

Medium Term Financial Strategy 2019/20 to 2022/23

The budget approved at full Council in February 2018 included an MTFS update broadly similar to the two tables below. This focuses on net budgets at this stage but the MTFS is currently being developed to reflect both gross and net positions for future versions.

In February the predicted Budget Gap (savings requirement) for 2019/20 was £10.600m. Budget Gaps for future years can only ever be a best estimate as resources, demands or budget forecast trends can change significantly with time. Since February a number of issues mean that the MTFS assumptions for 2019/20 have changed as detailed in the main report.

Resource Assumptions:

From 2020/21 the Fair Funding Review and potential move to 75% retained Business Rates will amend the future years' projections but as yet there is no certainty or reasonable estimate that can be provided for the impact they might have, which could be negative or positive. The MTFS therefore makes no assumptions at this stage.

Revenue Support Grant (RSG) is assumed to be maintained at the 2019/20 level. If this funding source were to end, then the budget gap would increase by £6.523m from 2020/21.

The improved Better Care Fund (iBCF) is assumed to continue at the 2019/20 levels of £7.953m which includes £1.733m one-off money announced as part of the spring 2017 budget. There is no certainty about this funding but given the high profile of social care pressures nationally, the assumption is made that the 2019 Comprehensive Spending Review will continue the iBCF funding in some shape or form.

Inflation and Other Cost Estimates:

Pay inflation reflects the National Employers for Local Government (LGE) 2-year pay offer covering 2018/19 and 2019/20 for those employees on National Joint Committee (NJC) pay & conditions and provides 2.6% overall, reflecting higher increases for staff on lower pay grades.

The triennial review of the East Sussex Pension Scheme for the period 2017/18 to 2019/20 was completed in December 2016. The contribution rates changed to be a blend of a fixed contribution percentage and an increasing lump sum payment. The additional cost to the general fund in 2019/20 is estimated at £0.575 million and this is included within the budget projections.

As explained in the main report, the provision for general price inflation ranges between 0% and 2% depending on the type of budgeted expenditure. However, inflation assumptions in relation to Temporary Accommodation income have been changed to reflect the ongoing situation whereby the Local Housing Allowance will not increase in future years. This has added £0.3m inflation to each future year in the MTFS. Increases in costs above assumed inflation levels will be managed through services' budget strategies unless the increase is significant and is identified as a corporate budget pressure.

If the city doesn't have sufficient growth in housing, the council will not qualify for sufficient New Homes Bonus grant in 2019/20 to replace the £1.166m that drops out in 2019/20 (the grant is now paid on a 4 year cycle). The introduction of the 0.4% growth threshold has made this more challenging to achieve and so the updated position assumes the council will receive £0.500m as a realistic estimate; a £0.166m reduction had already been built in to assumptions and so this adds £0.500m to the budget gap.

Re-investment in Services

Growth in demand and increases in costs across Children's and Adults Social Care services along with potential financial issues in other services including Waste Management mean that the re-investment level of £8.032m originally estimated in the MTFS needs to be increased to at least £9.800m for 2019/20 to protect priority services. Baseline re-investment levels for future years have also been increased from £5.000m to £6.000m to reflect experience in the past 5 years but this will

be kept under review, particularly if the government announces further funding support for social care.

Predicted Budget Gaps (Savings Requirements):

Taking into account the above changes, the budget gap for 2019/20, before proposed savings, increases to £11.559m. In 2020/21, the budget gap is estimated at £7.702m but this would increase to £22.178m if RSG and iBCF are reduced/discontinued without replacement funding.

The early indication therefore is that Budget Gaps (i.e. further savings requirements) totalling £25.480m are predicted over the MTFS period 2019/20 to 2022/23. Together with currently proposed savings for 2019/20 of £8.575m, identified as part of the council's 4-year Integrated Service & Financial Planning process, this would mean achieving savings of approximately £34.055m over the next 4 years to maintain a balanced the budget.

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Core Planning Assumptions

The table below sets out the core planning assumptions included in the MTFS projections:-

Summary of MTFS assumptions	2019/20	2020/21	2021/22	2022/23
Pay inflation and pay related matters:				
- Provision for pay award	2.6%	2.0%	2.0%	2.0%
- Overall pension contribution rate	21.0%	21.5%	22.0%	22.5%
General inflation:				
- Inflation on non pay expenditure	0% - 2.0%	2.0%	2.0%	2.0%
- Inflation on waste PFI	3.5%	3.5%	3.5%	3.5%
- Inflation on income	2.0%	2.0%	2.0%	2.0%
- Inflation on parking income	2.0%	2.0%	2.0%	2.0%
- Inflation on penalty charge notices	0.0%	0.0%	0.0%	0.0%
Resources:				
Change in Settlement Funding Assessment	-7.9%	0.0%	0.0%	0.0%
Change to Revenue Support Grant (RSG)	-53.9%	0.0%	0.0%	0.0%
Business Rates				
- Business rates poundage inflation uplift	3.1%	2.0%	2.0%	2.0%
Public Health grant	-2.6%	0.0%	0.0%	0.0%
Adult Social Care precept	0.00%	0.00%	0.00%	0.00%
Assumed council tax threshold increase (excluding Adult Social Care precept)	2.99%	1.99%	1.99%	1.99%
Council Tax Base	0.92%	0.75%	0.75%	0.75%

Summary of MTFS projections

The table below sets out the savings /budget gap taking into account the anticipated expenditure and resources over the MTFS period:

Summary of General Fund Budget & Resource Projections	2018/19	2019/20	2020/21	2021/22	2022/23
	<i>£m</i>	£m	£m	£m	£m
Net Budget Requirement B/Fwd	<i>203.589</i>	208.824	208.638	213.928	219.358
Pay and Inflation	<i>4.688</i>	5.451	5.604	5.741	5.917
Commitments - impacts of previous decisions *	<i>-0.143</i>	-4.573	1.233	0.927	0.947
Change in S31 Business Rates compensation grants	<i>-1.451</i>	-0.141	0.000	0.000	0.000
Change in New Homes Bonus	<i>1.628</i>	0.666	0.000	0.000	0.000
Re-investment in Services (for demographic and cost pressures)	<i>11.834</i>	9.800	6.000	6.000	6.000
Re-investment – loss of specific grants	<i>1.050</i>	0.170	0.155	0.140	0.125
Proposed savings in 4-year Service & Financial Plans	<i>-12.371</i>	-8.575	0.000	0.000	0.000
Budget Gap		-2.984	-7.702	-7.378	-7.416
Budget Requirement C/Fwd	<i>208.824</i>	208.638	213.928	219.358	224.931
Resources (Funding):					
Revenue Support Grant	<i>14.144</i>	6.523	6.523	6.523	6.523
Locally retained Business Rates	<i>57.258</i>	60.075	61.430	62.815	64.231
- Tariff Payment	<i>-0.745</i>	-1.164	-1.188	-1.211	-1.235
- Business Rates Levy payment	<i>-0.091</i>	-0.095	-0.097	-0.099	-0.101
- Business Rates Collection Fund Deficit	<i>-1.690</i>	0.000	0.000	0.000	0.000
Council Tax Collection Fund Surplus	<i>2.091</i>	0.000	0.000	0.000	0.000
Council Tax - Adult Social Care precept	<i>3.901</i>	0.000	0.000	0.000	0.000
Council Tax - General increase	<i>133.956</i>	143.299	147.260	151.330	155.513
Total Funding	<i>208.824</i>	208.638	213.928	219.358	224.931

* In 2019/20, major items include increased iBCF of £3.032m, a reduction in Capital Financing costs of £1.600m, in part due to single status capitalisation costs finishing, and increasing employer pension contributions of £0.575m equivalent to 0.5% increases per annum.

