

Appendix E – Assumptions underpinning the Medium Term Financial Forecasts and Sensitivity Analysis

This Appendix sets out for each of the Council's external funding streams the assumptions made when preparing the medium term financial forecasts.

The central case, the case on which the current budget projections are based, is explained here, along with other alternatives considered. These central cases will be regularly reviewed in light of Government announcements and consultation responses, and are subject to change following those. An update will be provided when appropriate.

New Homes Bonus

Central Case – NHB will continue with one Year 11 payment (which attracts new legacy payments) in 2021/22 and a further two years of legacy payments in 2021/22 and 2022/23, and then finish.

Alternatives considered

1. The NHB could be discontinued after 2021/22. As there is no Spending Review in place covering the 2022/23 financial year, MHCLG technically do not have the budget in place to confirm that the NHB will continue for the final year of legacy payments in 2022/23. However, MHCLG have committed to these legacy payments, and we consider that there would be little appetite politically to stop these given how much Councils are relying on these payments to balance their budgets.
2. The NHB could continue for a further year into 2022/23. The scheme has already been extended twice as Local Government funding has been rolled over in one-year settlements, so there is a precedent for this. Previously Brexit negotiations and more recently the response to the COVID 19 pandemic had put plans for a new NHB system on hold. The likelihood of the NHB being extended for a further year is low, but if the energy of MHCLG is taken up by COVID in 2021/22 to the extent it was in 2020/21, this alternative becomes more probable. The timing of any consultation on a new system will give us clues as to how likely this will be. We have modelled the additional year's payment on the Year 11 payment to be received in 2021/22.

New Homes Bonus MTFP Scenarios					
Scenario	Financial Impact (£)				Probability
	2021/22	2022/23	2023/24	2024/25	(%)
Central Case	(722,562)	(486,536)	0	0	80%
Alternative 1	(722,562)	0	0	0	5%
Alternative 2	(722,562)	(615,536)	0	0	15%

Council Tax

Central Case – The District portion of the Council Tax will be increased by £4.95 in each year of the MTFP. The taxbase growth over the next three years will be reduced due to the impact of COVID, due to slower property additions, higher levels of LCTS and a higher rate of non-collection.

Alternatives considered

1. No increase in Council Tax charge. Members may decide in the wake of the COVID crisis not to increase the District element of the Council Tax charge. This would

increase our funding deficits in future years and unbalance the budget for 2021/22. This option has not been recommended by officers.

2. Council Tax charge is increased by £10. The District Councils Network have lobbied for several years to allow District Councils to raise their charge by £10 rather than £5, a reflection of the fact that for many Councils a £5 increase does not generate significant amounts of income. This option is not considered likely as it would require a change in referendum principles to allow the Council to do this without triggering a referendum.
3. The taxbase growth could exceed expectations and continue the trend of pre-COVID taxbase growth. This seems unlikely in the short term, with the furlough scheme set to end and growth in the economy anticipated by the IFS to be slow.

Council Tax MTFP Scenarios					
Scenario	Financial Impact				Probability
	2021/22	2022/23	2023/24	2024/25	(%)
Central Case	(6,551,054)	(6,756,101)	(7,014,650)	(7,276,698)	70%
Alternative 1	(6,421,552)	(6,598,464)	(6,780,163)	(6,967,149)	20%
Alternative 2	(6,551,054)	(6,819,806)	(7,147,560)	(7,484,487)	10%

Revenue Support Grant

Central Case – Revenue Support Grant will continue in 2021/22 and then disappear, replaced by Retained Business Rates and backed by new funding formulae as part of the Fair Funding Review.

Alternatives considered

1. RSG could continue, but MHCLG have committed to the Fair Funding Review and replacing generic grant funding with Retained Business Rates. The continuation of RSG is only likely in the case of a further single year settlement. At the current time, we are expecting a multi-year settlement from 2022/23 as per MHCLG's advice, so do not consider this option likely. If COVID delays the next Government Spending Review, then this alternative position becomes more likely.

Revenue Support Grant MTFP Scenarios					
Scenario	Financial Impact (£)				Probability
	2021/22	2022/23	2023/24	2024/25	(%)
Central Case	(90,295)	0	0	0	85%
Alternative 1	(90,295)	(90,295)	0	0	15%

Rural Services Delivery Grant

Central Case – Rural Services Delivery Grant will continue in 2021/22 and then disappear, replaced by Retained Business Rates and backed by new funding formulae as part of the Fair Funding Review.

Alternatives considered

1. RSDG could continue, but MHCLG have committed to the Fair Funding Review and replacing generic grant funding with Retained Business Rates. The continuation of RSG is only likely in the case of a further single year settlement. At the current time, we are expecting a multi-year settlement from 2022/23 as per MHCLG's advice, so

do not consider this option likely. If COVID delays the next Government Spending Review, then this alternative position becomes more likely.

Rural Services Delivery Grant MTFP Scenarios					
Scenario	Financial Impact (£)				Probability
	2021/22	2022/23	2023/24	2024/25	(%)
Central Case	(507,661)	0	0	0	85%
Alternative 1	(507,661)	(507,661)	0	0	15%

Retained Business Rates

Central Case – We are assuming there will be a full baseline reset in April 2022, and that each future baseline reset will be a partial one. Baseline resets act to redistribute above baseline growth, so high growth authorities (like District Councils) would do better from this system than one of full resets. The Government are keen to reward Councils for growing their rates base, so this seems a reasonable position to take.

We have used the ‘spot’ methodology for modelling baseline resets, and indexed rather than floating tariffs.

Alternatives considered

1. Floating tariffs could be used rather than indexed ones. This would return every authority back to baseline and generate a surplus across the Business Rates Retention Scheme. It is likely that this surplus would be redistributed back to the sector pro rata to Baseline Funding Level. This would effectively remove the financial incentive for authorities to grow their rates base and invest in their local economy, so we consider this an unlikely scenario.
2. Subsequent baseline resets could also be full resets rather than partial ones. This would cause some uncertainty around future funding levels, which is contrary to what MHCLG are trying to achieve. The sector have lobbied heavily against the implementation of full resets. For these reasons we think this scenario is unlikely.

The figures in this table represent payments projected from the damping mechanism and form part of the Business Rates Retention income on the General Fund Summary.

Retained Business Rates MTFP Scenarios					
Scenario	Financial Impact (£m)				Probability
	2021/22	2022/23	2023/24	2024/25	(%)
Central Case	0.000	(1.328)	(0.417)	0.007	80
Alternative 1	0.000	(0.321)	0.018	0.019	10
Alternative 2	0.000	(1.328)	(0.417)	0.007	10

Fair Funding Implementation

Central Case – We are expecting that there will be a damping system in place from April 2022 and the introduction of the Fair Funding Review which will phase in changes to funding levels. Some individual authorities and types of authority more generally stand to lose a significant portion of funding from this review, and bringing in these changes abruptly could cause a structural funding problem for those Councils. When the system was last reset, a damping mechanism was in place (and still is), so we consider this to be a reasonable assumption.

Alternatives considered

1. MHCLG may wish to move to the new funding allocations, as they will be 'fairer', more quickly, and not damp changes to funding formulae.

The figures in this table represent payments projected from the damping mechanism and form part of the Business Rates Retention income on the General Fund Summary.

Fair Funding Review MTFP Scenarios					
	<i>Financial Impact (£m)</i>				<i>Probability</i>
<i>Scenario</i>	2021/22	2022/23	2023/24	2024/25	(%)
Central Case	0.000	(1.328)	(0.417)	0.007	90
Alternative 1	0.000	0.000	0.000	0.000	10