

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 near 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 term 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):

	2024/25 %	2025/26 %	2026/27 %	2027/28 %	2028/29 %
Staffing*	4.00%	3.00%	3.00%	3.00%	3.00%
Pension Back Funding	4.00%	3.00%	3.00%	3.00%	3.00%
NDR on Council Properties	2.00%	2.00%	2.00%	2.00%	2.00%
Computer Software	15.00%	5.00%	5.00%	5.00%	5.00%
Gas[#]	50.00%	25.00%	12.50%	6.25%	6.25%
Electric[#]	33.50%	16.75%	8.38%	4.19%	4.19%
Water	2.00%	2.00%	2.00%	2.00%	2.00%
Members Allowances*	4.00%	3.00%	3.00%	3.00%	3.00%
Insurance	3.00%	3.00%	3.00%	3.00%	3.00%
Fuel⁻	5.00%	5.00%	5.00%	5.00%	5.00%
Leisure Fees and Charges	3.00%	2.00%	2.00%	2.00%	2.00%
Support Service Recharge to HRA	4.00%	3.00%	3.00%	3.00%	3.00%

A change in the inflation factors causes the following movements:

	2023/24 Budget £000	Inflation Assumption %	2024/25 Forecast Financial Impact £000	(+/-) 1% Change £000
Staffing*	15,872	4.00%	635	159
Pension Back Funding	567	4.00%	24	N/A
NDR on Council Properties	710	2.00%	14	7
Computer Software	906	15.00%	136	9
Gas[#]	111	50.00%	55	1
Electric[#]	878	33.50%	294	9
Water	152	2.00%	3	1

Members Allowances*	330	4.00%	13	3
Insurance	259	3.00%	8	3
Fuel~	554	5.00%	28	4
Leisure Fees and Charges	(2,931)	3.00%	(88)	(29)
Support Service Recharge to HRA	(1,884)	4.00%	(75)	(19)
TOTAL	11,493		1,046	148

* Recent pay offers, including the current 2023/24 offer, have been a flat cash uplift as opposed to a percentage. However for the purposes of the MTFP, a percentage is applied which on average broadly equates to what we anticipate any pay offer to be.

#The increase in energy budgets reflects the increase in prices expected to come into effect from October 2023. Prices will be available shortly as all energy is purchased in advance of need.

~The fuel increase largely reflects the increases experienced in 2022/23, which have currently stabilised, but begun to creep up again.

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 £70k. 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;
- the estimate is for a minimal growth in the overall Rateable Value and the national multiplier in 2024/25, 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 2% 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 £43k.

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). Ambiguous announcements over the last year have indicated that the 2024/25 settlement will be similar to that for 2023/24. However, at an individual local authority level, there can still be movement depending on the way funding is allocated – i.e. at a sector level the funding could be the same, but if more funding is directed towards Social Care for example, as a lower tier authority, this will negatively impact our funding. However, for 2024/25, the current assumption is for a cash freeze but with the following considerations:

- Rural Services Delivery Grant – this has generally been static over the last 4 years, but increased by c10% in 2023/24, so the uplift is assumed to remain;
- Lower Tier Services Grant – was announced as one-off in 2020/21 but was awarded again in 2022/23, but ceased in 2022/23 so no funding is assumed;
- 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”. One off grants have been allocated in 2022/23 and 2023/24, so the assumption is the current allocation will be repeated;
- 2022/23 Services Grant – was announced as one-off in 2022/23, but was again awarded in 2023/24, therefore it has been assumed to continue in 2024/25;
- Some grants were rolled into the main settlement in 2023/24 meaning that the Council received Revenue Support Grant for the first time since 2017/18. It is assumed this continues.

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 £1,538k. Therefore a movement of +/- 10% would equate to £154k.

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 5.25% (August 2023). Further movements are expected during the remainder of 2023 before reducing in 2024 and 2025.

On one hand this is good news as the Council will earn more interest on its temporary investments. However, this will be offset to a degree by not lending to 3 Rivers Development Ltd (3 Rivers) following the Cabinet agree to soft close the company.

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 and the ambitious plans for the development of more social housing, external borrowing is likely to be required. Wherever possible, the continuation of internal borrowing will be undertaken. However it’s unlikely there is sufficient 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. Current expectation is that inflation is not easing as quickly as projected and therefore interest rates will not fall back as quickly. It is also likely that the economy will fall into recession.

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

Link Group Interest Rate View	26.06.23												
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
BANK RATE	5.00	5.50	5.50	5.50	5.25	4.75	4.25	3.75	3.25	2.75	2.75	2.50	2.50
3 month ave earnings	5.30	5.60	5.50	5.30	5.00	4.50	4.00	3.50	3.00	2.70	2.60	2.50	2.50
6 month ave earnings	5.80	5.90	5.70	5.50	5.10	4.60	4.00	3.50	3.00	2.70	2.60	2.60	2.60
12 month ave earnings	6.30	6.20	6.00	5.70	5.30	4.80	4.10	3.60	3.10	2.80	2.70	2.70	2.70
5 yr PWLB	5.50	5.60	5.30	5.10	4.80	4.50	4.20	3.90	3.60	3.40	3.30	3.30	3.20
10 yr PWLB	5.10	5.20	5.00	4.90	4.70	4.40	4.20	3.90	3.70	3.50	3.50	3.50	3.40
25 yr PWLB	5.30	5.40	5.20	5.10	4.90	4.70	4.50	4.20	4.00	3.90	3.80	3.80	3.70
50 yr PWLB	5.00	5.10	5.00	4.90	4.70	4.50	4.30	4.00	3.80	3.60	3.60	3.50	3.50

A 0.25% movement in interest rates equates to £3,500 – £4,500 per annum¹ additional interest earned/cost for every £1m lent/borrowed.

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.

¹ Depending on the initial interest rate