Appendix 1

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.

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.

Investment Return

The model assumes that interest rates will remain relatively static. It is possible that they could decrease, even into negative territory, if the economic effects of the pandemic deepen and are compounded with the implementation of Brexit. We do not know yet if there will be an agreed deal for Brexit which would assist any recovery. This has been confirmed by looking at a broad spectrum of advice from a number of treasury specialists. Inflation is currently below the Bank of England’s target of 2%.

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).

Covid 19

The pandemic and the measures taken to combat it create an extremely volatile environment in which to make financial forecasts. In such times the need for financial planning becomes even more critical whilst acknowledging that it is probable that there will be significant swings in the numbers as events unfold. In order to understand and track these movements, it is important that we have clear assumptions.

The unprecedented nature of the pandemic is that we cannot refer to historic data to make future predictions and so can only rely on unfolding data to fine tune our expectations.

The basic assumption that has been applied in this model is one of steady recovery in service activity (and so also in the income arising). The efficacy of this approach has been challenged by the November lockdown but also bolstered by news of a vaccine. Despite this good news, many risks remain and we must be led by a prudent approach.

The impact on the Collection Fund offers further challenges. The immediate effects of pandemic restrictions have been mitigated by the furlough scheme (Job Protection Scheme) and the various business support schemes including the 100% relief from NDR for the retail, hospitality and leisure sectors in 2020/21. There is some doubt as to how businesses will cope when these schemes come to an end, with potential secondary impacts on local household incomes. The Collection Fund would then suffer deficits in respect of both Council Tax and NDR. This delayed response has been modelled with losses continuing into 2021/22, followed by a relatively flat year before a return to growth thereafter.

Finally, we referred above to the Covid 19 funds support that have been made available by government in the current year. However, as described, even assuming a steady recovery in income streams, there will be losses in 2021/22 and in some areas likely beyond this. The deficit effect to the Collection Fund is expected to last even longer. There is currently no indication from government that it will continue to support LAs after next March and that is reflected in this model. However, given the parlous financial state many Authorities will find themselves in, through no fault of their own, it is conceivable that some level of government support will be forthcoming. This could be to benefit LAs directly, whilst any ongoing support to businesses will not only assist the local economy but also reflect in Collection Fund performance.

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:

2022/23	**£k**	**1% Change £k**	**5% Change £k**
Staffing	**14,005**	**140**	**700**
NDR on Council Properties	**717**	**7**	**36**
Gas	**99**	**1**	**5**
Electric	**297**	**3**	**15**
Water	**149**	**1**	**7**
Members Allowances	**330**	**3**	**17**
Insurance	**213**	**2**	**11**
Fuel	**385**	**4**	**19**

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.