

## Appendix 4

### 1. Medium Term Financial Plan (MTFP) Update

1.1 The MTFP has been updated for regular calculated adjustments and the additional year, plus pressures agreed via the approved pressures protocol. The current version gives an up to date forecast of the savings challenge ahead where possible. The latest proposed MTFP position can be found at Annex 1, and the movements are summarised below and in subsequent paragraphs.

<b>Movement since February Council</b>	<b>Para</b>	<b>2020/21 Estimate £million</b>	<b>2021/22 Estimate £million</b>	<b>2022/23 Estimate £million</b>	<b>Total Estimate £million</b>
<b>Council 5th February 2019 DEFICIT/(SURPLUS) - Core Offer before Savings</b>		<b>17.087</b>	<b>4.152</b>	<b>0.000</b>	<b>21.239</b>
<b>Normal Updates</b>					
Business Rates Retention	1.2	0.386	(0.597)	(1.742)	(1.953)
Final Reduction in RSG to Zero (Based on Current Needs Assessment)	1.3			0.509	0.509
Increase in Council Tax base @ 1.10%	1.4			(3.364)	(3.364)
Council Tax Inflation uplift 1.99%	1.5	0.002		(6.153)	(6.151)
Council Tax Collection Fund	1.6	(0.400)			(0.400)
New Homes Bonus Reduction	1.7			0.024	0.024
NHB to Capital Reserve	1.7			(0.024)	(0.024)
Waste Housing Growth	1.8	(0.063)	(0.016)		(0.079)
Treasury Management MRP Review	1.9			0.221	0.221
General Contingency	1.10			0.110	0.110
Unfunded Pension - added years	1.11	(0.100)			(0.100)
Levies Increase	1.12			0.012	0.012
<b>Normal Movements since February Council</b>		<b>(0.175)</b>	<b>(0.613)</b>	<b>(10.407)</b>	<b>(11.195)</b>
<b>Pressures Protocol</b>					
Pay Award	1.13			2.347	2.347
Contractual inflation (contract specific)	1.14	0.211	0.092	0.916	1.219
Normal inflation for contracts	1.15	3.085	1.839	9.154	14.078
Adult Social Care Growth & Demography	1.16			3.500	3.500
Children's Services Growth & Demography	1.16			2.822	2.822
Waste Housing Growth	1.16			0.200	0.200
IT & Digital – Data Centre	1.17	0.093			0.093
Apprenticeship Team	1.18	0.117			0.117
<b>Pressures Protocol - Approved</b>		<b>3.506</b>	<b>1.931</b>	<b>18.939</b>	<b>24.376</b>
<b>DEFICIT/(SURPLUS)</b>		<b>20.418</b>	<b>5.470</b>	<b>8.532</b>	<b>34.420</b>

## **1.2 Business Rates Retention**

The current planning assumptions on business rates have been added to 2022/23. These are inflation forecast at the latest OBRs estimate and for a 0.7% increase on the business rates base.

Since Full Council updated estimates on business rates income from District and Borough Councils (NNDR1 forecasts) have been received. This shows a slight improvement in income. The updated income is offset by the inclusion of an increased estimated business rate collection fund deficit, particularly impacting in 2020/21, as a result of the council's increased share in business rates in the pilot year. More information will be available regarding the collection fund deficit when we are able to review the District and Borough Councils final accounts and the pilot's Q1 monitoring due in July.

## **1.3 Final Reduction in RSG to Zero (Based on Current Needs Assessment)**

The current assumption, ahead of reform, is based on the current needs assessment. The council would be due RSG up to 2021/22 under the current system, reducing to zero in 2022/23.

## **1.4 Council Tax Base Growth**

The assumption for base growth is 1.1% based on current regression analysis. The calculation 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 calculated. 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.

## **1.5 Council Tax Inflation Uplift of 1.99%**

The assumption is a council tax increase of 1.99%; the current limit before referendum is triggered post 2019/20.

## **1.6 Council Tax Collection Fund Surplus**

For the last three years it has been estimated a decrease in the council tax collection fund surplus payments the Council will receive, due to District and Borough Councils' correction of a previous adjustment to the council tax base. Those planning assumptions have been correct up to 2019/20. The estimate for 2020/21 indicates that the decrease will now slow down. To reflect this £0.400m has been added to the estimate. This can be checked once the District and Borough Council's final accounts is available, to see if there are indications of regression.

## **1.7 New Homes Bonus Reduction**

Update to NHB funding based on the latest 2018/19 housing data; this will not be updated again until the autumn. However, the system itself could reform as part of the funding review.

## **1.8 Waste Housing Growth**

The Waste Contract Model has been updated for the latest estimates for 2020/21 and 2021/22.

## **1.9 Treasury Management MRP Review**

The figures included reflect the impact of the change in Minimum Revenue Provision Policy, as approved by Full Council as part of the 2019/20 Treasury Management Strategy.

## **1.10 General Contingency**

This is calculated at an agreed formula of 1% of net budget less treasury management.

### **1.11 Unfunded Pension - added years**

The budget requirement for historic unfunded pensions has been reduced by £0.100m. This is in line with a pattern of spending over the last couple of years.

### **1.12 Levies Increase**

The figures are reflective of the latest estimates of the Flood & Coastal Protection Levy, Sussex Inshore Fisheries Levy and New Responsibilities Funding.

### **1.13 Pay Award**

Service inflation model has been updated for an additional year assuming a 2% pay award of £2.347m; this will be subject to any union pay claim and the negotiated offer.

### **1.14 Contractual Inflation (contract specific)**

The service inflation model has been updated for an additional year. The methodology provides inflation to services for large contracts as per the contract but does not provide for inflation on running costs or small contracts (If included this would amount to a £2.4m pressure).

Additionally two pressures have been funded under the Pressures Protocol that fall within small contracts; being rents at two hub buildings and inflation on the SAP contract.

### **1.15 Normal Inflation for Contracts**

The service inflation model has been updated for an additional year using the inflation figures published by the Office of Budget Responsibility (OBR) in the autumn.

Outside normal inflation provided for in approved models there is additional provision for inflationary pressures in ASC and CSD, agreed under the Pressures Protocol.

### **1.16 Growth and Demography**

ASC, CSD and CET have submitted estimates approved under the Pressures Protocol for the additional year at 2022/23.

### **1.17 Other Service Pressures - pressures that cannot be managed within existing budgets without impacting service delivery**

This contains an approved Pressures Protocol bid from BSD for the IT&D Data Centre to cover the cost implication of Link service changes and the need to increase disaster recovery resilience.

### **1.18 Other Service Pressures - statutory changes that are not funded by government**

Provision agreed under the Pressures Protocol, to move from reserves-funded to establishing a permanent budget for the Apprenticeship Team in BSD.

## 2. Council Tax, Business Rates and New Homes

2.1 The table below shows the increases required in Council Tax, Business Rates or new homes to fund the current estimated deficit in the MTFP:

<b>What we'd need to fill our £34.4m budget gap over the three years to 2022/23:</b>	<b>The reality for the MTFP:</b>
14% average growth in <b>Business Rates</b> per year OR	Projected growth is less than 1% per annum
5.8% average <b>Council Tax</b> rise per year OR	Council Tax is currently capped at 1.99%
7,997 new homes built each year	Approximately 1,100 properties were built in East Sussex in 2017/18

## 3. Savings

3.1 Further work has been undertaken to confirm the deliverability of savings identified as part of the Core Offer work by CMT and Services during 2019/20 RPPR. At this point and subject to ongoing consultations, all identified savings are expected to be delivered in-year. A breakdown by department is shown below:

	<b>Areas of search for savings - Feb 19</b>		
	<b>2020/21 £m</b>	<b>2021/22 £m</b>	<b>Total £m</b>
Communities, Economy & Transport	1.462	0.917	2.379
Children's Services	2.337	0.268	2.605
Adult Social Care	0.248	0.000	0.248
Business Services / Orbis	1.161	0.787	1.948
<b>Total Departments</b>	<b>5.208</b>	<b>1.972</b>	<b>7.180</b>

## 4. Funding Scenarios

4.1 Given the uncertainty arising from delays in future national funding reform and potentially the Spending Review, combined with an increased use of one-off funding, it remains difficult to plan for 2020/21 and beyond.

It should be noted, therefore, that the current MTFP position excludes the potential positive impacts of a number of national funding streams for which we have been lobbying, that could be implemented either ahead of reform or as part of it. Should funding be rolled forward from 2019/20 into future years, clarity will be required on allocation bases, funding levels and timing of funding.

Likely funding scenarios with assumptions are shown below (noting that there are also less likely scenarios, not shown here, which include continued funding for children's services).

Likely Funding Scenarios	Para	2020/21 Estimate £million	2021/22 Estimate £million	2022/23 Estimate £million	Total Estimate £million
Business Rates, Proceeds of Pooling	4.2	(1.193)			(1.193)
Business Rates Levy Surplus 2019/20	4.3	(1.133)	1.133		0.000
Social Care Support Grant	4.4	(4.417)	4.417		0.000
Adult Social Care Winter Pressures Grant	4.5	(2.586)	2.586		0.000
Better Care Fund	4.5	2.586	(2.586)		0.000
Council Tax Increase @ 2.99% 2020/21	4.6	(2.876)	(0.090)	(0.064)	(3.030)
<b>Total</b>		<b>(9.619)</b>	<b>5.460</b>	<b>(0.064)</b>	<b>(4.223)</b>

#### 4.2 Business Rates, Proceeds of Pooling

As the one-year pilot concludes, there is potential that we could revert back to the previous business rates pool, and that would continue until the new funding system was implemented.

#### 4.3 Business Rates Levy Surplus 2019/20

The continued delays in delivery of business rates reform mean there will be no reset of existing baselines. Local authorities will continue to retain growth and tariff authorities will pay a levy on that growth. The Levy Account will again be in a surplus position that will require redistribution. We are expecting the 2019/20 Levy Accounts to be published in July when further assessment can be made.

#### 4.4 Social Care Support Grant

The government may continue the Social Care Support Grant. This has therefore been assumed at the same level as for 2019/20; however the quantum available could change.

#### 4.5 Adult Social Care Winter Pressures Grant

The Adult Social Care Winter Pressures Grant may continue; this is currently passed on to CCGs via the Better Care Fund and its application subject to NHS approval, so is shown as net nil.

#### 4.6 Council Tax Increase 2020/21

For 2018/19 and 2019/20 the government allowed local authorities to increase council tax by 3% before referendum. Given this precedent and that additionally there has been the social care precept (so a further 6% in some cases) it would be a backward step for government in terms of tax creep to revert to 2%. Additionally these increases show their Core Spending Power figures in a better light. We could therefore assume an extra 1% in 2020/21 on the bases that central government will continue to apply a 3% cap and will not want to be seen to reduce the cap and therefore local government funding.

## Annex 1: Medium Term Financial Plan

<b>Medium Term Financial Plan</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
	<b>Approved Budget</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£million</b>	<b>£million</b>	<b>£million</b>	<b>£million</b>
<b>TAXATION &amp; GOVERNMENT FUNDING</b>		<b>(375.145)</b>	<b>(380.606)</b>	<b>(390.571)</b>
Business Rates (Inclusive of BRR Pilot)	(83.761)	4.749	(2.316)	(1.742)
Revenue Support Grant (RSG)		(2.015)	1.506	0.509
Council Tax	(290.498)	(8.526)	(9.231)	(9.517)
New Homes Bonus	(0.886)	0.331	0.076	0.024
<b>TOTAL TAXATION &amp; GOVERNMENT FUNDING</b>	<b>(375.145)</b>	<b>(380.606)</b>	<b>(390.571)</b>	<b>(401.297)</b>
<b>SERVICE PLAN</b>				
Service Expenditure	340.888	341.236	365.234	380.812
<b>Inflation</b>				
Pay Award	3.635	2.208	2.301	2.347
Contractual inflation (contract specific)	0.889	1.005	0.958	0.916
Normal inflation for contracts	6.270	9.537	8.782	9.154
<b>Adult Social Care</b>				
Growth & Demography	3.538	3.840	3.500	3.500
<b>Children's Services</b>				
Dedicated Schools Grant	4.891	2.200		
Growth & Demography:	1.656	1.555	1.070	2.822
Looked After Children	1.043	(0.185)	(0.591)	
Post 16 i-Send (New Responsibility)	0.269			
Fostering	0.374			
Care leavers (New Responsibility)	0.163			
Home to School Transport	0.726			
<b>Communities, Environment &amp; Transport</b>				
Waste Housing Growth	0.233	0.174	0.213	0.200
Street lighting Electricity/Re-payment of Investment		(0.195)	(0.655)	
Libraries Hastings rates and utilities	0.046			
<b>Business Services</b>				
IT & Digital Licences	0.297			
IT & Digital Data Centre		0.093		
Apprenticeship Team		0.117		
<b>Savings</b>				
Savings 2019/20	(5.131)			
<b>Specific Grants</b>				
Improved Better Care Fund	(14.902)			
Improved Better Care Fund - Supplementary	(3.649)	3.649		
<b>NET SERVICE EXPENDITURE</b>	<b>341.236</b>	<b>365.234</b>	<b>380.812</b>	<b>399.751</b>

Corporate Expenditure		33.909	35.790	35.647
Treasury Management	17.696	0.687	(0.179)	0.221
Funding Capital Programme - New Homes Bonus		0.555	(0.076)	(0.024)
General Contingency	3.570	0.050	0.100	0.110
Contribution to balances and reserves	0.908	(0.216)		
Pensions	10.338	0.785		
Apprenticeship Levy	0.600			
Levies & Grants	0.797	0.020	0.012	0.012
<b>TOTAL CORPORATE EXPENDITURE</b>	<b>33.909</b>	<b>35.790</b>	<b>35.647</b>	<b>35.966</b>
<b>TOTAL PLANNED EXPENDITURE</b>	<b>375.145</b>	<b>401.024</b>	<b>416.459</b>	<b>435.717</b>
<b>CUMULATIVE DEFICIT/(SURPLUS)</b>	<b>0.000</b>	<b>20.418</b>	<b>25.888</b>	<b>34.420</b>
<b>ANNUAL DEFICIT/(SURPLUS)</b>	<b>0.000</b>	<b>20.418</b>	<b>5.470</b>	<b>8.532</b>

<i>Proposed savings 2020/21 to 2021/22</i>		(5.208)	(1.972)	
<b><i>CUMULATIVE DEFICIT/(SURPLUS) after savings</i></b>		<b>15.210</b>	<b>18.708</b>	<b>27.240</b>
<b><i>ANNUAL DEFICIT/(SURPLUS) after savings</i></b>		<b>15.210</b>	<b>3.498</b>	<b>8.532</b>