Performance and Finance Select Committee

2 October 2015

Corporate Plan and Medium Term Financial Strategy 2016/17 to 2019/20

Report by Executive Director Corporate Resources and Services

The Committee is asked to:

1) Review and support the forecasts and assumptions applied to update the Financial Strategy over the next four years.
2) Review and support the savings requirement expected over the 4 year period to 2019/20, being £141m.
3) Review, comment upon and support the timetable set out in the report for drawing up a budget for 2016/17 and the Medium Term Financial Strategy, recognising that with key information from the Spending Review only being announced in late November, the timetable may have to be more flexible than usual this year.

Context of the Medium Term Financial Strategy

1. As financial and, by implication, other resources become increasingly constrained, it is essential that remaining resources are focused closely on delivering the Council’s priorities, whilst ensuring that its “business as usual” is also well managed.

2. The Council vision and priorities this strategy must support are set out in the Future West Sussex Plan, which was agreed at County Council in February 2015. That remit is to:

Giving Children the Best Start in Life

3. Members have expressed a desire to ensure that every child growing up in West Sussex has a good start in life and have outlined specific outcomes that you want to achieve for the young people of West Sussex.

4. The agreed medium-term financial strategy will need to support our stated outcomes in this area, being:

- Improving young people’s physical and emotional wellbeing
- Ensuring families receive the support that they need early
- Keeping children safe and secure
- Ensuring young people are ready for school and ready for work
Championing the Economy

5. Members want the economy of West Sussex to be vibrant and resilient so that it attracts, retains and grows businesses that will provide high value employment for local residents and produce high quality products and services. We also want to attract and retain more people of working age to West Sussex and ensure that a higher proportion of them are working in high value jobs.

6. The agreed medium-term financial strategy will need to support our stated outcomes in this area, being:

- Growth of jobs
- Growth of enterprise
- Ensuring that local people of all ages have better skills and support to access work
- Infrastructure that business and local communities need to support economic growth

Independence for longer in later life

7. Members’ ambition is that the Council helps everyone in West Sussex to live long, active, independent and healthy lives whatever their circumstances. A longer than average life expectancy in most of the county is positive but brings with it unique challenges as individuals require more years of health and social care services with a smaller available workforce to pay for that care.

8. The agreed medium-term financial strategy will need to support our stated outcomes in this area, being:

- Increased independence
- Increased financial security
- Increased healthy life expectancy
- Increased participation in society

9. It is important that the revenue budget aligns to support the above three main objectives. All objectives are also supported by the capital programme, but the aim of championing the economy in particular will be dependent on capital investment work as well as work with partners such as the Local Enterprise Partnership to support economic growth both directly and indirectly. Infrastructure improvement will play a key role in supporting the economy and the connection of the capital programme with that aim, and the revenue financing and other costs it produces, are a part of the work to enhance the economy. The improved economy will benefit residents and over the longer term will generate improved business rates, which the County and other local authorities can benefit from.

The Corporate Plan

10. Specific measures and provisions behind delivery of the key priorities are laid out in the Future West Sussex Plan (2015 – 2019), agreed by full Council in February 2015.
11. Within this plan, there are 23 corporate goals, broken down across all three priorities. These have been refined from 53 goals, which were reported on in the previous financial year. The primary means of reporting performance in these areas is via the West Sussex Performance Dashboard, which is available public. These measures, and contextual information on progress, form the basis of reporting to senior management and Members, which is currently done via the Total Performance Monitor and associated decision report. This is completed quarterly.

12. In addition to the 23 corporate goals, the Future West Sussex Plan makes specific reference to 62 commitments, which underpin delivery of the goals and the overall plan. Review and monitoring arrangements for those commitments are being implemented over summer 2015.

Consultation

13. In order to inform the Future West Sussex Plan and the budget more specifically, we consulted with residents as to what they considered our priorities should be as an organisation, both for themselves and for the communities in which they live. That consultation (“What Matters to You?”) ran for seven weeks closing on 12 October 2014 and also asked residents the level of council tax they are prepared to pay for the services they consider important. The results of the consultation informed Future West Sussex Plan and the budget for 2015/2016 and will for 2016/2017. In March 2016 we intend to repeat this survey which will inform the direction of our corporate plan and also the budget for 2017/2018 and 2018/2019. To deal with changes to budget plans and pressures year to year these will be published as part of the annual cycle of budget review and decision and residents and businesses will have the opportunity to comment on the draft budget each year either direct or through their local member, ahead of full council in February.

Public Finance Background

14. The Chancellor delivered an “emergency Budget” on 8 July. This offered little new information on which to base planning assumptions and, as a result, there is little reason to change the bulk of the underlying assumptions. On the surface, the figures indicate a relaxation in public spending austerity, with a budget surplus now not expected until 2019/20, one year later than previously assumed.

15. This more gradual approach to paying down the deficit is, for local government, offset by two potentially significant changes announced in the Chancellor’s statement. The first of these is the introduction of a National Living Wage (NLW) in stages to 2020/21. While the impact on County Council staff is likely to be small, the main impact will be felt on contractors currently paying the Minimum Wage (particularly in the care sector). These additional contractor costs are likely ultimately to be passed on to the County Council through higher contract payments. Work is on-going to model the effects of the NLW, although some initial projections are contained in the figures below. The LGA estimates the total NLW cost to be in the region of £1bn for local authorities by 2020, the bulk of that arising from additional contract costs.
16. The second major change is the addition of Defence to the list of “protected service” which will be insulated from spending reductions. This means that the reductions implied in the Budget will be spread across a smaller pool of services, with local government again therefore likely to bear a disproportionate share.

17. The Budget also announced an extension of free nursery care for three and four year olds. It is likely that this funding will be topsliced from existing funding and this, once again, will represent a new pressure on unringfenced local government services.

18. Currently we have no national spending control totals for public finance from April 2016, and certainly no indication of the funding for councils via any form of provisional financial settlement. No further hard information is expected until the Spending Review in the autumn. However, recently HM Treasury has released a document setting out its approach to the Spending Review, “A country that lives within its means: Spending Review 2015”. The document sets out the parameters for the review which will be published on 25 November 2015. The main headlines for local government are:

- “As part of the Spending Review, the government will look at transforming the approach to local government financing and further decentralising power.”
- Non protected government departments have been asked to model 25% and 40% real terms decreases in their resource (revenue) budgets over the four year period covered by the Spending Review (2016/17 – 2019/20).
- Schools funding, including the pupil premium, will be protected on a per-pupil basis.

19. The Institute for Fiscal Studies estimated (prior to the summer budget) that to meet its overall spending target, even delivering the £12 billion of cuts to social security spending would still leave the Government needing a slight acceleration of cuts to departmental spending, compared to what we have seen since 2010/11.

20. As shown in the figure below from the IFS, the view was cuts would need to increase from the 2.0% a year seen over the five years from 2010/11 to 2015/16, to 2.2% a year over the three years from 2015/16 to 2018/19. So it would be reasonable to expect the pace of funding reductions to at least stay the same, or in fact be slightly worse, for local authorities.
21. Post the Chancellor’s summer budget, the IFS stated that though the reductions in public finances maybe less step than previously thought “The gentler path does not however represent a let up in the overall scale of cuts – other than for defence.”

22. A key variable is the rate of attrition with Revenue Support Grant (RSG). West Sussex still receives some £76m of RSG in this year and this is the funding that the Treasury will reduce to meet its public spending reductions. The rate at which RSG is lost will be a key determinant in the level of savings the authority must find over the life of this MTFS.

23. As we are looking ahead four years it must be acknowledged that the estimates are based on a range of assumptions, with some more reliable than others.

24. In recent years, the LGA has published an annual funding outlook. Their most recent work (June 2015) shows an increasing funding gap over the next three years. It shows councils face greater pressures to spend due to factors such as population changes including a greater proportion of older people needing
care, whilst at the same time funding is significantly reduced. The LGA identify, at a national level, the overall funding gap starts at just over £3 billion in 2015/16 and reaches over £10 billion by 2018/19. The LGA work also assumes that austerity with public finances will end in 2019/20, with extra funding made available from Government, rather than further funding cuts in that year. However, until there is clear evidence to underpin such an assumption, this MTFS assumes a continuation of austerity for the next four years.

25. The LGA state that “A sustainable future for local services in the face of funding cuts and spending pressures is dependent upon changes in the way we think about funding local services, and how we manage the system.”

26. The National Audit Office (NAO) also reported last year that whilst so far local authorities as a whole have coped well with the reductions they have faced, “local auditors are increasingly concerned about the future financial sustainability of some authorities and their capacity to make further savings.”

27. The aim of the Financial Strategy, when developed, is to help us to:

- Estimate the potential savings required in future years and to plan how these can be achieved whilst delivering on council objectives.
- Identify the key financial influences on our medium term financial planning and the assumptions made in developing the plan;
- Consider the challenges and likely risks associated with the plan and how we will deal with them;
- Promote financial sustainability for County Council services over the longer term and provide the basis for future service planning and priorities, thereby enabling the Chief Finance Officer to securely deliver his robustness statement as part of the budget report to Cabinet and Council.

**Funding Background**

28. West Sussex remains one of the lowest funded authorities from Government. The chart below shows how we compare to similar authorities (shire counties). West Sussex is the sixth lowest funded authority out of the 27 Shire Counties, on a per head comparison.
Summary Position

29. The table below sets out the core projection of the funding gap for the County Council. This is presented as a single number at this time, based upon a number of assumptions. Our modelling is made complex due to these assumptions and, as a consequence, this number is likely to vary as new information becomes available over time. The major handicap faced, as mentioned elsewhere in this report, is the lack of information on future public spending that would normally be available at headline level via a national Spending Review and at local level via a local government finance settlement from the Government.

30. The figures presented in the table at line 3 below do not include the impact the phased move to the Living Wage is likely to have. As identified above, this will have a limited impact on the County’s own staff but will have a more significant impact via the wage element in a variety of contractual agreements. Line 4 of the table provides an initial assessment only of what the budget gap may be once the move towards the Living Wage is also factored in as a further budget pressure. Due to the expected significant rise in labour costs this will produce, it is forecast to have a major impact on the costs the County Council incurs via its contracts, with the national level impact expected to reach £1bn for local authorities as predicted by the LGA.

31. It should be stressed there remains considerable work to determine the impact of the Living Wage on the Authority, with only a headline announcement from Government as part of the July Budget Statement by the Chancellor to provide detail around this policy. Assumptions have been made around how this policy would be phased in, to estimate the financial impact, and these estimates are likely to change once that detail is provided from Government. At this stage, it is assumed this policy will not be supported under the new burdens principle.

32. A reconciliation to the previously quoted gap figure of £124m is attached at Appendix B. The main changes are the period covered, the inflation assumptions are lower, new pressures have emerged especially the costs of the National Living Wage proposal, financing external borrowing and council tax income from additional homes is higher than expected.
<table>
<thead>
<tr>
<th>TABLE: Estimated Spending and Funding to 2019/20</th>
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<td></td>
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<tr>
<td>2016/17 £m</td>
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<tr>
<td>1. Budget with all known spending pressures</td>
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<tr>
<td>2. Funding Estimate</td>
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<tr>
<td>3. Budget Gap: (excluding estimated costs for National Living Wage)</td>
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<tr>
<td>4. Budget Gap: (including initial estimate of direct/indirect costs of introducing National Living Wage)</td>
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33. The total budget gap is currently estimated at £141m by 2019/20 (including the living wage), which implies spending in aggregate at least £364m less in cash terms over that period than would have been the case otherwise. The figures contributing to this gap calculation will need to be kept under review to ensure that they remain robust estimates and realistic assumptions.

34. In terms of composition, the £141m is composed of the elements as shown in the table below. It divides roughly one-third funding changes and two-thirds spending pressures.

<table>
<thead>
<tr>
<th>TABLE: The £141m Gap</th>
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<tr>
<td><strong>Item</strong></td>
</tr>
<tr>
<td>Reduced RSG</td>
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<tr>
<td>Increased council tax (from tax base improvement)</td>
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<tr>
<td>All other funding changes</td>
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<tr>
<td><strong>Sub total: funding changes</strong></td>
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<tr>
<td>Demographic pressures</td>
</tr>
<tr>
<td>National Living wage</td>
</tr>
<tr>
<td>Inflation</td>
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<tr>
<td>All other unavoidable spending</td>
</tr>
<tr>
<td><strong>Sub total: spending changes</strong></td>
</tr>
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<td><strong>Total gap</strong></td>
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35. While a considerable focus of discussion is on the funding gap, it is important to recognise that the Council will retain around £9 out of every £10 the County currently spends, even after allowing for the prudent assumptions necessary (and highlighted in this report) to derive this estimate. It is spending pressures that are driving the gap more significantly.

36. Illustrated as a graph, the gap (including the impact from the Living Wage) looks like:

![Graph showing spending pressures and funding over time](image_url)

37. The absence of a Spending Review covering high level allocations of public funding, including that to local government as a whole, means considerable uncertainty over future funding. Individual allocations to councils can only be made once that national framework is set, and will emerge in December when the provisional local government finance settlement is also announced.

38. Once the Chancellor has announced the outcome of his Spending Review – expected on 25 November – it will be necessary to review the MTFS assumptions and potentially re-estimate future funding levels and any predicted budget shortfall. **In turn, this may impact on future savings plans, given the current complete absence of information over future funding levels from Government.** It represents a particular difficulty in service planning and budgeting for 2016/17, given the expected very late announcement of the Spending Review and local government finance settlement in the County’s budget process. Members are asked to note that because of the lateness of critical key funding information in the process, the budget timetable will need to be more flexible this year. As this information is received, it will need to be compared with planning assumptions, and if necessary assumptions around future funding, savings requirements and savings plans revised. The timetable included as an Appendix to this report allows for this. Because of this uncertainty, and the potential of re-working figures, there is a risk that not all details of the budget for 2016/17 and beyond may be available to the usual timescales.
39. Assuming the Spending Review provides figures for multiple years, it may be
Government can provide more clarity over future funding after 2016/17 within
its local government finance settlement, which will then provide greater clarity
for service and budget planning purposes with regard to funding for the
subsequent years of this strategy. The strategy will be kept under review and
may require amendment once these announcements have been made.

**Revenue Support Grant**

40. The estimate of funding assumes RSG will be reduced to a minimal level by
2019/20 (of around £11m), compared with £76m this year. By the end of the
period covered by this Strategy, the Council’s budget will therefore be at a
more self-sustaining level, and whilst specific grant funding may remain the
assumption is core Government grant funding via RSG will be at a greatly
reduced level.

41. The MTFS last year assumed RSG had reduced to nil by 2019/20, and sharp
reductions are still expected as based on the analysis of the summer budget
announcement though the public spending cuts were more gradual than
previously implied, most of this additional potential spending was committed
by the Budget to the Ministry of Defence. The reductions in RSG expected
over the first two years are broadly in line with that seen in the current year,
with a reduction in the pace of RSG loss in years three and four.

**Council Tax**

42. West Sussex has frozen its council tax charge in recent years, and in 2015/16
levies the same charge as made in 2010/11. Despite the low funding received
from Government, the council tax charge we make is £10 lower than the
average charge across all shire authorities (see below) for a Band D property.
We are some £93 higher than the lowest charge but around £152 lower than
the highest County (like-with-like).
43. In 2015/16, only 7 out of 27 shire Counties froze their council tax. Twenty increased their council tax by close to the current 2% limit which applies before a referendum is triggered.

44. Each 1% increase in council tax generates around £3.7m in additional income to the County. The current Band D charge is £1,161.99, so a 1% increase represents £11.62. The current MTFS assumes no increase in council tax over the life of the 4 year plan. Any increase in the burden of council tax would therefore help to offset the savings required. The table below shows the impact of a 1% and 1.99% council tax increase in each year on the spending gap (the latter being the largest rise likely to avoid triggering a local referendum). The projection assumes that no new council tax freeze grant will be available in any of the years.

<table>
<thead>
<tr>
<th></th>
<th>2016/17 £m</th>
<th>2017/18 £m</th>
<th>2018/19 £m</th>
<th>2019/20 £m</th>
<th>Total £m</th>
</tr>
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<tbody>
<tr>
<td>Tax freeze</td>
<td>36.3</td>
<td>41.0</td>
<td>33.0</td>
<td>30.2</td>
<td>140.5</td>
</tr>
<tr>
<td>Tax rise 1%</td>
<td>32.7</td>
<td>37.2</td>
<td>29.1</td>
<td>26.2</td>
<td>125.2</td>
</tr>
<tr>
<td>Tax rise 1.99%</td>
<td>29.0</td>
<td>33.3</td>
<td>25.1</td>
<td>22.0</td>
<td>109.4</td>
</tr>
</tbody>
</table>

45. It can be seen from the table that a 1.99% tax increase in each year would reduce the savings target from £140.5m to £109.4m, while a 1% increase would see a gap of £125.2m, all other things being equal.

46. When looking at the numbers mentioned above, it must be remembered that the existence of the ‘budget gap’ is, as stated in paragraph 33, generated more by additional spending pressure than reduced Government grants. When considering the potential for increasing the council tax, it should be noted West Sussex residents have benefited from the council tax freeze of recent years. Calculations show that the beneficial cumulative effect on a typical Band D household has been worth around £523.

47. One of the County’s agreed principles, as set out in the Future West Sussex (FWS) plan, is to minimise the burden of local taxation. The FWS plan states “we want to live within our means where possible rather than have to raise the level of council tax.”

**Assumptions**

**Funding**

48. The financial projections are derived from a series of assumptions. These are summarised as:

- No change to council tax i.e. frozen at current levels to 2019/20. No new council tax freeze grant is available for 2016/17, but it is assumed that the previous years’ grant will reduce at the same rate applied to RSG. It has been assumed that there will be no new freeze grant for future years.
- A strong 1.5% rise in council tax base per annum on 2016/17 and 2017/18, dropping back to 1% thereafter. This is stronger than the trend over the last five years of 1%. A tax base rise of 1.5% equals an extra £5.4m to the County per annum for the next two years.
• RPI increase in business rates. Also councils continue to be protected from the Chancellor’s decision not to increase business rates by the full amount of RPI. However, there has been no indication that this will continue beyond 2015/16.

• New Homes Bonus to peak in 2016/17 at £4.7m, then to slowly taper pending any announcement from Government that it is removed or re-allocated. The future of the NHB remains unclear.

• A phased reduction in the amount of Education Support Grant (ESG), based on the forecast rate of schools converting to academies. Government pays the ESG to the authority based on what it assumes will be the number of schools who remain with the local authority i.e. they assume a predicted level of schools becoming academies and schools staying with the County Council. If the actual rate varies from this predicted rate, Government subsequently adjusts (up or down) the funding it provides to the Council.

ESG is estimated to be worth £5.3m by 2019/20 (currently £8.6m in 2015/16). Clearly, the Government drive to convert ‘coasting’ schools to academies will have an impact on this funding. However, given from 2016 specific criteria will be used to define a school as coasting (it will be based upon three years of data and a period of improvement) the policy is not anticipated to have an immediate impact. There still may be some risk as some schools may choose to convert early as opposed to being pushed.

49. Not all of these assumptions have an equal impact on the sensitivity of the calculations. For instance, because of the small share the Council receives of local business rates (at 10%), changing the assumptions on local business rate yield has comparatively little impact on the forecast. In contrast, varying the assumptions about the rate at which Revenue Support Grant tapers or social care spending increases has a significant effect on the forecast savings target.

Spending

50. In addition to assumptions on funding levels, assumptions are also needed for spending pressures. Key assumptions on spending are summarised as:

• In keeping with the approach in recent years, an inflationary uplift has been factored in across 3 different budget categories – Major Contracts (where RPI is a contractual driver); Higher priority spending (linked to CPI): Lower priority areas (areas where the absence of any uplift is not a detriment to the service delivered).

For 2016/17, inflation implies a 0.7% uplift for contracts specifying RPI. The next category (higher priority spending) is usually uplifted by CPI. For prudence, 0.7% has been included as an inflation allowance for 2016/17 on high priority spending, even though inflation is currently at a low level with forecasts predicting little change. This will be kept under regular review during the autumn via published national economic data. However, for lower priority spending areas, 0% has again been applied.
• Pay inflation is assumed to be 1% in line with the announcement in the Summer Budget for public sector pay, compared to 1.5% assumed in last year’s MTFS.

• Unavoidable service demand spending pressures have been built in based upon the most up to date information available. This includes an additional £5.3m per annum for the growth pressure faced for adult social care, £0.5m per annum for Children’s Disability, and a £2.1m increase in the Looked After Children budget to apply from 2016/17 due to higher than anticipated numbers.

• Underlying pressure in the Adults service budget of potentially up to £3m has been identified for 2016/17, at least in part connected to the introduction of the national eligibility criteria. Further work is needed to clarify this pressure, and identify the risks concerned, but pending that work it has been included as a new demand related factor pressuring budgets. The extent of that will depend on what happens to demand during the remainder of the year and on the size of any productivity gains made, but is likely to be in a range of £1m to £3m.

• The Single State Pension comes into effect as at 6th April 2016 resulting in an increase in Employers National Insurance Contributions as the rebate for contracted out pension schemes will cease. A sum of £2.6m has been included to meet this additional cost. This is a major cost nationally to local authorities which the Local Government Association estimates will cost around £800m. Despite lobbying Government to ‘recycle’ some of the funds back to local councils via the finance settlement, the LGA report initial talks with Treasury officials had “not been encouraging”, so it’s safest to assume this new burden will not be funded.

• An amount to increase employer contribution on pension cost in line with actuarial requirements (£1.2m pa over the 4-year MTFS, but reviewed again from 1 April 2017). It is hoped that this can be mitigated by reduced contributions as the pension fund exceeds a trigger point of 95% funding, which would mean a proposed reduction in the holding of equities to help protect the good funding position and ultimately take some pressure off employer contributions. This may mean, some or all of the planned increase may not be needed after 2016/17 – but this will be entirely dependent on investment returns and the actuarial valuation in 2016.

**Pressures behind Spending**

**Older population growth**

51. West Sussex has a higher percentage than the national average of over 65 year-olds within its population. The national average is 17.6% of the population being over 65, whilst the equivalent percentage for West Sussex is 22.2%. The growth in this age group is also faster in West Sussex than the national average, at 0.4% extra per annum, compared with 0.3% for the national average. This adds to the service demand pressure for adult social
care. The change by Government introduced in 2013 to funding based on
the business rate retention system no longer provides any direct link
between demographic pressures faced by each authority and the funding
allocation made by Government.

52. The future estimates and cost pressure which therefore arise due to the
change in population and the structure of the population for West Sussex
are stark:
   a. Over the next 20 years, the aged 65 and over population will rise by an
      estimated 124,000.
   b. Over the 40 years from 1994 to 2034, the numbers of aged 85 in the
      County and over will have tripled.
   c. In 2012 around 13,000 residents had dementia. By 2037, this is
      estimated to more than double to 27,000.
   d. Complexity of care cases increases with age. Currently, an estimated
      35% of over 75s have one long term condition, 16% have 2 Long term
      conditions and 13% have 3 or more.

53. Such growth in potential client numbers will inevitably add to the demand
pressures the County Council faces. West Sussex is committed to increasing
the capacity and capability in the care sector by (for example) improving
access to training, improving infrastructure and developing the workforce
and maintain the quality of care.

Start of Life

54. The portfolio is currently projecting an overspending of £2.1m in 2015/16 as
a result of a significant increase in the number of Children Looked After,
though management action will be seeking to ameliorate this sum. Having
reached a minimum of 605 in late 2014, numbers rose steadily to 650 and
have been relatively stable around that number since May. Given the
continuing increased awareness of Child Sexual Exploitation (CSE) it is not
possible to predict when and whether numbers will start to fall. Future
numbers are uncertain and may change in either direction.

55. Population predictions indicate a rise in the number of 0-18 year olds by
over 14,000 over the next 20 years. This will put pressure on school places
and will mean investment is needed across the primary and secondary
sectors, as well as increasing demand on Home to School transport, SEN
Assessments and the Education Psychology Service. Over the long term, as
this younger cohort ages it will put pressure on the affordable housing
market and produce higher demand in areas where this type of housing is
most prevalent (Crawley and Worthing).

56. Government reports that “cost and price pressures in construction have
continued to rise during the 2nd Quarter 2014” (the most recent data). It
goes on to report that by each own indices of costs, the rise has been
around 6% year-on-year. This pressure is felt by the County Council via the
contracts it lets for construction (capital) and maintenance work (both
capital and revenue).
57. Other pressures:

- The number of asylum seekers arriving via Gatwick, which includes unaccompanied children. There is currently an increasing number of unaccompanied asylum seeking children (UASC) arriving. The number of UASCs requiring Social Care intervention increased from 46 in 2012/13 to 60 in 2014/15, putting pressure on Social Care budgets.

- The increasing complexity of cases is resulting in in-house foster parents being increasingly unable to meet young people’s needs. In addition it is becoming harder to find suitable foster parents, which costs around £800 per week, leading to the use of very expensive residential provision at a cost of nearly £3,000 per week.

- A shortage of social workers means that there continues to be a reliance on more costly agency staff (which costs around £80k per annum compared with £40k approx. for the County’s own staff) to fill vacancies and ensure business continuity. The creation of the recently created social worker academy (for Children Social Care) will result, in time, in lower agency costs than in the past.

Waste

58. For the UK overall waste arisings are projected to increase by 1% year on year for the foreseeable future due to demographic growth. Whilst this should lead to an increase of 1% in recycling income the recycling market is becoming saturated and as a result the price paid for recyclate is falling leading to a net reduction in income generated.

59. The drive to achieve 50% recycling rate will result in increased costs for the County and for Districts and Boroughs both in terms of achieving this target and sustaining it in the future. There will be on-going revenue costs plus a capital investment in the infrastructure to make this possible. Work is currently underway to quantify this and the full demand pressure from growth has therefore not yet been included in these projections.

Highways Funding

60. Government is changing the way it allocates capital funding to Highways authorities. Authorities will be expected to provide an assessment, supported with evidence, to show effective management around the issues of asset management, resilience, customer, benchmarking and efficiency and operational delivery. The intention is to incentivise improvement.

61. If the authority cannot demonstrate to Government that it matches up in these areas, funding will be at risk. This is only £76k in year 1, to the Highways Maintenance Allocation, but the sum will grow in subsequent years if Government decide the authority is not performing well in the above listed areas, to the extent the loss of funding would have an impact on the capital programme for Highways.
Savings

62. As far as possible, the savings plan to bridge the budget gap identified will be based on the improving efficiency, finding new ways of service provision, minimising overheads and engaging partners in collaboration rather budget cuts to front line services.

63. The County Council is also seeking to enhance returns via business rates, where the County Council and Districts/Boroughs benefit from additional revenues arising from economic growth under the business rate retention system. A more joined up approach to investing in infrastructure across the County with the Districts/Borough is under discussion.

Funding the Capital Programme

64. The capital programme for 2016/17 and beyond although currently under review is anticipated to require significant additional external borrowing. A provision of £10.0m for the revenue costs of borrowing an extra £100m over and above core borrowing has been factored into the MTFS - £9.2m for the current MTFS with a further £0.8m in 2020/21.

Discretionary Spending

65. No ‘discretionary’ spending has been assumed in this strategy, only items currently considered ‘unavoidable’. However, work continues to manage spending pressures to mitigate them.

Reserves/Contingency

66. In addition, there is also a base revenue contingency that stands at £4.7m for 2015/16. Currently, this reduces to £3.3m in 2016/17 but the level of contingency will be reviewed as part of the budget process, and factors such as spending pressures and the risks around the scale of the ambition and speed of savings will be factored in when determining the level of contingency appropriate for 2016/17.

67. As at 31 March 2015, the County Council’s cash reserves stood at £222.2m, of which only £17.9m is unearmarked. At this level (3.4% of the net budget), the unearmarked reserve is at a relatively modest level for the expenditure it covers.

68. The levels of earmarked reserves are under review to release funding where possible. The Government continues to consider local authority reserves as a high and untapped resource, and this may be addressed as part of the 2015 Spending Review. Media reports also indicate that local government’s overall continued level of reserves – however justified as a way of managing increased uncertainty over income – suggests to ministers that local authorities are able to cope with continued funding reductions.
Devolution

69. The Government has embarked on measures that have devolved powers and funding to local authorities, notably the deal for Manchester and recently for Cornwall too. This process is likely to gather further momentum with the Cities and Local Government Devolution Bill progressing through Parliament this year.

70. Devolution has brought new powers and responsibilities for local authorities, with for example Cornwall being granted greater powers on transport via local bus services, workforce skills and to work with local health organisations on a plan for integrating health and social care services. West Sussex is working with neighbouring authorities to promote devolved powers to our own area.

71. If devolved powers and funding occurs within West Sussex, it will no doubt have major implications for our financial position. The financial implications of devolution and the experience of the authorities concerned will be closely monitored.

72. There are many opportunities associated with devolution, which has included increasing the business rates growth retained locally, as well as increasing joint working with partners and allocating shared budgets. Closer working could help optimise savings and offer economy of scale benefits. However, there are risks. To date, there are no new tax raising powers or freedoms within the devolution package and authorities will need to ensure new responsibilities are adequately funded when transferred and that all services have a plan to ensure there are sustainably funded over the long term after transfer. Devolution should therefore not been seen as a panacea to the funding issues facing local authorities.

73. We also welcome in principle the Government’s commitment to reform the business rates system and continue to contribute to the process of the review, expected to report by Budget 2016. The County has been encouraging Government to maximise the business rate share allocated to upper tier local authorities in order to promote greater local freedom with finance and maximise the incentive for working with local business to boost the economy.

Risks to the Strategy

74. A number of significant risks to the delivery of a sustainable Medium Term Financial Strategy have been identified and possibly more will emerge. In addition to the lack of clear information about funding settlements for 2016/17 and after, risks include:

- Government has provided assurances to local authorities that it will fund the additional costs of the Care Act under New Burden principles. While experience suggests that it would be unwise to accept this at face value, the announcement of a delay until 2020 in introduction of the care cost cap has significantly reduced the financial risk that the County Council faces. Although we will remain dependent on Government funding for other changes brought in by the legislation, in financial terms though still a risk the extent of that risk is now at a markedly lower level.
• National Living Wage (NLW) – the main impact of the NLW will be on contractors particularly in the care sector. These additional contractor costs are likely to be passed on to the County Council through higher contract payments. There is also likely to be an impact on the County Council’s direct staff costs but this is expected to be minimal.

• Independent Living Fund (ILF) The ILF closed at the end of June and from 1st July various responsibilities transferred to local authorities. As with the Care Act this should be funded under the New Burdens principles and for 2015/16 the allocation received (£3.7m) appears to be reasonable. However, the position for 2016/17 onwards remains uncertain. The Government’s commitment is that this will be “decided as part of the next Spending Review”.

• The rate of schools converting to Academy status – which will significantly reduce the £8.6m currently received in Education Services Grant.

• The strategy assumes that interest rates will remain at 0.5% over the four-year period. In July 2015 Governor of the Bank of England Mark Carney said he expects a judgment on whether rates must go up from their long-term floor of 0.5 per cent at around 'the turn of the year'. He said that he expects rates to rise over the next three years, reaching 'about half as high as historical averages', or about 2.0-2.5 per cent. But he added that shocks to the economy could change the timing and the size of any rate rise.

• Better Care Fund (BCF). The County Council has received £16.5m from the BCF in 2015/16 to protect adult social care. Despite that there is no certainty that this funding will be available on an on-going basis. Future allocations will be a matter for joint decision-making with the local Clinical Commissioning Groups (CCGs) and in context of the strings that Government will attach, e.g. around delivering reductions in non-elective hospital admissions. Since the services that the County Council is supporting from the £16.5m are those aimed at helping people to live independently in the community, the risk of it being lost in full is extremely low. Nevertheless, it would be unwise to be complacent and the CCGs could certainly challenge whether £16.5m is an appropriate amount. For 2016/17 there is also the additional risk that Government will not be making any announcements about the BCF until the Spending Review in November. This will delay planning and could leave the County Council with little time to respond if the CCGs wish to open a debate.

• Public Health Grant (PHG). In June, the Chancellor announced an in-year cut of £200m nationally. This represents a reduction of 6.2% which has recently been confirmed as a permanent change. The loss for the County Council will be in excess of £2m. The presumption in these situations is that it is not for the local taxpayer to make good any cuts to funding by Government. That response will be considered alongside the risk it could pose to expenditure linked to agreed start/later life priorities. The proposed saving of £0.5m expected from Public Health in 2016/17 is also at risk.
The current assumption has been made that the County will reduce spending to address the reduced funding and therefore any decision to maintain some/all of this spending will produce an added budget pressure over and above the figures within this report.

75. It is clear from the monitoring of 2015/16 budgets, and from the early review of 2015/16 savings that are projected to have a greater impact in 2016/17 and beyond, that the on-going austerity measures are making the cumulative budget reductions very challenging. Lessons have been learned from the “thematic” approach in 2015/16, which has not been wholly successful. Consequently it will be ensured that all savings are allocated to portfolios before the commencement of the financial year.

76. With all of this in mind, including the desire to significantly invest in economic infrastructure, careful consideration will have to be given to the balance of spending reductions versus increased council tax for 2016/17 and beyond. All spending reductions will need to be carefully evaluated for deliverability and risk before being included in the budget.

77. A potential mitigation for any adverse movements in the settlements or demands is the £15m of early savings delivered in previous years. This is not yet committed in 2016/17. Savings targets may yet change, due to the uncertainty highlighted in this report, and in order to provide assurance future budgets can be balance it is proposed that this sum is not committed until the future budget and savings plans become clearer.

Next Steps

78. An outline timetable is provided at Appendix C covering the regular review of the Finance Strategy and the budget for 2016/17. Officers will need to work closely with CLT and portfolio holders on the development of the Strategy to ensure the 2016/17 budget meets our priorities and provides value for money. Consideration will also need to be given to ensuring a robust savings plan is in place that can be fully allocated to portfolios.

79. As noted above, in paragraph 38, there is potential for the budget timetable to be impacted by the Spending Review announcement (in late November) and the Local Government Finance Settlement (before Christmas) and the work needed to review if current assumptions on funding are borne out. This in turn may impact on the budget saving requirement and plans and the provision of this information.

Peter Lewis, Executive Director Corporate Resources & Services, Ext 27125

Appendices
Appendix A 2016/17 draft expenditure changes
Appendix B Reconciliation from £124m Gap to current £141m Gap
Appendix C Draft Outline Budget timetable
<table>
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<tr>
<th>Category</th>
<th>£000s</th>
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<td>- Adult Demographics</td>
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<td>Growth pressure - annual requirement of £5.3m</td>
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<td>- Childrens Disabilities</td>
<td>510</td>
<td>Growth pressure - additional £510k factored in annually</td>
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<td>- Children Looked After</td>
<td>2,100</td>
<td>Growth pressures - higher numbers anticipated</td>
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<td>- Fall in recylate income</td>
<td>300</td>
<td>Growth pressure as result of falling recylate income due to lower market prices</td>
</tr>
<tr>
<td>- Retained Duty System Training</td>
<td>200</td>
<td>Additional training for retained firefighters in compliance with Health and Safety Report</td>
</tr>
<tr>
<td>- National Operational and Guidance Collaboration</td>
<td>120</td>
<td>0.2 fte for work pressures around production and integration of policy and procedure</td>
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<td>- Microsoft licensing</td>
<td>900</td>
<td>Software licences renewal</td>
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<td>- Child Sexual Exploitation</td>
<td>200</td>
<td>Impact on service of CSE and obligations in terms of safeguarding and responding to CSE</td>
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<tr>
<td>- Additional pressures within Adults budget</td>
<td>3,000</td>
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<td>- National Living Wage</td>
<td>9,000</td>
<td>Implementation of National Living Wage as from 1st April 2016</td>
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<td>- LGPS contributions 1% increase</td>
<td>1,200</td>
<td>Employer contribution on pension cost in line with actuarial requirements</td>
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<td>- Employers National Insurance</td>
<td>2,600</td>
<td>Impact of flat rate pension changes on Ers NI - calculation to be reviewed</td>
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<td>- Landfill Tax</td>
<td>316</td>
<td>Annual price increase in 2015/16 higher than assumed - additional funding to bring back in line</td>
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<td>Capital Financing Costs</td>
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<td>Reinstall budget - reversal of 15/16 one-off transfer to the Capital Reserve</td>
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<td>Prop Co</td>
<td>-390</td>
<td>Balance of income from solar farm to make up to full year</td>
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<td>Revenue Contribution to Capital (RCCO)</td>
<td>-8,000</td>
<td>Reversal of one-off 2015/16 contribution.</td>
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<td>SEP</td>
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<tr>
<td>Business Rate Pool</td>
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<td>Big Society Fund</td>
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<td>Increase in funding</td>
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<td>Be the Business</td>
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<td>Funding withdrawn</td>
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<tr>
<td>Social Enterprise Fund</td>
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<td>Volatility Reserve</td>
<td>-183</td>
<td>Reversal of late 2015/16 budget changes re business rates.</td>
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<td>Accounting adjustment</td>
<td>3,947</td>
<td>2015/16 Council Tax Freeze Grant now included within RSG funding.</td>
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<td>Total Expenditure Changes</td>
<td>22,569</td>
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<td>Budget GAP</td>
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<td><strong>Revised Expenditure</strong></td>
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### Agenda Item No. 7

#### Appendix B

**Movement from Savings of £124m to £141m**

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<tr>
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<th>2016/17</th>
<th>2017/18</th>
<th>2018/19</th>
<th>2019/20</th>
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<td>Original Savings Target as per 2015/16 Budget</td>
<td>25.5</td>
<td>32.2</td>
<td>27.3</td>
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<td>Revised Savings Target as per 2016/17 Budget</td>
<td>36.3</td>
<td>41.0</td>
<td>33.0</td>
<td>30.2</td>
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<td>Change</td>
<td>10.8</td>
<td>8.8</td>
<td>5.7</td>
<td>30.2</td>
<td>55.6</td>
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**Analysis of Change:**

**Income:**

- **Precept:**
  - Precept -3.2 -6.6 -8.1 -3.8
  - Taxbase increased by 1.5% in 2016/17 and 2017/18 and by 1% thereafter, previously increased by 0.6% annually

- **RSG:**
  - RSG -0.3 1.8 0.3 10.6

- **Business Rates:**
  - Business Rates 1.0 1.6 1.9 -2.4
  - Updated for July 2015 OBR forecasts, adjusted to 1% for high priority inflation

- **Education Services Grant:**
  - Education Services Grant -0.2 -0.2 -0.2 0.6
  - July 2015 update on academy conversions

- **New Homes Bonus:**
  - New Homes Bonus 0.8

**Expenditure:**

- **Pay:**
  - Pay -0.7 -0.7 -0.7 1.5
  - Revised from 1.5% to 1% annually as per the Summer Budget announcement

- **Inflation:**
  - Inflation -2.2 -2.2 -1.6 6.3
  - Updated for July OBR forecasts

**New Pressures**

- **Adult Demographics:**
  - Adult Demographics 0.7 -0.6 0.0 5.3
  - Growth pressure - additional £10k factored in annually.

- **Children with Disabilities:**
  - Children with Disabilities 2.1
  - Growth pressure - higher numbers anticipated

- **Children Looked After Children numbers:**
  - Children Looked After Children numbers 0.5

- **Fall in recylate income:**
  - Fall in recylate income 0.3
  - Pressure resulting from falling recylate income due to lower market prices

- **Retained Duty System Training:**
  - Retained Duty System Training 0.2
  - Additional training for retained fire fighters in compliance with Health and Safety Report

- **National Operational and Guidance Collaboration:**
  - National Operational and Guidance Collaboration 0.1
  - 0.2fte for work pressures around production and integration of policy and procedure

- **Landfill Tax:**
  - Landfill Tax 0.3
  - Annual price increase in 2015/16 higher than assumed - additional funding to bring back in line

- **Multi Disciplinary Care and clinical governance:**
  - Multi Disciplinary Care and clinical governance 0.3 -0.3
  - Additional funding to support provision of this team

- **LGPS contributions 1% increase:**
  - LGPS contributions 1% increase 0.3 1.2
  - Employer contribution on pension cost in line with actuarial requirements.

- **CSE:**
  - CSE 0.2
  - Impact on service of CSE and obligations in terms of safeguarding and responding to CSE

- **Adults Pressures:**
  - Adults Pressures 3.0
  - Underlying pressures in Adults Service Budget

- **£100k Additional Borrowing:**
  - £100k Additional Borrowing 4.7 2.4 2.1
  - Revenue implications of borrowing additional £100m - £9.2m in 2020/21

- **National Living Wage:**
  - National Living Wage 9.0 7.5 5.6 7.5
  - Implementation of National Living Wage as from 1st April 2016

- **Welfare Reform:**
  - Welfare Reform 0.4 0.5
  - Funding originally to be withdrawn but now funded through RSG

- **Children's Social Care - admin now ongoing:**
  - Children's Social Care - admin now ongoing 0.6
  - Funding now ongoing - originally assumed to be one-off funding in 2015/16

**Other:**

- **Big Society Fund:**
  - Big Society Fund 0.4
  - Increase in funding

- **Be the Business:**
  - Be the Business -0.5
  - Funding withdrawn

- **Social Enterprise Fund:**
  - Social Enterprise Fund -0.4
  - Funding withdrawn

- **Prop Co - Income from Solar Farm:**
  - Prop Co - Income from Solar Farm -0.2
  - Balance of income from solar farm to make up to full year

- **Other accounting changes:**
  - Other accounting changes 0.1 -0.1 3.0

- **Base adjustment:**
  - Base adjustment 2.7 3.3
  - Reflects change in revenue base as a result of additional funding in previous year

**Total Change:** 10.8 8.8 5.7 30.2
Draft Outline 2016/17 Budget timetable (Revenue and Capital)

<table>
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<tr>
<th>Date</th>
<th>Forum</th>
<th>Briefing required by</th>
<th>Revenue</th>
<th>Capital</th>
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<td>8 Sept</td>
<td>Cabinet Board</td>
<td></td>
<td>• Demand Led Pressures</td>
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<td>Avril Wilson</td>
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<td></td>
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<td>• Medium term</td>
<td></td>
<td>Debbie Middleton</td>
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<td>Financial Strategy</td>
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<td>22 Sept</td>
<td>Cabinet Board</td>
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<td>• August Total Performance Monitor (TPM)</td>
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<td>Peter Lewis</td>
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<td>23 Sept</td>
<td>Budget Development</td>
<td>21 Sept</td>
<td>• Budget Review with Executive Directors</td>
<td></td>
<td>Peter Lewis/Debbie Middleton</td>
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<td>30 Sept</td>
<td>PFSC (Cabinet Board and All Member Briefing at P&amp;F Committee)</td>
<td>23 Sept</td>
<td>• Scrutiny of Medium Term Financial Strategy (interim)</td>
<td>Overview of the proposed programme (Member briefing)</td>
<td>Finance Team</td>
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<td>6 Oct</td>
<td>Cabinet Board</td>
<td></td>
<td>Final Programme</td>
<td></td>
<td>Peter Lewis</td>
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<td>13 Oct</td>
<td>Cabinet Board</td>
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<td>• Socrata?</td>
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<tr>
<td>19 Oct</td>
<td>PFSC</td>
<td>8 Oct</td>
<td>• Final Capital programme</td>
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<td>Finance Team</td>
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<td>20 Oct</td>
<td>Cabinet Board</td>
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<td>• 4 year Savings Programme</td>
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<td>Debbie Middleton</td>
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<td>20 Oct</td>
<td>Formal Public Cabinet</td>
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<td>• Final Capital programme</td>
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<td>Finance Team</td>
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<td>27 Oct</td>
<td>Cabinet Board</td>
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<td>• Confirm agenda and supporting info for Members Day</td>
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<td>Finance Team</td>
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<td></td>
<td>• Update - draft budget 2016/17</td>
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<td>• Position statement on Fees and Charges</td>
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<td>• September TPM: 2015/16 position on savings</td>
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<td>30 Oct</td>
<td>Full Council</td>
<td>13 Oct</td>
<td>• Final Capital programme</td>
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<tr>
<td>30 Oct</td>
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<td></td>
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<td>Papers/slides required for Members Day</td>
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<td>Member Development</td>
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<td>• Medium Term Financial Strategy</td>
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<td>17 Nov</td>
<td>Cabinet Board</td>
<td>Review draft budget 2016/17 subject to settlement etc</td>
<td>Debbie Middleton</td>
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<td>24 Nov</td>
<td>Cabinet Board</td>
<td>• New corporate performance framework and business planning&lt;br&gt;• Papers for County Council (as needed)&lt;br&gt;• October TPM&lt;br&gt;• Fees and Charges report</td>
<td>Anuschka Muller</td>
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<td><strong>Joint Autumn Statement and Spending Review Announcement 2015</strong></td>
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<td>NOTE: ITEMS BELOW ARE SUBJECT TO CHANGE DEPENDING UPON THE ISSUES EMERGING FROM THE SR2015</td>
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<td>1 Dec</td>
<td>Cabinet Board</td>
<td>• MTFS review (post 25 November Spending Review and agreed capital programme)</td>
<td>Peter Lewis</td>
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<td>3 Dec</td>
<td>PFSC</td>
<td>• Discussion and feedback from Member Day&lt;br&gt;• Any key issues emerging from SR2015</td>
<td>Finance Team</td>
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<td>11 Dec</td>
<td>Full Council</td>
<td>• Potential Debate re outcomes, performance measures, emerging budget envelope, council tax and potentially a broad indication of areas for saving (may change - subject to SR2015)</td>
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<td>Provisional finance settlement for 2016/17 expected (TBC)</td>
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<td>• Draft budget pack including portfolio pages considered following Settlement and draft savings plans</td>
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<td>Member Development Day (MDD)</td>
<td>• Budget 2016/17 and potential savings (subject to SR2015 and agenda at Dec CC)</td>
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<td>Scrutiny Committees, All Member</td>
<td>Papers 12 Jan All • Draft budget pack including portfolio pages considered by all scrutiny members at one combined meeting (NB</td>
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<td>26 Jan</td>
<td>Briefing am P&amp;F Committee pm</td>
<td>15 Jan</td>
<td>Scrutiny views considered and final budget proposals for County Council agreed</td>
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