

Key Assumptions used in Medium Term Financial Plan

A number of assumptions have been made in formulating the strategy. Clearly some of these are harder to predict than others and in addition the magnitude of the “error” of prediction may be greater in certain specific areas. Detailed below are the main assumptions made and importantly an analysis of the sensitivity to variance.

Formula Grant

We have used the indicative forecast figures provided each year by the Ministry of Housing, Communities and Local Government. We await the Provisional Settlement in December and the Final Settlement in the following February for the definitive figures to use in our final budget calculations. These invariably change from the previous year’s future forecasts.

The 2016/17 settlement showed the elimination of the Revenue Support Grant received from Central Government by 2019/20. We are currently anticipating “negative” RSG which is a further pressure to our budget.

Inflation

Future inflation is of course an unknown quantity. The level of inflation assumed in this plan is moderate and it could come to pass that the actual inflation figures are higher, having a significant impact on our medium terms projections.

The Pay inflation also includes an increase in respect of the Apprenticeship Levy and pension contributions. We are setting budgets for the third year of the triennial pension fund valuation which sets new pension contribution rates and will next be updated in 2019.

Investment Return

The model assumes that interest rates will initially remain static and then gradually increase although rates are expected to remain low. This has been confirmed by looking at a broad spectrum of advice from a number of treasury specialists.

Council Tax Income

We have also assumed a relatively small growth in properties throughout the life of the MTFP. Clearly if any major residential building projects are agreed/advanced over the next 2-3 years they will then be factored into future MTFP (but it should be noted that extra housing also affects the Council’s cost base too).

Sensitivity Analysis

As previously mentioned, many of the assumptions could be subject to challenge and may well alter during the life of the MTFP. Therefore, it is important to show the magnitude (or sensitivity) in financial terms of minor alterations to assumptions made. A change in the inflation factors causes the following movements:

	Budget in 2018/19 £'000	Change by 1.0% £'000	Change by 5.0% £'000
Staffing	12,390	123.90	619.5
NDR on Council Properties	673	6.73	33.65
Gas	78	0.78	3.90
Electricity	269	2.69	13.45
Water	122	1.22	6.10
Members Allowances	296	2.96	14.8
Insurance	176	1.76	8.8
Fuel	343	3.43	17.15

Risk

All of the assumptions made in the MTFP have been examined for risk and estimates of expenditure and income have been made on a prudent/most likely occurrence. This has been based on previous experience, evidence in the current financial year, consultation with specialist advisers and taking account of all known market factors at the time of finalising the plan.