

# Appendix 4

## Updated Financial Assumptions within the MTFS

The key financial assumptions included within the MTFS are set out below:

a) Pay assumptions:

General pay inflation - assumed at 2.5% from 2020/21 onwards.

Pension contributions - in line with other employers in the Local Government Pensions Scheme (LGPS) the Council makes an annual contribution payment to the Pension Fund to contribute towards the recovery of the deficit on the Fund. This contribution payment is set every three years as part of the triennial valuation of the Fund. Following discussions with the Fund's actuary the MTFS has been updated on the assumption that the contribution payment will reduce by 2% over four years. The employer's contribution rate does not affect individual employee's contributions or pension benefits.

b) Other pay considerations

The estimated cost of pay increments has been built into the MTFS.

c) Inflation Assumptions

Inflation has been calculated for premises and transport related costs including utilities, business rates and fuel based on latest market intelligence and CPI forecasts from Central Government.

d) Flexible Use of Capital Receipts

The Council has agreed a formal efficiency plan (Joint Transformation Programme). This enables the authority consider flexible use of capital receipts to finance qualifying expenditure in 2019/20. The use of these resources is 'one-off' and therefore does not form part of the Council's on-going base budget.

The MTFS has been updated to reflect the flexible use of capital receipts of £400K in 2019/20 but currently assumes no further application in 2020/21. Any new transformation projects that require the use of flexible capital receipts require full Council approval, and as such, an update will be provided as part of the final 2020/21 budget papers.

e) Fees and charges

The Council provides a wide range of discretionary services. It is expected that where possible a market driven pricing to be applied to support cost recovery. The MTFS assumes a 2% across the board increase in fees and charges for its discretionary services. This increase has not been applied to the following income budgets:

- Car parking charges
- Planning fees

Fees and charges assumptions will be fully reviewed in line with anticipated operational delivery and updated for the draft budget, which will include a full refresh of the Council's fees and charges schedule.

## f) Funding

At the time of writing this report, it was anticipated that the final local government finance settlement for 2020/21 will be announced in January but currently no date has been provided. The provisional settlement was announced on 20 December 2019 which had inevitably been delayed due to the General Election.

The 2019/20 settlement was the final year of a four year settlement. It had been expected that a new 3 year Comprehensive Spending Review would take place this autumn, however due to continuing political and financial uncertainty surrounding Brexit, this has been postponed. Instead, a single year spending review was announced on 4th September 2019.

The government has announced an increase to current and capital spending of £13.4bn in 2020/21, compared to the OBR's forecast at Spring Statement 2019. Resource Departmental Expenditure Limits (DEL) (excluding depreciation) across government departments will increase from £330.8bn to £352.3bn, representing growth of 4.1%.

Most of the additional funding announced has been allocated to the following priorities:

Health and social care – the government reaffirmed the existing five-year settlement for the NHS, with an additional £33.9bn more per year by 2023/24, compared to 2018/19 budgets, with a real terms 3.1% increase in Resources DEL in 2020/21. There will also be an additional £1bn for adult and children's social care and the government will be consulting on a 2% adult social care precept to enable councils to access a further £0.5bn.

Education and skills - the schools' budget will rise by £2.6bn in 2020/21, which will include per pupil funding of £3,750 at primary and £5,000 at secondary schools. The additional funding is inclusive of £700m more funding in 2020/21 to support children and young people with special educational needs. £400m of additional funding for Further Education has also been announced.

Tackling crime – an extra £750m for policing to pay towards the government's commitment to recruit an additional 20,000 officers by 2023, which forms part of a 6.3% real terms increase in Home Office funding;

Brexit - the Spending Round confirms £2bn of core funding provided to departments for Brexit in 2019/20 will be continued into 2020/21. This money will be used to help pay for the costs of establishing a new relationship with the EU. Brexit preparation grants announced in January 2019 are to be increased to £50,000 per authority.

Local government core spending power is set to increase by £2.9bn, from £46.2bn in 2019/20 to £49.1bn in 2020/21, a real terms increase of 4.3% and cash increase of 6.3%. This compares to a cash increase of £1.7bn between 2015/16 and 2019/20.

Business rates baseline funding will increase in line with CPI which is consistent with assumptions made in the current MTFS.

The Government has subsequently clarified that other than in areas with devolution deals existing business rates pilots (including the Stoke on Trent and Staffordshire pilot) will end in 2020/21.

A technical consultation on the spending review is expected shortly. To date there has been no announcement of the potential council tax referendum limit for 2020/21. However, the increase in Core Spending Power implies a limit of between 2.5% and 3.0%.

The following sections set out the specific funding assumptions that have been applied in the MTFS in respect of grant funding, New Homes Bonus, Council Tax and Business Rates.

g) Grant funding

The Council no longer receives any Revenue Support Grant.

The existing MTFS includes a forecast reduction in housing benefit administration grant of £1.3M in each year of the MTFS, reflecting reduced caseloads following the introduction of universal credit. Grant funding for all other services has been assumed to remain at 2019/20 levels, except where there have been specific announcements.

The one year Comprehensive Spending Review for 2020/21 announced further funding of £54m in 2020/21 to help reduce homelessness and rough sleeping, this is in addition to the funding already provided in 2019/20. The allocation for the Council will not be determined until the time of the Final Local Government Finance Settlement – due to its one off nature, future provision has not been made for this in the MTFS.

Brexit preparation grant of £35,000 has been received to date by the Council, again further funding for 2020/21 has been committed to via the Comprehensive Spending Review – due to its one off nature provision has not been made for this in the MTFS.

h) New Homes Bonus

New Homes Bonus is paid on a 4 year rolling basis. Income from New Homes Bonus has been budgeted in line with the confirmed grant announcement, with a reducing balance over the medium term due to funding for earlier years dropping out. The MTFS has been updated to reflect current forecasts of house building activity.

i) Council Tax

Council Tax increases at the average Band D rate of £5 have been applied each year based on the current year level. The Council Tax Referendum level for 2020/21 has not been announced. However, implicit within the calculation of local authority core spending power announced as part of the 2019 Comprehensive Spending Review is an increase of between 2.5% and 3%. A 1% change in Council Tax equates to £0.077m in income.

Growth in the Council Tax Base (the number of Band D equivalent dwellings subject to Council Tax) has been applied based on available intelligence and historical trend data.

j) Business Rates

An additional £0.300m of income relating to Business Rates has been added to the funding budget. This additional funding is due to the Business Rates collection fund being in surplus at the end of 2018/19 and is net of additional provision for appeals.

It is anticipated that the Council's income from Business Rates will increase at an inflationary amount during future years, if there are significant developments undertaken within the District this is likely to increase future revenue in the form of growth. However, the timing and value of any benefit will be impacted by the baseline resets applied as part of the Business Rates Retention scheme

k) Business Rates Retention Pilot

The Council has for a number of years participated in a Business Rates pool with the local district and borough councils in East Sussex. The pool was successful in its application for a 75% Business Rates Pilot for 2019/20 and this has resulted in a projected financial benefit to the

Council of £0.200m in the current year. This additional money is 'one off' and is not included in the MTFS as an ongoing income.

Following the 2019 Comprehensive Spending Review announcement on 4th September the pool has now been informed that the current pilot will come to an end in 2019/20. Agreement has been reached with neighbouring authorities to continue the existing pooling arrangements for 2020/21, and the MTFS has been updated to reflect the impact of this.