

Medium Term Financial Plan (MTFP) Update

1.1 The MTFP has been revised to give an up to date forecast of the savings challenge ahead where possible. The latest proposed MTFP position can be found at Annex 1. The movements are summarised in below and subsequent paragraphs:

Movement since Full Council		19/20 Estimate £million	20/21 Estimate £million	21/22 Estimate £million
Council 6th February 2018 DEFICIT/(SURPLUS)		11.681	18.605	0.000
<i>Removal of previous years new additions*</i>			<i>(4.075)</i>	<i>(3.709)</i>
Residual RSG	A		<i>(2.015)</i>	<i>(0.509)</i>
Business Rates	B	<i>(1.010)</i>	<i>(0.529)</i>	<i>(2.222)</i>
Council Tax Base and Collection Fund	C	<i>(0.855)</i>	<i>(1.761)</i>	<i>(5.062)</i>
Council Tax Increase	D			<i>(5.938)</i>
General Contingency	E	0.040	0.050	0.150
Levies	F	0.027	0.026	0.038
DSG	G	3.057	4.524	5.991
Contract Inflation	H			0.838
Contractual negotiations	H			10.035
Pay award	I			2.751
Growth and Demography ASC	J			5.300
Growth and Demography CSD	J	2.708	3.211	4.281
Growth and Demography CET (waste)	J	0.108	0.203	0.421
State of the County DEFICIT/(SURPLUS)		15.756	18.239	12.365

1.2 **A) Residual RSG** - An analysis by LG Futures in February 2018 estimated a small amount of residual RSG in 2020/21 of £2.0m and 2021/22 of £0.5m. Although RSG will be one of the grants rolled into the new system the Council should see this reflected through and increase to its baseline need. As previously noted, however, Government funding post 2020/21 remains unclear.

1.3 **B) Changes to income from Business Rates** - Given 2021/22 is a new year within the MTFP, no previous inflation figures were included, and therefore the size of the increase in this year, compared to previous years reflects the full impact of inflation on business rates.

1.4 The growth in Business rates that ESCC sees is largely due to changes in policy and methodology rather than pure growth, which was only 2% in total between 2011/12 - 2016/17; an average of 0.3% per year.

1.5 Local plans from District and Borough Councils have now been used to calculate potential Business Rate growth in East Sussex. An indicative average figure of £0.2m has been calculated and reflected in the MTFP. Work is ongoing to refine this against local plan figures provided by Communities, Economy and Transport (CET).

1.6 Proceeds from pooling have been included for 2019/20 at the same level as for 2018/19; this is considered a prudent position. For 2019/20, should the Council choose to pilot, there may be additional income but this again will be one-off in year funding as the

pilots will be superseded by the new funding system in 2020/21. LG Futures have been engaged to undertake a piece of work to establish the benefits of piloting for East Sussex (as referenced in paragraph 11.7).

1.7 **C) Council Tax base growth and Collection Fund** - The assumption for base growth has been increased from 0.8% to 1.1% as a result of the release of growth figures within returns by Borough and District Councils. This is consistent with the increase in the collection fund seen by the Council in recent years and now aligns with our forecast that the collection fund will begin to decrease.

1.8 The growth has been cross checked with infrastructure data on housing developments provided by CET in April 2018. Using these figures and applying averages in terms of bandings, discounts and exemptions an estimated base increase has been worked out. The increase projected by these numbers is also 1.1% per year over the 5 years, although this level of growth is dependent on developments going ahead.

1.9 **D) Council Tax increase** - the annual increase in Council Tax for the additional year of 2021/22 has been assumed at 1.99%. This is reflective of the Minister for Housing, Communities and Local Government's indication that future increases (post 2019/20) in Council Tax may be linked to inflation. The Office of Budget Responsibilities' (OBR) current estimate for 2020/21 and 2021/22 is currently in the region of 2%. Should the annual increase allowable before a referendum is triggered be either maintained at 3% or lifted, this could generate additional income. An additional increase of 1% in Council Tax would generate £2.913m in 2020/21 and £3.124m in 2021/22 respectively based on the current Council Tax base.

1.10 **E) General Contingency formula** - the general contingency is a permanent budget and is formula based (1% net revenue budget less treasury management). This movement is adjusting for changes in net revenue budget.

1.11 **F) Levies** - this is due to an increase in the levy issued by Sussex Inshore Fisheries and Conservation Authority.

1.12 **G) DSG** - the figures for DSG have been updated to reflect current risk and pressures across this funding stream.

1.13 **H) Contract inflation** - contract inflation and inflation on the Council's main contracts is increased for 2021/22 based on the current model which takes the latest rates from the OBR published in November 2017 (PP category (1b)). It also currently makes the assumption that no inflation will be applied to running costs (utilities, buildings maintenance, communications and software etc.). Should the Council allow for inflation across these areas, this would add an approximate additional £850,000 per annum based on current rates.

1.14 **I) Pay award** – for non-LMG staff, unions have accepted the two-year pay award for 2018/19 and 2019/20 which is affordable within the MTFP that has been presented. Should 2% be agreed for LMG staff, this is also affordable in the MTFP.

1.15 For 2021/22 a pay award of 2% has been assumed. This is consistent with the award previously assumed for 2020/21 and with current inflation projections that are in the region of 2% or higher. Should a pay award be negotiated other than at 2%, it should be noted that an additional 1% pay award would be in the region of £1.3m.

1.16 **J) Growth and Demography** - all departments have assessed what the impact of demographic change has been on costs/demand for their service and the figures are now included within the MTFP.

1.17 Work will continue to refine estimates and update figures when and where possible throughout the RPPR process.

Savings

2.1 The current savings targets for 2019/20 to 2021/22 are shown below.

	2018/19 Net Budget £'000	% Split	Indicative Savings Targets			
			2019/20 £'000	2020/21 £'000	2021/22 £'000	Total £'000
Adult Social Care	166,542	51.0%	8,040	9,306	6,309	23,655
Business Services	6,428	2.0%	310	359	244	913
Orbis	14,353	4.4%	693	802	543	2,038
Children's Services	69,459	21.3%	3,353	3,881	2,631	9,865
Communities, Economy & Transport	62,341	19.1%	3,009	3,484	2,362	8,855
Governance Services	7,281	2.2%	351	407	276	1,034
Subtotal Departments	326,404	100.0%	15,756	18,239	12,365	46,360
Centrally Held Budgets	44,900	-	0	0	0	0
Total	371,304	-	15,756	18,239	12,365	46,360

2.2 Table 3 and 4 below reflect the increases required in Council Tax or Business Rates to fund the current estimated deficit in the MTFP.

Table 3 – Council Tax required to fund the deficit

	2019/20	2020/21	2021/22
Current MTFP assumption	2.99%	1.99%	1.99%
Additional % increase required to cover deficit	6%	6%	4%
Total % increase required	8.99%	7.99%	5.99%

Table 4 – Business Rates growth required to fund the deficit

	2019/20	2020/21	2021/22
% growth required to cover deficit	20%	23%	14%

3. Financial Scenarios

There are a number of potential additional or new funding streams or permissions which have currently been excluded from the MTFP, due to the level of uncertainty that they will materialise

3.1 Adult Social Care

- Improved Better Care Fund (iBCF): current funding will reduce to zero by 2020/21, however, if maintained at 2018/19 level an additional £7.0m of iBCF could be made available to meet specific outcomes which may well be NHS performance focussed.
- One off Adult Social Care grant of £1.616m was received in 2018/19; could this funding be made available again?
- Permission to raise Council Tax via the ASC precept allowed the Council to raise £7.4m in 2017/8 and £7.8m in 2018/19. The Council is unable to use this permission in 2019/20 having raised Council Tax by the 6% allowed. An increase of a further 1% in Council Tax via precept in 2020/21 would raise in the region of £2.9m.
- Other funding could arise from one off funding targeted at NHS outcomes and funding from the ASC Older People Green Paper

3.2 Children's Services:

- Similar to Adult Social Care, is there the potential of additional funding to support social care of £2.0m annually?
- Are there opportunities for additional income to support schools to the value of £1.2m annually?

3.3 Communities, Economy and Transport:

- Specific grant funding has been received, for example pot holes grant, but this has generally been provided to meet specific conditions and has not been available to mitigate savings pressure.

3.4 General Funding:

- Permission to raise Council Tax to 3% from 2020/21 would generate £6.0m by 2021/22.
- Permission to raise Council Tax by an additional 1% to 4% from 2019/20 would generate additional funding of £9.2m by 2021/22.
- The new Business Rates system could bring a potential share of growth, prudently estimated at £2.8m by 2021/22. A 75% retention pilot, based on current modelling assumptions prior to prospectus issue, would realise £2.0m of this in 2019/20 ahead of the system's implementation.

What is the likelihood of any additional funding materialising?

3.5 A number of models are provided below to contextualise the impact of additional funding:

3.6 Model A: Assumes that Council Tax cap of 3% in 2019/20 continues into future years, with additional one off £1.6m funding for Adult Social Care in 2019/20 and growth in existing Business Rates Retention pooling arrangements from 2020/21; reducing the savings pressure to £39.6m

	Indicative Savings Targets			
	2019/20 £'000	2020/21 £'000	2021/22 £'000	Total £'000
Adult Social Care	7,223	8,431	4,511	20,165
Business Services	279	326	174	779
Orbis	622	727	389	1,738
Children's Services	3,012	3,517	1,881	8,410
Communities, Economy & Transport	2,704	3,156	1,689	7,549
Governance Services	316	369	197	882
Subtotal Departments	14,156	16,526	8,841	39,523

3.7 Model B: Takes Model A assumptions and adds further 1% Council Tax increase in all years taking the assumed cap to 4%, with power to further raise Council Tax by an ASC precept at 1% from 2020/21 and having a successful bid for a 75% Business Rates Retention Pilot in 2019/20, then maintain this income via the new Business rates Retention system; thereby reducing the savings pressure to £22.3m

	Indicative Savings Targets			
	2019/20 £'000	2020/21 £'000	2021/22 £'000	Total £'000
Adult Social Care	4,775	5,387	1,217	11,379
Business Services	184	208	47	439
Orbis	412	464	105	981
Children's Services	1,991	2,246	507	4,744
Communities, Economy & Transport	1,787	2,016	455	4,258
Governance Services	209	235	53	497
Subtotal Departments	9,358	10,556	2,384	22,298

3.8 Model C: Takes Model B assumptions and adds additional funding for Children's Services and additional iBCF funding, both for all years; thereby reducing the savings pressure to £12.1m.

	Indicative Savings Targets			
	2019/20 £'000	2020/21 £'000	2021/22 £'000	Total £'000
Adult Social Care	1,257	3,698	1,217	6,172
Business Services	49	143	47	239
Orbis	108	319	105	532
Children's Services	524	1,543	507	2,574
Communities, Economy & Transport	471	1,385	455	2,311
Governance Services	55	162	53	270
Subtotal Departments	2,464	7,250	2,384	12,098

MEDIUM TERM FINANCIAL PLAN UPDATE APPENDIX – ANNEX 1

Annex 1 - Medium Term Financial Plan – update for State of the County	2018/19 Approved £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/2 Estimate £m
CORPORATE FUNDING				
Business Rates	(74.706)	(78.341)	(79.256)	(80.933)
Revenue Support Grant	(14.966)	(3.491)	(2.015)	(0.509)
Council Tax	(272.567)	(291.128)	(299.094)	(308.339)
Council Tax - Adult Social Care Precept	(7.834)			
New Homes Bonus	(1.231)	(0.997)	(0.660)	(0.628)
TOTAL CORPORATE FUNDING	(371.304)	(373.957)	(381.025)	(390.409)
PLANNED EXPENDITURE				
Service Expenditure	345.820	343.361	368.841	389.278
Pay Award	3.075	3.735	2.697	2.751
Contractual inflation	1.101	0.792	0.790	0.838
Contractual negotiations	8.485	8.850	9.449	10.035
Adult Social Care				
Growth & Demography	4.500	5.000	5.300	5.300
Spending funded by additional IBCF	(3.239)			
Children's Services				
Extension of Foster Care to 21	0.700			
Dedicated Schools Grant	2.500	4.157	1.467	1.467
Transition Funding for Schools	(0.750)			
Growth & Demography		2.708	0.503	1.070
Communities, Environment & Transport				
Waste Housing Growth	0.177	0.238	0.231	0.218
Economic Development Grants	(1.000)			
Streetlighting Electricity	0.107			
Trading Standards	0.025			
The Keep rates and utilities	0.061			
Libraries Hastings rates and utilities	0.045			
Business Services				
Data Centre	0.250			
Contract pressures	0.112			
Governance Services				
Legal pressures	0.059			
Gross Service Expenditure	362.028	368.841	389.278	410.957
ASC Support Grant	(1.616)			
Improved Better Care Fund	(7.814)	(14.902)	(14.902)	(14.902)
Improved Better Care Fund - Supplementary	(7.343)	(3.649)	0.000	0.000
NET SERVICE EXPENDITURE	345.255	350.290	374.376	396.055
Corporate Expenditure				
Treasury Management	21.436	20.336	20.336	20.936
Funding Capital Programme - base contribution	4.000	4.000	4.000	4.000
Funding Capital Programme - New Homes Bonus	1.231	0.997	0.660	0.628
General Contingency	3.500	3.540	3.600	3.690
Contribution to balances and reserves	4.360	1.148	1.148	1.148
Pensions	7.202	7.986	8.871	8.871
Apprenticeship Levy	0.600	0.600	0.600	0.600
Levies	0.524	0.569	0.582	0.594
Other	0.247	0.247	0.247	0.247
TOTAL CORPORATE EXPENDITURE	43.100	39.423	40.644	40.714
TOTAL PLANNED EXPENDITURE - before savings	388.355	389.713	415.020	436.769
CUMULATIVE DEFICIT/(SURPLUS)	17.051	15.756	33.995	46.360
Approved Savings	(17.051)			
TOTAL PLANNED EXPENDITURE - less savings	371.304	389.713	415.020	436.769
CUMULATIVE DEFICIT/(SURPLUS)	0.000	15.756	33.995	46.360
ANNUAL DEFICIT/(SURPLUS)	0.000	15.756	18.239	12.365