

## **Appendix B – 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 12 payment (which attracts no legacy payments) in 2022/23 and a further year of legacy payments (relating to Year 9) in 2022/23, and then finish. There has been no indication of how a replacement scheme will operate, but DLUHC have committed to a continued incentive based scheme for housing delivery.

#### **Alternatives considered**

1. The NHB could continue for a further year into 2023/24. 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 DLUHC is taken up by COVID in 202/23 to the extent it was in 2020/21 and 2021/22, 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.

<b>New Homes Bonus MTFP Scenarios</b>					
	<i>Financial Impact (£)</i>				<i>Probability</i>
<i>Scenario</i>	2022/23	2023/24	2024/25	2025/26	(%)
<b>Central Case</b>	<b>(886,575)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>90%</b>
Alternative 1	(886,575)	(400,000)	0	0	10%

### **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 2022/23. 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.

Council Tax MTFP Scenarios					
	<i>Financial Impact</i>				<i>Probability</i>
<i>Scenario</i>	2022/23	2023/24	2024/25	2025/26	(%)
<b>Central Case</b>	<b>(6,512,466)</b>	<b>(6,813,458)</b>	<b>(7,121,713)</b>	<b>(7,437,376)</b>	<b>75%</b>
Alternative 1	(6,309,361)	(6,600,967)	(6,899,608)	(7,205,427)	20%
Alternative 2	(6,920,726)	(7,240,587)	(7,568,166)	(7,903,618)	5%

#### Revenue Support Grant

Central Case – Revenue Support Grant will continue in 2022/23 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 DLUHC 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 2023/24 as per DLUHC's advice, so do not consider this option likely.

Revenue Support Grant MTFP Scenarios					
	<i>Financial Impact (£)</i>				<i>Probability</i>
<i>Scenario</i>	2022/23	2023/24	2024/25	2025/26	(%)
<b>Central Case</b>	<b>(93,540)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>85%</b>
Alternative 1	(93,540)	(93,540)	0	0	15%

#### Rural Services Delivery Grant

Central Case – Rural Services Delivery Grant will continue in 2022/23 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 DLUHC 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 2023/24 as per DLUHC's advice, so do not consider this option likely.

Rural Services Delivery Grant MTFP Scenarios					
	<i>Financial Impact (£)</i>				<i>Probability</i>
<i>Scenario</i>	2022/23	2023/24	2024/25	2025/26	(%)
<b>Central Case</b>	<b>(507,661)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>85%</b>
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 2023, 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 DLUHC 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					
	<i>Financial Impact (£m)</i>				<i>Probability</i>
<i>Scenario</i>	2022/23	2023/24	2024/25	2025/26	(%)
<b>Central Case</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>80</b>
Alternative 1	0.000	0.486	0.486	0.486	10
Alternative 2	0.000	0.000	0.000	0.000	10

#### Fair Funding/Business Rates Retention Scheme Changes – Timing

The Local Government sector had been expecting the FFR to be implemented in April 2020, with new allocations of funding based on needs and resources to be effective from the 2020-21 financial year. This has now been delayed multiple times; there has not been a consultation on the review since December 2018. The COVID 19 pandemic has fundamentally changed the way Councils provide services, such that the original work done on the assessment of a Councils need to spend may need to be revisited. This is a significant piece of work which will result in further delays. Our central case is that the FFR will be implemented in April 2024 due to the timing needed to consult before any proposals are agreed, but it could be done earlier or later than this. This is an area of significant uncertainty, and due to the materiality level of the figures involved, represents a key risk to the Councils financial position.

#### Alternatives considered

1. The FFR is implemented in April 2023. This is seen as less likely given the timescales for consultation.
2. The FFR is implemented in April 2025. This would then align with the start of the next Government Spending Review and also allow time for any proposed devolution to have taken place.

The timing does not necessarily materially affect the magnitude of funding changes, it only affects the financial year they relate to. We have based these assumptions on the nature of previous consultations and the steer from Central Government around which cost drivers and services may be favoured.

Fair Funding Review MTFP Scenarios					
	<i>Financial Impact (£m)</i>				<i>Probability</i>
<i>Scenario</i>	2022/23	2023/24	2024/25	2025/26	(%)
<b>Central Case</b>	<b>0.000</b>	<b>0.000</b>	<b>1.953</b>	<b>0.000</b>	<b>50</b>
Alternative 1	0.000	1.953	0.000	0.000	15
Alternative 2	0.000	0.000	0.000	1.953	35

#### Fair Funding Implementation - Damping

Central Case – We are expecting that there will be a damping system in place from the beginning of 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. We have assumed that damping will be applied where the change in resources is greater than 5%.

Alternatives considered

1. DLUHC 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>	2022/23	2023/24	2024/25	2025/26	(%)
<b>Central Case</b>	<b>0.000</b>	<b>0.000</b>	<b>(1.063)</b>	<b>(0.301)</b>	<b>90</b>
Alternative 1	0.000	0.000	0.000	0.000	10