerations

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

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

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

1.76 Whilst the Cabinet was asked to recommend, and subsequently the County Council asked to agree, the revenue budget and capital programme, the budget decision does not constitute final approval of what policies would be or what sums of money will be saved or spent under the service proposals. The recommendations in the report do not commit the Council to implement any specific saving or spending proposal. When the Executive come to

make specific decisions on budget reductions or expenditure, where necessary, focussed consultations and the full equalities implications of doing one thing rather than another will be considered in appropriate detail. If it is considered necessary, in light of equalities or other considerations, it will be open to those taking the decisions to spend more on one activity and less on another within the overall resources available to the Council.

Fees and Charges

1.77 The Chief Finance Officer is delegated to approve all fees and charges and to report to Cabinet and County Council those set at a level above inflation; a reasonable inflation level with regard to the Consumer Price Index (CPI), Retail Price Index (RPI) and pay inflation. The inflation rates applied for 2026/27 are the actual rates at July 2025: 6.8% CPI and 6.5% RPI, and estimated pay inflation for 2026/27 is 2.5%. As such, it has been determined that fees increasing above 4% be reported. Appendix 9 is for noting and shows a schedule of the fees and charges approved at quarter 3 that have increased by more than 4%.

1.78 Within the RPPR process, discretionary fees and charges (as set by the Council) are reviewed by services and Finance to ensure that they are reasonable, comparable with other authorities and seek to cover the costs of service delivery, where possible. Some fees and charges are set by Government, other external bodies or frameworks for which we have no control. Fees and charges can be amended any time in the year, and services seek to maximise income through exploring options for additional fees and charges to be levied.

Conclusion

1.79 Factors beyond local control driving increased costs, and national funding reforms which have failed to recognise the growing needs of East Sussex's population in funding allocations, mean our income is no longer sufficient to meet basic operating requirements. This is the case even after asking local people to continue to contribute through a Council Tax rise in line with Government assumptions. The recommendation to make a further increase is not made lightly, given that many household budgets continue to be under pressure, but it is essential given the funding gap we face. Support will continue to be available through local Council Tax Support Schemes for those residents eligible and we will continue to work with partners to signpost local people to sources of support with the cost of living, including access to benefits they may be entitled to.

1.80 Our tried and tested RPPR process will enable us to direct the substantial budgets we continue to deploy as effectively as possible towards priorities, in particular protecting services for the most vulnerable in our county as far as we can. We continue to invest significantly to maintain vital services and to ensure we capitalise on the opportunities presented by new technologies to get more from the resources we have. We will maintain our strong record of financial discipline and our focus on evidence-based approaches which maximise outcomes and make best use of resources.

1.81 Reliance on Exceptional Financial Support is unsustainable and will embed further costs for the future. In this context, and with significant reforms underway or awaited, our lobbying will continue to be vitally important. We will press for more overall funding for local government and service reforms that address the underlying issues of sustainability and limits on local flexibility, as well as improving outcomes wherever possible. We will ensure the hard choices having to be made, and the impacts these will have on local residents, business and communities, are heard loud and clear. We continue to keep all East Sussex MPs updated on the Council's position and to seek their ongoing support with our lobbying; the most recent correspondence to MPs is attached at Appendix 10. We will continue to work with our local, regional and national partners to highlight the specific needs of East Sussex and to press for truly fair, sustainable funding that enables us to meet the requirements of our residents for

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essential support. Until this is delivered our medium term financial position will remain very serious and present significant risk to our ability to meet local needs in the future.

1.82 The Cabinet recommends the County Council to:

- (1) approve in principle the draft Council Plan 2026/27 at Appendix 1 and authorise the Chief Executive to finalise the Plan in consultation with the relevant Lead Members;
- (2) approve the net Revenue Budget estimate of £693.2m for 2026/27 set out in Appendix 2 (Medium Term Financial Plan) and Appendix 3 (draft) (Budget Summary) and authorise the Chief Executive, in consultation with the Chief Finance Officer, Leader and Deputy Leader, to make adjustments to the presentation of the Budget Summary to reflect the final settlement and final budget decisions;
- (3) in accordance with the Local Government Finance Act 1992 to agree that:
 - (i) the net budget requirement is £693.2m and the amount calculated by East Sussex County Council as its council tax requirement (see Appendix 5) for the year 2026/27 is £420.8m;
 - (ii) the amount calculated by East Sussex County Council as the basic amount of council tax (i.e. for a band D property) for the year 2026/27 is £1,960.29 and represents a 4.99% (2% of which relates to the Adult Social Care precept) increase on the previous year;
- (4) advise the District and Borough Councils of the relevant amounts payable and council tax in other bands in line with the regulations and to issue precepts accordingly in accordance with the agreed schedule of instalments as set out at Appendix 5;
- (5) note that the Council has written to Government to request Exceptional Financial Support in the form of a £70m capitalisation direction to support the budget in 2026/27;
- (6) amend the Treasury Management Strategy, as set out later in this report, to allow borrowing to fund the revenue budget;
- (7) note the comments of the Chief Finance Officer on budget risks and robustness, as set out in Appendix 6;
- (8) agree the Reserves Policy set out in Appendix 6;
- (9) approve the Capital Strategy and Programme at Appendix 8;
- (10) note progress with the Council Plan and Budget 2025/26 since quarter 2 set out in paragraphs 1.29 to 1.33;
- (11) note the Medium Term Financial Plan forecast for 2026/27 to 2028/29, set out in Appendix 2;
- (12) note the comments from engagement exercises set out in Appendix 7; and
- (13) note the schedule of fees and charges that have increased above 4% at Appendix 9.

2. Council Monitoring: Quarter 2 2025/26

2.1 The Cabinet considered a report sets out the Council's position and year-end projections for the Council Plan targets, Revenue Budget, Capital Programme, and Savings Plan, together with Risks at the end of September 2025.

2.2 Broad progress against the Council's four strategic priority outcomes is summarised from paragraph 2.13 and an overview of finance and performance data is provided in the Corporate Summary at Appendix 11. Strategic risks are reported at Appendix 18.

Overview of Council Plan 2025/26 outturns and strategic risks

2.3 The Council Plan 2025/26 and the Portfolio Plans 2025/26 – 2027/28 have been updated with available 2024/25 outturns and final performance measure targets. All plans are published on the Council's website. The Corporate Summary (Appendix 11) contains a forecast of performance against targets.

2.4 We continue to make progress on reducing our carbon emissions. However, carbon and cost reduction work is now focused on business-as-usual activity such as the planned building maintenance programme, following the reprofiling of the capital budget in 2024/25. Analysis undertaken over the summer, using the latest available data on our emissions for 2024/25, suggests that with our current resources the current target is not achievable. Cabinet recommended that Scrutiny consider the target and what it would take in terms of cost to meet it, as well as what impact resource constraints, local government reorganisation and the establishment of the Mayoral Combined County Authority would have on it. Further information is provided in Appendix 14.

2.5 The Strategic Risk Register, Appendix 18, was reviewed and updated to reflect the Council's risk profile. Risk 5 (RPPR) has an updated risk definition. Risk 1 (Roads) and Risk 6 (Local Economic Growth) have updated risk definitions and risk controls. Risk 9 (Workforce), Risk 15 (Climate), Risk 20 (Placements for Children and Young People in Our Care), and Risk 22 (Oracle) have updated risk controls.

Budget Outturn

2.6 The detailed revenue projections for each department are set out in the relevant appendices which show a projected overspend of £24.1m by 31 March 2026 (£25.8m at quarter 1).

2.7 The main headlines are:

- Children's Services (CSD) is forecasting a £14.9m overspend for 2025/26. Whilst the forecast has reduced from £16.7m at Q1, the service continues to experience significant pressures from Looked After Children (LAC) placements and Home to School Transport. The rate of LAC has seen a slight decline at Q2 to 66.5 (down from 67.1 at Q1), but the number of children in higher-cost residential care has increased as a proportion of total LAC numbers from 20% at Q1 to 21% at Q2. Mitigation measures include family support programmes, reunification strategies, and improved commissioning, alongside regional collaboration to manage placement costs. The service aims for a 3% reduction in LAC numbers, though savings may be limited as lower-cost placements are more likely to step down. Transport costs are rising by 10% due to increased Special Educational Needs and Disabilities demand and higher unit costs, although significant work has gone into implementing cost reduction measures within the service including a review of solo routes and optimisation of routes.

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Not included in the revenue budget projections due to statutory accounting override, the Dedicated Schools Grant / Special Educational Needs and Disabilities deficit is projected to be £20.062m by the end of 2025/26. Demand for special school placements is rising, but local maintained schools are at capacity, forcing reliance on Independent and Non-Maintained Special Schools at significantly higher costs. Additionally, bespoke out-of-school provisions requested by parents further increase expenditure, with limited mechanisms to control these costs.

- The forecast overspend for Adult Social Care is £9.0m (no change from quarter 1) which largely relates to the Independent Sector, where the overspend is forecast to be £8.9m. This is due to an increase in demand and more people being supported, however it should be noted that support is being provided at a lower average cost than previous years, because the service is managing the market, being prudent with packages of support and reviewing more people.
- Communities, Economy and Transport is showing a forecast underspend of £0.2m (overspend of £0.1m at quarter 1). Whilst there is an overspend on Highways, where the cost of electricity for street lighting and depots has risen significantly, these costs have been offset by a range of underspends in other service areas.
- The £0.4m overspend within the Business Services Department (£0.2m at quarter 1), is largely in Property due to loss of income from a courier service contract, increased service charges and additional stamp duty costs in various properties, together with the loss of income following academy conversions.

2.8 Within Centrally Held Budgets (CHB), including Treasury Management (TM), and corporate funding there is a forecast underspend of £10.7m (10.8m at quarter 1), which includes the general contingency:

- There is currently an estimated £1.0m underspend on TM, based on a reduced in-year capital borrowing requirement and greater than anticipated returns on investments. It should be noted that there has been a fall in cash investment balances; whilst above benchmark returns are being achieved, the level of balances has fallen by 57% in one year to £71.8m at the end of September 2025.
- Within CHB the forecast underspend of £9.7m is due to the General Contingency of £5.7m, £1.5m available from not transferring a contribution to the Capital Programme and £3.3m unused provision for budgetary risk, offset by £0.7m debt impairment and other smaller variances.
- Corporate Funding budgets are underspending by £1.1m (£0.2m at quarter 1), due to the additional allocations of Social Care-related grant and New Homes Bonus, plus an increase of forecast Business Rates income offset by a reduction in forecast Council Tax income.

2.9 The net impact of the above is an unplanned draw from reserves of £12.2m in 2025/26. This is in addition to the planned £11.4m draw to present a balanced position in setting the 2025/26 budget. Use of the Capital Reserve has the potential to increase the requirement to borrow, leading into increased costs in the future; use of Collection Fund surplus and Insurance and Local Government Reorganisation Reserves will likely hinder the Council's management of future risk and transformation. Any reduction in reserves reduces the flexibility available in dealing with the challenge of addressing next year's projected deficit of £55.8m and setting a balanced budget. To address the projected in-year overspend and reduce the required draw from reserves, the Council continues with several actions introduced last year, including:

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

2.10 The total savings identified to be delivered in 2025/26, including slippage from previous years, are £14.3m. Departments are reporting that £12.3m will be able to be delivered in 2025/26, with £2.0m slipping to future years, and £0.2m not being able to be achieved but being replaced by other permanent savings. The impact of the slippage has been reflected in the revenue monitoring position. The departmental appendices provide more detail.

2.11 Capital Programme net expenditure for the year is projected to be £91.6m against a budget of £107.8m. A slippage risk factor has been applied to the capital programme to reflect likely slippage based on a risk assessment of historic levels of actual expenditure and slippage at a project/programme level. The risk factor will be held at a corporate level to enable services / project managers to manage project budgets at a local level, whilst ensuring greater robustness to the planning and monitoring process at a corporate level. The net forecast expenditure after applying this risk factor is £88.9m. The Capital Programme is currently forecasting a net variation of £16.2m, with the key contributing factors outlined below.

- Total slippage of £15.2m has been identified within the Communities, Economy and Transport (CET) programme. This includes £8.6m relating to delays in the Bus Priority Bus Service Improvement Plan projects. These delays reflect a combination of factors, including resource constraints within the BBLP contractor and the complexities involved in delivering bus lane infrastructure which is subject to public consultation and scrutiny. A further £5.6m slippage has been identified across various Transport Infrastructure schemes, following a strategic review of deliverability by year end considering current resource availability and the outcomes of known inquiry decisions.
- Slippage of £4.7m has been identified within the Business Services Department (BSD) programme following a detailed review of project progress. This comprises £3.8m across Schools and Corporate building schemes, and £0.9m within Information Technology and Digital (IT&D). These figures represent the best current estimates of expenditure achievable by year-end, based on the latest assessment of individual project delivery timelines.
- Spend in advance of (£3.3m) has been reported within BSD, due to accelerated works at Acre Wood School based on the newly appointed contractor's estimates and (£270k) has been reported within CET, mainly due to higher than anticipated charges for construction framework costs on the grant funded Hastings Town Centre Public Realm and Green Connections scheme.
- A net overspend of (£486k) is currently forecast, primarily within the CET directorate. This includes a (£303k) overspend related to the Passenger Services Bus Service Improvement Plan scheme due to higher than anticipated costs on planned projects which are currently under investigation by the service. Additionally, there is a (£137k) forecast overspend for archaeology works on the Bexhill and Hastings Link Road, where no budget had been allocated.

2.12 Capital Programme variation request. The Waste Service requests approval to increase the Capital Programme by £1.215m in 2026/27 to install fire suppression systems at Maresfield and Pebsham Waste Transfer Stations. These sites operate under the Council's long term PFI contract with Veolia and are critical to county wide waste operations. While

Veolia is not contractually obliged to contribute, they have agreed to fund 50% of costs at each site. This investment addresses the growing risk of fires caused by lithium batteries and other combustible materials, which have led to increasing incidents nationally and locally. A major fire could result in prolonged service disruption, tipping away costs, and significant liabilities. Installing suppression systems will safeguard infrastructure, reduce operational and environmental risk, and ensure compliance with Environment Agency guidance, providing long-term resilience. The increase will be funded from resources within the Capital Programme, should borrowing be required than the revenue costs of the funding the borrowing would be in the region of £90,000. The proposal was approved by Lead Member for Transport and Environment on 10 November 2025, and the revision to the Capital Programme was approved by Cabinet at its meeting on 16 December.

Progress against Council Priorities

Driving sustainable economic growth

2.13 The Council has spent £411m with 1,152 local suppliers over the past 12 months. This equates to 61% of our total procurement spend, which is above our target of 60%. The Procurement team continues to promote our contract opportunities to local suppliers, as well as building local supply chain opportunities into our tenders where possible. 2 contracts, with a value of £5.58m, were agreed in quarter 2 and as part of these we secured £1.07m in social value commitments. This equates to 19% of the contract value, and will include employability support, careers awareness programmes, internship and volunteering opportunities and professional development for staff and volunteers (Appendix 14).

2.14 Work on our highways has continued, with 5,274 potholes repaired in quarter 2, 3,532 of these were carriageway potholes and the remainder primarily footway potholes. We completed 33 road improvement schemes to improve the condition of the roads (Appendix 16).

2.15 The Visitor Economy Task Group helped East Sussex College Group become an approved centre for the Hospitality Skills Passport in quarter 2. The Careers Hub hosted Apprenticeship Roadshows in Hastings and Eastbourne, with over 900 young people, parents and adult job seekers attending, alongside 40 employers, apprenticeships training providers and support organisations (Appendix 16).

2.16 128 businesses in East Sussex were supported through business support programmes during quarter 2. 109 of these were supported through the Growth Hub and 19 through Rural Business Grants (Appendix 16).

2.17 6,779 children took part in The Summer Reading Challenge which encourages children to read during the summer holidays and inspires them to tap into a world of imagination through reading. 114 promotional assemblies were held in schools, and 81 volunteers supported the challenge in libraries. Celebratory certificates for children who completed the challenge will be sent to schools to present to the children (Appendix 16).

2.18 The Council's Alternative Provision service, which provides for pupils who would not otherwise receive a suitable education, was transferred to the London South East Academies Trust in quarter 2. The new service is called the East Sussex Academy and is operating from sites in Hailsham, Newhaven and Hastings. In 2025/26 the Council is commissioning 220 places at the East Sussex Academy, a 96% increase on the number of places we commissioned in 2024/25 (Appendix 15).

Keeping vulnerable people safe

2.19 Ofsted undertook a Focused Visit Inspection of East Sussex Children's Services during quarter 2, focusing on children in need and those subject to a child protection plan. The

inspection does not provide an outcome grading but set out a number of key findings and makes recommendations. The inspection letter contains a number of positive findings including that our services make a difference to local children and that the senior leadership team, with strong corporate support, continue to invest in services for vulnerable children. One recommendation for improvement was received, relating to the timeliness with which child protection strategy meetings are held, although Ofsted noted that once held, the meetings appropriately considered the level of risk and impact on the children involved (Appendix 15).

2.20 The number of children with a Child Protection Plan has reduced to 532 at the end of quarter 2, down from 579 at the end of quarter 1. The Connected Families, SWIFT and Foundations services continue to deliver specialist support to parents, enabling children to stay safely within their families. The rate of Looked After Children also decreased in quarter 2, to 66.5 per 10,000, down from 67.1 per 10,000 at quarter 1. The rate for East Sussex remains below the national average for England, which is 68.6 and the Income Deprivation Affecting Children Index (IDACI) adjusted rate (expected rates based on levels of deprivation) which is 70.0 (Appendix 15).

2.21 The Lansdowne Secure Children's Home and the Silver Birches Children's Home were both inspected by Ofsted in quarter 2, and both received a judgement of Good. The inspectors noted many positive factors at each of the homes, whilst also providing recommendations for improvements, which are being taken forwards (Appendix 15).

2.22 The Care Quality Commission (CQC) inspected the Council earlier in 2025 and have now given a positive assessment of our adult social care services, recognising our commitment to providing the best possible support for residents. Giving the Council a rating of 'good', the CQC highlighted the collaboration with those using the service as a 'real strength'. The CQC's chief inspector of adult social care and integrated care, said: "What really stood out was how people felt listened to and treated with dignity. The staff at East Sussex should be really pleased with their good rating and the services they're providing to people in the county" (Appendix 13).

2.23 We continue to commission and provide services to support adults and older people across the county. There is a greater complexity of need amongst people accessing support, along with an ongoing increase in demand for our services. Compared to the same point in 2024 there has been a 5.8% increase in contacts handled by Health and Social Care Connect, 3.1% increase in the number of people receiving residential and nursing care, 5.5% increase in the number of assessments completed, and 7.1% increase in activity overall, up 12.7% on the same period in 2023 (Appendix 13).

2.24 Trading Standards made 37 interventions during quarter 2 to protect vulnerable people who had been the target of rogue trading or financial abuse. The team dealt with a wide range of fraud and scam interventions which involved nearly £330,000 of financial risk to the vulnerable people. 151 businesses received training or advice from Trading Standards during quarter 2 (Appendix 16).

Helping people help themselves

2.25 The new Heathfield and JOFF Youth Hubs opened in quarter 2. Sessions at the new facilities are attracting high numbers of young people who are enjoying the new facilities available. The response from parents and community members to the new hubs has also been positive (Appendix 15).

2.26 The percentage of new Education, Health and Care Plans issued within 20 weeks remains off target at quarter 2 (30.5% including exceptions and 32.7% excluding exceptions) with delays due to late statutory advice from partners. There have been recent improvements in the timeliness of advice for social care elements of assessments following the recruitment of

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additional posts. We have also begun to see improvements in timeliness of advice from the Children's Integrated Therapy and Equipment Service within the NHS. However, the significant increase in demand for assessments coupled with demand and capacity issues among statutory partners continues to present challenges (Appendix 15).

2.27 The Council runs courses aimed at giving children and adults the skills they need for riding their bikes on the road. We delivered 92 Bikeability courses to 640 individuals in quarter 2. 137 'Wheels for All' sessions were also delivered to 1,932 attendees (Appendix 16).

2.28 The stroke rehabilitation pilot at Bexhill's Irvine Unit has been shortlisted for the Community Hospitals Association Innovation and Best Practice Awards 2025. This six-month programme supported stroke survivors to rebuild strength, confidence and independence through supervised physical activity. The pilot was supported by strong collaboration between the Council, Active Rother, Active Sussex and East Sussex Healthcare Trust (Appendix 13).

2.29 162 employers and approximately 20,000 employees are now supported by the Wellbeing at Work programme. Through up-to-date health and wellbeing guidance, tailored training, and organisational support, the programme helps workplaces adopt practices that improve staff wellbeing, such as offering training sessions focusing specifically on men's and women's health (Appendix 13).

Making best use of resources now and for the future

2.30 During quarter 2, the Leader and Chief Executive continued to raise issues and priorities for the county with our local MPs, including highlighting the stark financial position the Council faces in individual meetings with MPs and ministers. During quarter 2, the Government consulted on its proposed approach to local authority funding reform through the Fair Funding Review 2.0. The Council provided a robust response which in particular emphasised the need for updated relative needs formulae to better take account of the county's older population, the need for a more sophisticated approach to calculating local labour costs, and the negative impact on the Council of a proposed 100% Council Tax equalisation (Appendix 17).

2.31 We completed 2 energy efficiency schemes during quarter 2, with roof insulation being installed at a primary school and a nursery. The total Council carbon emissions outturn for quarter 1 saw a 22% reduction compared to quarter 1 2024/25. At this stage it is not possible to accurately forecast the annual emissions for 2025/26 as the majority of emissions occur in the second half of the financial year (Appendix 14).

2.32 The Council has continued to work with a range of partners to develop and deliver carbon reduction and climate change adaptation work in quarter 2. This included finalising the corporate climate emergency progress report for 2024/25 and identifying corporate sites where it would be possible to install electric vehicle charge points. We also entered into discussions with UK Power Networks about what scale of solar farm could be accommodated on the closed landfill at Pebsham (Appendix 16).

2.33 The quarter 1 and quarter 2 sickness absence figure for the whole authority (excluding schools) is 4.30 days per Full Time Equivalent (FTE) role, a 4.1% decrease compared to the first 2 quarters of 2024/25. The year end estimate for 2025/26 (based on six month's data) is 8.83 days/FTE, so the target of 9.10 days/FTE is predicted to be met (Appendix 17).

2.34 The Council has continued work to ensure its office hubs are used efficiently during quarter 2, with both Sandbanks in Hailsham and the former Rangers' Workshop in Rye now under offer. Space at The Keep and Pacific House was also let out in quarter 2 (Appendix 14).

2.35 Alongside our partners in West Sussex County Council and Brighton & Hove City Council we have continued to work on the proposed establishment of a Mayoral Combined County Authority for Sussex as part of the national devolution priority programme. We continue to work towards securing the opportunities from devolution. Along with our district and borough council partners, we submitted our One East Sussex proposal for Local Government Reorganisation in East Sussex in quarter 2. One East Sussex shows that a single unitary council would be simpler for residents, would save money, and would avoid the extra complexity of splitting up existing services (Appendix 17).

3. Annual Looked After Children report 2024 – 2025

3.1 The Cabinet has considered the annual progress report for Looked After Children's Services which is attached as Appendix 19. It was presented to and discussed at the Corporate Parenting Panel on 16 October.

3.2 During the course of 2024-25 a total of 908 children were looked after by East Sussex County Council, an increase of 20 compared to the previous year. At the end of the year there were 688 children in care, 31 more than the previous year. This increase was driven mainly by fewer numbers of children leaving care, and children remaining in care for longer.

3.3 We have continued to see high levels of complex presentation across children's mental health, neurodiversity, behaviours that challenge and complex family dynamics. These needs intersect with poor school attendance and/or children who are not able to access a suitable school place.

3.4 28% of the children in our care identified as being from an ethnic minority or mixed heritage background. 128 were separated migrant children under the age of 18 and 193 separated migrant care leavers aged 18+. 44 children came to us through the National Transfer Scheme, and the remainder were spontaneous arrivals via police involvement or directly from Newhaven Port.

3.5 We continue to find family-based homes for most children in our care and have seen very positive activity across fostering recruitment. 2024-25 saw the highest number of fostering enquiries in five years and a strong conversion rate of 33% from home visit to approval. This led to 30 new fostering households being approved in 2024/25 with 47 places, which resulted in a net increase of 17 fostering households and 25 places. Of all our children living with foster carers as at 31 March 2025, 76% were placed in-house, significantly higher than the national average for 2023/24 of 60% in-house utilisation.

3.6 However, in line with national and regional trends we are placing more children in agency residential placements and more of these placements are located outside of the county. This movement is driven both by the increase in children's complex presentation and a national shortage of fostering households. This means that some children who could be placed with foster carers are living in residential children's homes which is a trend that we are working hard to reverse.

3.7 Significantly fewer children have experienced 3 or more placement moves during the year, this reflects careful matching and the skilled support provided to carers. Our in-house fostering service and commissioning team provide critical oversight to ensure the quality and sustainability of homes for our children.

3.8 Adoption South East placed 82 children for adoption in 2024-25, 21 of these were from East Sussex which was an increase of 6 children on the previous year.

3.9 Our in-house Residential Children's Homes, Children's Disability Homes and Lansdowne Secure Children's Home have been working closely together to align practice and share expertise. In 2024-25 we increased occupancy across all homes and are caring for children with increasingly complex needs. All homes are currently rated 'Good' by Ofsted.

3.10 Health outcomes for children in care are known to be poorer than for their peers. In East Sussex we work closely with Health colleagues to address this inequality. Initial and Review Health Assessments remain an area of focus alongside the improvement in dental care. Immunisation data available at the time of writing indicates that 81% of children had received their expected vaccinations, however this is being further scrutinised as we believe the actual figure to be higher. Our Looked After Children Child and Adolescent Mental Health Service (LACAMHS) offers valuable consultation and informs the therapeutic model in our residential children's homes. Completion of Strengths and Difficulties Questionnaires (SDQs) has shown significant improvement following the introduction of a new process. In 2025-26 we will be working with Public Health to address learning from the 'My Health My School' survey.

3.11 The voice of children, young people, their families and the people who care for them continue to sit at the heart of our service. The Children in Care Council and the Care Leavers Council offer valuable challenge to us all whilst also supporting with interviews and representing our council at regional and national events.

3.12 Children's Social Care is responding to pressures across the system to ensure that families are supported at an early stage and that where children are in care, they live locally, with carers who can meet their individual needs and who support them to 'head home' where this is safe. We continue to embed the Valuing Care approach which is helping to shape conversations with children's networks and bringing energy to care planning. The Placements and Commissioning Service is bringing increased challenge alongside positive market engagement and working with the Regional Care Cooperative to support sufficiency.

3.13 Overall performance is encouraging, remaining consistent despite the demand pressures. However, the increase in agency residential placements, particularly high-cost placements for children with complex needs is putting unsustainable pressure on the budget. The service is attempting to mitigate this through robust scrutiny of costs, a focus on Heading Home (reunification within the family network) and building creative care plans whilst maintaining a focus on children's needs and delivering safe services. Children's Social Care Reform and Regionalisation offer exciting opportunities to develop practice and share skills.

4. Treasury Management Strategy Statement 2026/27

4.1 A requirement under the Chartered Institute for Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Services is to prepare a Treasury Management Policy and Strategy setting out the Council's policies for managing investments and borrowing.

4.2 The Local Government Act 2003 and supporting regulations requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

4.3 The Treasury Management Strategy Statement (TMSS) for 2026/27 is presented in Appendix 20. The strategy includes the Treasury Management Policy Statement, the Annual Investment Strategy, Prudential and Treasury Indicators for the next three years and the annual Minimum Revenue Provision (MRP) Policy Statement.

4.4 The 2026/27 TMSS has been prepared within the context of the financial challenge being faced by the County Council over the Medium Term Financial Plan (MTFP). A summary of the outlook for Local Government finances is outlined in Annex F of Appendix 20. The treasury management strategy for the year seeks to compliment the MTFP and Council Plan by:

- ensuring the investment portfolio is working hard to maximise income by seeking appropriate investment opportunities that meet the Council's security requirements;
- reviewing the Capital Programme to reduce the level of investment of core council funded programmes that would otherwise increase the Council's borrowing requirement;
- utilising cash balances to fund the Council's borrowing need in order to minimise borrowing costs as far as possible;
- ensuring effective management of the borrowing portfolio by exploring rescheduling opportunities and identifying and exploiting the most cost effective ways of funding the Council's borrowing requirement.
- ensuring that the impact of Exceptional Financial Support in the form of capitalisation direction has been incorporated into the TMSS for the year.

4.5 The Council continues to face unprecedented financial challenges, with the demand for, and cost of, services continuing to increase beyond the resources available, resulting in the application to Government for Exceptional Financial Support (ESF) in the form of a capitalisation direction. This would allow the Council to treat certain types of revenue expenditure as capital expenditure, allowing them to be funded by borrowing or capital receipts as opposed to from the revenue budget. The impact of this on the Council's borrowing strategy and treasury management activity have been reflected in this TMSS, with specific implications separately reported where possible to explicitly demonstrate the financial implications.

4.6 The 2026/27 Investment Strategy has been set in the context of moderate investment returns as a result of expected decreases in the Bank of England (BoE) Base Rate. The Base Rate has continued to fall from its peak at 5.25% during 2024/25, with markets and economists' current expectation that rates will continue to fall further into 2026/27 and beyond as the BoE is expected to tighten monetary policy in order to contain the impact of inflation. At the time of writing, the Council's treasury advisors, MUFG, forecasted that Monetary Policy Committee will cut Base Rate to 3.25% by December 2026. The investment performance for 2026/27 is therefore forecast at 3.59%. The average rate of return for 2024/25 was 5.26% and for the first six months of 2025/26 was 4.63%.

4.7 The Strategy is also being set in the context of the Council's deficit revenue budget forecast and application for EFS in 2026/27, as well as the ongoing deficit position forecast in the MTFP to 2028/29. Annex F of Appendix 20 outlines the context for the outlook of Local Government finances in general. Additionally, paragraph 4.4 outlines the principles that will be applied during the year to ensure the Investment Strategy appropriately contributes to mitigating the Council's ongoing deficit revenue position.

4.8 The planned use of reserves, revenue budget overspend and debt maturities have all contributed to the falling investment balances during 2025/26. Cash balances are expected to reduce further into 2026/27 due to the Council's forecast deficit position and borrowing need. However, in this context, the Council's risk appetite for investments will not be modified to increase income. The strategy will continue to prioritise security and liquidity of the Council's funds. New investment options will be explored within the current risk appetite and strategy parameters.

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4.9 There are various changes proposed in the Annual Investment Strategy from 2026/27 to reflect the challenging financial position of the Council and ongoing reduction in available balances, and the need to manage the subsequent risk to security and liquidity. These changes are detailed in Section 4 of the TMSS.

4.10 Officers continue to seek out Environmental Social & Governance (ESG) investment opportunities with counterparties that meet the Council's investment parameters. There are currently limited available products within the market that meet both the Council's security requirements and the Council's shortened investment time horizon due to the strategy to use cash to initially fund the Council's liquidity and borrowing requirement. Nevertheless, appropriate ESG investment products will continue to be researched and considered into 2026/27.

4.11 The total level of borrowing need over the next three years (between 2026/27 and 2028/29) is estimated to be £121m, split as £51m capital programme borrowing between 2026/27 and 2028/29 and £70m capitalisation direction in 2026/27.

4.12 Officers will seek to use cash from the Council's own reserves to initially fund borrowing whilst interest rates remain relatively elevated, however, the ongoing cashflow forecast suggests the new external borrowing will need to be undertaken during 2026/27. Modelling of the Council's borrowing plans and cashflows had previously identified an appropriate level of internal borrowing of around £75m in the longer term, however, due to ongoing pressures and reducing reserve levels, it is proposed that this be reduced to £50m from 2026/27 onwards.

4.13 It is therefore anticipated that external borrowing will be required during 2026/27. During a reducing interest rate environment, the strategy will be to borrow over a short to medium term period and to seek new longer-term borrowing on maturity once when rates are expected to reduce. This strategy will be kept under constant review as there are risks that are required to be managed and balanced during the year. Officers will review the interest rate forecast, cashflow needs, the revenue deficit and the Capital Programme to ensure this remains the most appropriate strategy through the year.

4.14 The liability benchmark in Section 2.3 of Appendix 20 demonstrates that the council will be required to undertake new external borrowing during 2026/27. The benchmark also suggests that if reserve balances continue to decrease as currently anticipated, then the Council may need to borrow to finance day-to-day activity in addition to its capital programme by 2028/29. This indicator will be used to assist with future borrowing decisions, in conjunction with the Treasury Management Tool.

4.15 The council is required under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended), where it has financed capital expenditure by borrowing, to pay off an element of the accumulated General Fund capital spend (prudential borrowing) each year through a revenue charge (a Minimum Revenue Provision (MRP)). Regulation 28 provides local authorities with some flexibility in how they calculate MRP, providing the amount is 'prudent'. The Ministry of Housing, Communities and Local Government (MHCLG) statutory guidance requires the council to approve an MRP Policy Statement in advance of each financial year. This can be amended during the year, by presenting a revised MRP Policy Statement to council for approval.

4.16 The Minimum Revenue Provision Policy Statement for 2025/26 forms part of the council's Treasury Management Strategy 2025/26 which was formally approved at Full Council on 11 February 2025.

4.17 The report recommended updates to the council's Minimum Revenue Provision Policy to reflect changes to, and provide clarity on, interest rates used for annuity calculations, as well as clarity on the policy in relation to provision for capitalisation direction. To ensure that prudent provision is made as early as possible, it is recommended that this policy be approved for both the 2025/26 and 2026/27 financial years.

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4.18 The Treasury Management budget within the MTFP supports the cost of borrowing which includes MRP provision and interest for the capital programme. It is proposed that an increase of £2.7m is made to the Treasury Management budget in 2026/27 due to the current falling interest rate environment and reducing investments. With interest rates expected to normalise at a lower level in the medium term, alongside increasing costs of capital programme borrowing, it is modelled that further increases to the budget will be required in future years. Due to the Council's challenging revenue budget position, the treasury management portfolio will continue to be reviewed to minimise the borrowing costs and impact on the revenue budget.

4.19 The budget within the MTFP is calculated using the Treasury Management Tool that reflects the costs of borrowing offset by returns on investment of the Council's balances. It is therefore reflective of a point in time. The treasury management tool, developed as part of the Capital Strategy, is reviewed regularly for reasonableness.

4.20 As well as this annual strategy, the CIPFA Code requires the Council reports as a minimum:

- A mid-year review;
- An annual report at the close of the year;
- Quarterly updates on treasury activity.

4.21 This Council meets this requirement with the Treasury Management Stewardship Report 2024/25 and Mid-Year report 2025/26 presented to Cabinet on 16 December 2025. Additionally, the treasury management quarterly monitoring position is reported to Cabinet as part of the Reconciling, Policy, Performance and Resources quarterly monitoring.

4.22 The Council takes advice from MUFG on its treasury management activities. A detailed view of the current economic situation and forecasts, as prepared by MUFG is included in Appendix 20 (Annex B).

4.23 The Cabinet recommends the County Council to:

- (1) approve the Treasury Management Strategy Statement for 2026/27;
- (2) approve the Annual Investment Strategy for 2026/27;
- (3) approve the Prudential and Treasury Indicators 2026/27 to 2028/29;
- (4) approve the Minimum Revenue Provision (MRP) Policy Statement for 2025/26 and 2026/27 at Appendix 20 (Section 3).

5. The Conservators of Ashdown Forest 2025/26 forecast outturn position and updated medium term financial plan including the 2026/27 budget.

5.1 The Cabinet considered a report which set out the financial position of the Conservators of the Ashdown Forest (COAF) for 2025/26 (Appendix 21), against the approved budget agreed by the Board of Conservators at their meeting on 17 November 2024 and presented to Cabinet in January 2025. Appendix 22 presents the COAF Medium Term Financial Plan (MTFP) to 2028/9.

5.2 The 2025/26 original budget set out a deficit budget of £15,620, being a surplus on the Core Budget of £9,106, and a deficit on the Countryside Stewardship (CS) budget of £24,726. At the end of September there was a forecast surplus of £176,033 in the Core budget.

5.3 Core budget expenditure and income are both higher than budgeted. This is mostly due to project expenditure and offsetting income. Projects include the Winnie the Pooh centenary celebration and the Strategic Access Management Measures (SAMMS). There was a capital purchase of a new vehicle, and this has been funded by donations. Income includes

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the receipt of the one-off contribution from the Ashdown Forest Trust as approved by Cabinet in September.

5.4 The current 2025/26 Core budget projections indicate that no additional contribution from East Sussex County Council (ESCC) will be required.

5.5 The current Countryside Stewardship (CS) budget is forecast to overspend by £88,589 this year. This is more than the budgeted overspend of £24,726. The forecast assumes a CS funding gap from January to March 2026. However Natural England have just announced an extension of the funding which should reduce the forecast 2025/26 overspend.

5.6 The COAF 2026/27 budget and MTFP is shown at Appendix 22. There is a budgeted surplus in the Core budget. It is therefore unlikely that ESCC will need to make an additional financial contribution for that year. The Board was informed by the Rural Payments Agency that there would be a funding gap between the end of the current agreement and the start of a new agreement and the reported core budget deficits for 2027/28 and 2028/29 reflect that. The Board have now been informed that the current agreement has been extended. The organisation will take action to address any remaining funding gap and it is unlikely that the 2027/28 and 2028/29 deficits will occur. CS has a budgeted deficit of £3,019 which reflects an increase in planned works for 2026/27. The CS deficit will be funded from the CS reserve.

5.7 The current CS programme has been extended to the end of 2026 with a new scheme likely to start from January 2027. The Conservators will apply for the replacement CS scheme when the government announce the funding schemes available. The CS expenditure and income streams included from 2026/27 are therefore indicative pending that announcement.

27 January 2026

KEITH GLAZIER, OBE
(Chair)