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.

Inflation

Future inflation is of course an unknown quantity. At the present time, where inflation is at its highest for over 40 years, it has never been more critical to use as realistic assumptions as possible.

The level of inflation assumed in this plan is therefore high 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 forecast inflationary increases across this MTFP period are (applicable to both General Fund and HRA – as appropriate):

	2023/24 %	2024/25 %	2025/26 %	2026/27 %	2027/28 %
Staffing*	5%	3%	2%	2%	2%
NDR on Council Properties	2%	2%	2%	2%	2%
Gas#	170%	50%	25%	12.50%	6.25%
Electric#	67%	50%	25%	12.50%	6.25%
Water	5%	2%	2%	2%	2%
Members Allowances*	5%*	3%	2%	2%	2%
Insurance	10%	3%	3%	3%	3%
Fuel~	40%	5%	5%	5%	5%
Leisure Fees and Charges	5%	3%	2%	2%	2%
Support Service Recharge to HRA	5%	3%	2%	2%	2%

A change in the inflation factors causes the following movements:

	2022/23 Budget £k	Inflation Assumption %	2023/24 Forecast Financial Impact £k	(+/-) 1% Change £k
Staffing*	13,598	5%	1,152	127
NDR on Council Properties	696	2%	14	7
Gas#	100	170%	170	1
Electric#	275	67%	184	3
Water	141	5%	7	1
Members Allowances*	339	5%	18	3
Insurance	236	10%	24	2
Fuel~	450	40%	180	4
Leisure Fees and Charges	(2,628)	5%	(131)	(26)
Support Service Recharge to HRA	(1,715)	5%	(86)	(17)
TOTAL	**11,493**		**1,532**	**102**

*The 2023/24 Pay inflation also includes a cash increase of £450k in respect of 2022/23 over and above the 2% budgeted. This is based on the current pay offer that is out to trade union consultation and is equivalent to approximately 3% extra (5% in total).

#The increase in energy budgets reflects the increase in prices expected to come into effect from October 2022. Prices will be available shortly as all energy is purchased in advance of need. It is expected that the recent announcement from the new Prime Minister will offer a degree of protection on the increase and it is hoped that annual increase reduce over the remainder of the MTFP period.

~The fuel increase largely reflects the increases experienced in 2022/23, which have currently stabilised and begun to fall back.

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 growth in line with the Local Plan. This equates to approximately 350 homes and contributes approximately £80k per annum. A prudent collection rate, in line with the reduced forecast during the Covid-19 pandemic of 96%, is expected. Recovery to the normal 98% is expected over the life of the MTFP. The assumed annual increase in the Band D charge is in line with the Governments recent referendum limits at 2%. Each £1 increase in Council Tax generates approximately £33k. It should be noted that extra housing also affects the Council's cost base too, i.e. waste collection, street cleaning etc.

The key Business Rates assumptions are:

- that the expected Baseline Reset will be delayed until 2025/26, as recently confirmed. The Baseline Reset will update the baseline year(s) used in the Settlement 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. At that time, the assumption is that the reset will remove approximately half of the growth in the retained income since the introduction of the baseline in 2013/14, which equates to approximately £500k. No expectation of transitional support or use of the Business Rates Smoothing Reserve is currently assumed, but is available and could well happen;
- that the 2023/24 Revaluation will not reduce the authority's retained income. 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. Any loss is therefore assumed to be offset by transitional support – this might not be the case;
- the estimate is for a minimal growth in the overall Rateable Value and the national multiplier in 2023/24, which is normally linked to CPI inflation. This assumes that the government will protect businesses from significant tax increases during this cost of living crisis. Growth in future years is based upon a 1% increase. Anything above this will benefit the council.

A 1% variation within these assumptions is very difficult to calculate as each could impact onto the other. For example, a significant increase in the annual multiplier, or the rateable value arising from the Revaluation could potentially force a business to close, which would consequently reduce our retained income. Therefore, an overall movement of 1% in our retained income equates to approximately £35k.

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). Earlier this year the former Secretary of State announced at the Local Government Association annual conference that there would be a two-year settlement covering 2023/24 and 2024/25. This indicates that it is highly likely to be another roll forward settlement. As such, the current assumption is for a cash freeze in 2023/24 and 2024/25. However, there are the following considerations:

- 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 in 2020/21 but was awarded again in 2022/23, but the value reduced from £179k to £101k.
- New Homes Bonus Scheme – Previously announced to cease in 2022/23, and as yet no replacement scheme has been announced. The source of the funding was topsliced from Revenue Support Grant and therefore should remain in the "local government funding pot". 2022/23 is expected to be the last legacy payment, but annual allocations have also been awarded since 2020/21.
- 2022/23 Services Grant – was announced as one-off in 2022/23, however it contains funding to offset the increase in National Insurance contributions. Now that this increase has been reversed, it is less likely this grant will continue.

It is very difficult to predict whether the above grants will continue, and if so at what value. It is also difficult to envisage a reduction in funding in the current economic climate. The current sum of these four grants is £1,461k. Therefore a movement of +/- 10% would equate to £146k.

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.

Interest – Investment Returns and Financing Costs

To combat inflation, the Bank of England's Monetary Policy Committee move interest rates to encourage/discourage spending. With inflation being at a 40-year high, interest rates have been increasing rapidly, starting at a historic low of 0.1% up to December 2021 to the current 2.25% (October 2022). Further movements are expected during the remainder of 2022 and into 2023.

On one hand this is good news as the Council will earn more interest on its temporary investments. Coupled with the recognition of additional interest on the loan to the GP Surgery, this is expected to add c£200k income. However, potentially offsetting this is lower lending to 3 Rivers Development Ltd (3 Rivers) following the change in PWLB lending criteria. Alternative sites are being sought so this may not come to fruition.

The largest impact of movements in interest rates will be on the cost of financing external (PWLB) debt. Given the increase in the Capital Programme in the last couple of years largely related to 3 Rivers developments and the objective to increase the housing stock for the HRA, substantial external borrowing will be required. Wherever possible, the continuation of internal borrowing will be undertaken. However there is insufficient capacity to meet the full demand of the full programme.

Forecasts for interest rate increases are difficult to predict as they will adjust to the current circumstances. If the increases curb spending quickly, it is expected that the rates will rise for the next couple of years and then fall back almost equally quickly. However, the rate of that reduction will depend on the depth of the recession.

At present, we are expecting PWLB rates will increase to broadly the below levels:

Term (Yrs)	Current Rate#	01/09/2023	01/09/2024	01/09/2025	01/09/2026	01/09/2027
5	5.08%	4.50%	4.50%	4.25%	4.00%	3.75%
10	5.28%	4.50%	4.50%	4.25%	4.00%	3.75%
25	5.55%	4.50%	4.75%	4.50%	4.25%	4.00%
50	5.50%	4.75%	5.00%	4.75%	4.00%	3.75%

Note the current rate is expected to stabalise and reduce following the Chancellors "Medium Term Fiscal Plan"

A 0.25% movement in interest rates equates to £3,500 – £4,500 per annum[1] additional interest earnt/cost for every £1m lent/borrowed.

Covid-19
The pandemic had a significant impact on the Council's finances. It continues to impact service income within Leisure and Car Parking due to lower patronage most likely arising from more people working from home and increased online shopping. At present, although we forecast some degree of recovery, it appears that the income will not recover to pre-Covid-19 levels without changes to the service offered or by increasing fees. Therefore, only a partial recovery is included for Car Parks and Leisure; still below 2019/20 levels.

Collection Fund
Similarly, the collection rate on Council Tax was recovering from the implications of Covid-19. In 2022/23 the collection rate was increased to 97.5%, and was forecast to increase again to 98% in 2023/24 and beyond. However, the cost of living crisis is now impacting on collection rates with the in-year forecast indicating collection might only be 96%. Therefore it could be prudent to reduce the forecast back to those applied during the pandemic; down from 97.5% to 96%. The associated financial implication is c£100k.

Covid-19 related Business Rates reductions were covered by Section 31 Grant and legislation on how it should be accounted for. 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.

Collection rates have fallen less against Business Rates, with collection still close to 98%. However, it is still possible that a collection deficit will need to be included in 2023/24 with the Council picking up 40%, potentially up to £100k.

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.

[1] Depending on the initial interest rate

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.