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.

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.

Localised Tax Funding

Internal estimates have used to project the levels of Council Tax and Business Rates income over the five year period.

The Council Tax taxbase forecasts a prudent recovery, rising from the current 96% to 97% in 2022/23 and then back to the normal 98% in 2023/24. Each additional 1% equates to approximately 300 homes and contributes approximately £65k. The assumed increase in the Band D charge is in line with the Governments referendum limits. Each £1 increase in Council Tax generates approximately £30k. It should be noted that extra housing also affects the Council's cost base too.

The Business rates estimate is for a prudent 1% growth in the Rateable Value and the national multiplier in all years except 2023/24. In 2023/24 the Government are indicating the implementation of the Revaluation and a possible Baseline Reset. In theory the Revaluation is cost neutral nationally, but this is difficult to prove and inevitably there will be winners and losers at locality level. The Baseline reset will update the baseline year(s) used in their funding model. Given the impact of Covid-19, the latest year this is likely to use is 2019/20 and therefore a degree of local growth will be lost depending on the method of the reset applied. The assumption within the MTFP is that the Council will lose a little under 4% in yield, which equates to approximately £450k. Therefore, a 1% variation from this assumption equates to +/- £120k.

Government Funding

Most forms of Government funding is included within the Local Government Financial Settlement provided by the Department for Levelling Up, Housing and Communities (DLUHC), formerly Ministry of Housing, Communities and Local Government (MHCLG). This includes:

- Rural Services Delivery Grant – this has generally been static over the last 4 years, so has been assumed to remain at previous levels.
- Lower Tier Services Grant – was announced as one-off so is assumed to not be applicable in this MTFP. The loss is £179k
- New Homes Bonus Scheme – as documented in the report. Current allocations will cease in 2022/23 and a replacement is unknown. Therefore, future years are excluded.

- Improved Better Care Fund, which contained Disabled Facilities Grant - this has generally been static over the last 4 years, so has been assumed to remain at previous levels.
- Social Care Grant (upper tier authorities) – not relevant so excluded.

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 sensitivity analysis below provides some context for the scale of any variation from the forecast.

The Pay inflation also includes an increase in respect of 2021/22 at 1.75% based upon the understanding that a pay award is currently being negotiated. The insurance inflation in year one is because of retendering the cover.

A change in the inflation factors causes the following movements:

2022/23	Budget £k	Inflation Assumption %	2022/23 Forecast Financial Impact £k	1% Change £k	5% Change £k
Staffing	12,660	3.75%*	475	127	633
NDR on Council Properties	703	1%	7	7	35
Gas	99	1%	1	1	5
Electric	293	1%	3	3	15
Water	148	1%	1	1	7
Members Allowances	323	3.75%*	12	3	16
Insurance	203	20%	41	2	10
Fuel	355	2%	7	4	18
Leisure Fees and Charges	(3,093)	3%	(93)	(31)	(155)
Support Service Recharge to HRA	(1,501)	3.75%*	(56)	(15)	(75)
TOTAL	**10,190**		**398**	**102**	**509**

Investment Return
The model assumes that interest rates will remain low and relatively static both in terms of investments and borrowing. This has been confirmed by looking at a broad spectrum of advice and forecasts from a number of treasury specialists. Current expectations are for the base rate is to rise slightly, perhaps to 0.25% in 2022/23, by a further 0.25% in 2023/24 and again a further 0.25% in 2024/25. These would remain as relatively historic low levels over the whole MTFP. A 0.25% movement in interest rates equates to £2,500 additional interest earnt/cost for every £1m lent/borrowed.

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 full recovery in many service activities (and so also in the income arising) in 2022/23. This includes Planning, Local Land Charges, Building Control, Licensing, Tiverton Pannier Market and Waste and Recycling. However, only a partial recovery is included for Car Parks and Leisure, which have been set at levels akin to 2019/20. Therefore, income is currently forecast to recover by £770k out of the £1,239k reduction included within the 2021/22 budget. This leaves the potential for a further £469k income to be included to return to the 2020/21 budgeted income. At this time, this is not included and income remains akin to 2019/20 pre-Covid-19 levels.

There is an underlying assumption of inflationary growth from 2023/24 onwards across all service areas, with an additional expectation that cumulatively growth of £50k can be generated.

As stated in the main report, all Covid-19 funding support has ceased. However, even assuming a steady recovery in income streams, there will be losses in 2022/23 and in some areas likely beyond this. There is currently no indication from Government that it will provide any more support Local Authorities and that is reflected in this model. However, given the uncertainty surrounding future funding, 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 assist the local economy.

Collection Fund
The impact on the Collection Fund arising from Covid-19 is covered by Section 31 Grant and legislation on how it should be accounted for. As the Government announced significant Business Rates reliefs for businesses within the retail, hospitality and leisure sectors in 2020/21, the value of income collected fell dramatically in 2020/21, by c£7m. To offset this the Council was given Section 31 grant. Normally, the surplus/deficit on the Collection Fund is distributed to Preceptors during the following financial year. However, given the scale of the deficit, Government have legislated that it should be spread over 3 financial years. Therefore, the value cover the future two financial years is held in reserves and will be drawn down in the relevant year.

The reliefs have continued into 2021/22 and a further c£4m Section 31 Grant has been received to offset the loss. However at this time there is no clarity on whether the deficit on the Collection Fund will again be spread over a longer timeframe.

Capital Programme
As stated in the covering report, the Capital Programme is proposed to increase substantially, with external borrowing forecast to be in excess of £50m across both the General Fund and the Housing Revenue Account. Given the scale of the

borrowing, the assumptions around interest rates are critical. An increase of 0.2% in rates is assumed to occur in each financial year, therefore the rates included in 2026/27 are a full 1% above current rates. The cumulative financial implication of this is an extra £400k across the MTFP period in the General Fund and £575k for the HRA.

Housing Revenue Account

An assumption has been included for substantial growth in Housing over the MTFP timeframe. The exact timing of the delivery of these houses is subject to an acceptable business case and the availability of external funding.

An Assumption has been made for the external funding available from Homes England. Each extra 1% of grant funding that could be obtained reduces the borrowing requirement by approximately £125k per annum. Therefore it will be critical that the Council maximised this opportunity.

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.