Financial Plan (2017 -2022)

1. About this Plan

Our Financial Plan considers the General Fund [1] position and the Capital Programme [2], the third area of the Council's finances the Housing Revenue Account [3] is reviewed and monitored within its own 30 year Business Plan.

The purpose of this Plan is to define how the Council will structure and manage its finances over the next five years in order to deliver services to customers and support the objectives detailed within the Council Plan.

The Financial Plan links with other key plans and documents of the Council including the Transformation Strategy, Service Plans, its Asset Management Plan, Treasury Management Strategy and input from the Budget Working Party (Member Group) and the Council's Senior Management Team.

The Financial Plan requires the preparation of an annual Medium Term Financial Plan Model (MTFP) and is an essential part of the budget setting process. The MTFP provides a financial model and forecast of the cost of providing services over a rolling five-year period, together with an estimate of the financial resources that are likely to be available to the Council. The process is designed to provide an early warning of any potential deficit in the required level of resources.

As well as considering the General Fund, the MTFP also reviews the affordability of the Council's capital investment programme, matching its forecast potential available funding against planned capital spending over a five year horizon.

The development of a five-year financial model is based upon a number of assumptions and perceived risks which clearly become more difficult to predict as the period covered lengthens. However, as a broad principle the model has been developed on the basis of 'reasonable and prudent' forecasts and assumptions in accordance with sound accounting practice.

2. Fundamental principles

Underpinning this plan, the following fundamental principles have been adopted by the Council:

- Annually, a balanced revenue budget will be set with expenditure to be limited by the amount of available resources.
- The General Fund balance will be maintained at the adopted level.
- That the strategic imperatives as considered in the Council's Transformation Strategy will be implicit in resource allocation, in addition if required to balance the budget resources will be redirected from low to high priority services to meet objectives set out in the Council Plan.

1. The General Fund records day to day spending on the delivery of Council services 2. Capital Programme spending relates to the purchase or enhancement of assets, expenditure that has a benefit greater than a year. 3. Housing Revenue Account records spending on Council Housing and its landlord function.

- Council Tax increases will be kept within annually announced government guidelines to ensure a local referendum is not triggered.

In considering the capital budget, the Council will continue to follow the methodology of scheme scoring and prioritisation. The Council will also seek to maximise the use of its assets.

3. Financial background

One of the most significant impacts on the Council's finances came from the Comprehensive Spending Review in 2010 and following Spending Reviews where the Government has cut local authorities funding as part of its programme in tackling national debt.

From 2010/11 to 2015/16 there has been a 55% reduction in the main Government grant received by the Council to support services, from £7.030m to £3.164m, this decline in funding for local authorities has continued into 2016/17 with a further cash reduction to the Council of £0.750m.

In addition to government spending cuts, there is the added pressure of inflationary increases, continued low investment income, an increasing call on services, members' ambitions to enhance and improve services and the wish to keep to moderate increases in Council Tax and other fees and charges.

Against this financial background the Council has delivered its spending plans and Council Plan outcomes through careful financial management and planning ahead. Careful decisions have been taken where service savings have been made, initiatives taken in the areas of; asset management, shared service provision, systems thinking principles, the persuasion of customers to use more convenient and cost effective means of transacting with the Council, procurement efficiencies and income generation. These initiatives have been implemented with the overall arching principle required by the Council to protect front line services to the public.

The Council has facilitated and encouraged business and housing growth in the district to deliver its ambitions and this has financial benefited the Council in additional government funding through New Homes Bonus and extra Business Rate income. These areas were incentivised funding streams by government to encourage growth which East Devon has capitalised on to help fund our plans.

A balanced budget was agreed by Council for 2016/17 despite a projected gap of £0.819m for the year alone, this was achieved by following the Council's Transformation Strategy which contained actions that reduced our spending levels or increased the income available to us enabled us to balance our books.

4. Medium Term Financial Plan

The base for the MTFP is the 2016/17 approved budget and the current cost of ongoing services, adjusted to take account of a range of unavoidable costs such as pay increases, inflationary pressures, the implementation of any approved changes to the budget and any costs arising from new legislation and associated regulations or changes in customer demand. The MTFP takes account of any forecast variations in the level of both investment and fee income.

The Plan also considers and makes reasonable assumptions about the likely incomes from council tax and central government funding for which the Governments funding allocations outlined in the multi-year settlement offer has been used.

The MTFP is designed to model scenarios and to aggregate the sum of all potential financial inputs, to determine whether the Council will have sufficient resources to achieve its objectives, or indeed whether action is required to bridge a funding gap.
In formulating these calculations a number of assumptions have been made and a range of external influences considered. The various risks and pressures are detailed at the end of the Plan with commentary on their potential impact.

Appendix A to the Financial Plan contains the summary page of the MTFP including an analysis of costs and inflation applied.

A similar exercise has been undertaken in respect of future capital expenditure, detailing the anticipated level of resources required, together with potential funding sources available to the Council to support its planned programme of works and where there are revenue implications these have been acknowledged within the Plan.

MTFP – Revenue Position

The position on General Fund services is detailed in the table below and shows the current year 2016/17 for comparison and forms the basis from which future assessments have been made.

The MTFP shows a projected deficit for 2017/18 of £0.792m which then increases annually reaching £1.916m in 2021/22 as a cumulative deficit to find. Clearly this is an unsustainable pattern and not one that the Council will allow, this updated MTFP is in line with previous assessments and reports to Council. A summary position of the MTFP is given below.

Summary of MTFP-Revenue	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Net Service Costs	15,010	15,010	14,486	15,043	15,449	15,861
Amendments to base budget	-	(935)	200	-	57	(57)
Pay & Inflation and other inescapables	-	411	357	406	355	519
Net Budget Requirement	**15,010**	**14,486**	**15,043**	**15,449**	**15,861**	**16,323**
Revenue Support Grant	(1,203)	(533)	(127)	-	-	-
NNDR Gov't baseline	(2,441)	(2,489)	(2,562)	(2,644)	(2,724)	(2,805)
NNDR income above baseline	(776)	(900)	(900)	(900)	(900)	(900)
Rural Grant	(224)	(181)	(139)	(181)	-	-
Transitional Grant	(62)	(62)	-	-	-	-
Council Tax	(7,151)	(7,499)	(7,851)	(8,210)	(8,446)	(8,689)
Council Tax Support Grant to Parishes	98	98	98	98	98	98
External Interest (net of payments)	(199)	(199)	(199)	(199)	(199)	(199)
Collection Fund Surplus	(156)	(182)	(100)	-	-	-
Savings Target - Procurement	(70)	(70)	(70)	(70)	(70)	(70)
Strata Savings – Shared ICT	In base	(177)	(230)	(281)	(314)	(342)
Reserves for one off expenditure	(680)	-	-	-	-	-
New Homes Bonus – Specific funding	(646)	-	-	-	-	-
New Homes Bonus to support general funding	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)
Agreed use of General Fund	-	-	-	-	(57)	-
Total Resources Available	**(15,010)**	**(13,694)**	**(13,580)**	**(13,887)**	**(14,112)**	**(14,407)**
Cumulative Budget (Surplus) /Shortfall	**-**	**792**	**1,463**	**1,562**	**1,749**	**1,916**

The table above shows the cumulative shortfall assuming no action is taken to address each year's shortfall. The table below shows the shortfall each year in isolation, assuming the previous year's shortfall was found.

Table: MTFP Model – Summary of General Fund Position shortfall each year

General Fund	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Budget Shortfall	792	670	99	187	167
Figures assume the shortfall in each year is found so deficit is not carried forward.					

The Model assumes that the Council will adopt the Government's multi-year settlement offer and the allocations given in the 2016/17 settlement for 4 years up to 2019/20 have used.

The continued use of New Homes Bonus (NHB) monies is assumed within the above to a value of £1.5m a year to support revenue expenditure in line with Council's previous approval and consideration. NHB is considered in more detail further in this Plan highlighting the risks with this assumption.

The model identifies the pressures and influences on the Council's revenue budgets and highlights a shortfall between the Council's spending requirements and the amount of finance available. Actions will need to be taken to meet these shortfalls and the need to keep finding savings year on year is not to be underestimated.

A clear message from the Plan is there is a need to address the funding gap and there are no resources available for growth unless capacity is found through a combination of; reprioritising spending, the achievement of savings or increased income.

MTFP Revenue - The Way Forward

Presented to Members' along side this Financial Plan is the Council's Transformation Strategy which outlines how transforming the way we work will deliver our purpose despite the £1.9m budget gap identified in the MTFP and plays an integral part in meeting our deficit.

The Transformation Strategy is a dynamic 5 year strategy which requires review and update at least on an annual basis over the period so that we can track progress and savings made. The first year of the Transformation Strategy in 2016/17 helped deliver a balanced budget for the Council against a projected budget gap in year of £0.819m.

The following 'strategic themes' make up our Transformation Strategy.

1) Deliver our Worksmart Strategy and transforming our culture through new ways of working underpinned by the right technology at the right time.
2) Deliver improved online services through our Open for Business project.
3) Implement systems thinking reviews across all services.
4) Maximise the value of our assets through commercial thinking with a focus on income generation, sustainability and developing local economies.
5) Actively pursue alternative service delivery methods and models.

The 'strategic themes' of this Transformation Strategy will be used to ensure that spending and savings proposals can be tested on an ongoing basis against pre-agreed criteria. Keeping the 'strategic imperatives' in mind will help everyone in the Council keep a firm focus on how it directs its human and financial resources so that we steer a steady course to deliver, despite the reductions in government funding.

Key actions are identified within the Strategy, some of which need further exploration to determine the financial implications whilst other more immediate actions have been defined with a financial target/estimate of the savings/income generation that they will achieve. The savings identified so far within the Strategy are given below and compared against the budget shortfall identified. These actions are summarised in

Appendix B to this Plan and the full Strategy is linked to the covering report on the agenda introducing this Plan.

General Fund	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
MTFP Annual Budget Shortfall	792	670	99	187	167
Transformation Strategy where finance identified- assuming all saving delivered	(709)	(205)	(200)	(100)	-
Outstanding annual Shortfall/(Surplus)	83	465	(101)	87	167

This is an encouraging position with actions identified starting to bridge the funding gap. There is still more to do and the Transformation Strategy is dynamic and will require further work and refinement to continue to help deliver balanced budgets; the position on delivery will also require close monitoring. **The Council does however have in place a proven mechanism to deliver continuous balanced budgets.**

There are clearly risks that savings will not materialise as planned or that future actions do not identify the full savings required, other actions outside this Strategy will need to be considered if this becomes the case which unfortunately is likely to be less sophisticated and blunt such as straight forward cuts in budgets possibly affecting front line services. The MTFP already includes savings identified through Strata but the continued close working between East Devon, Exeter and Teignbridge Councils is seen as an element to assist all three Councils with their finances.

5. Capital

The Council maintains a programme of capital expenditure designed to improve a wide range of community facilities and local infrastructure. The forward funding projections below only include rolling items and projects identified early by managers; **there will be proposals missing from this list** that will need to be considered for funding out of available resources.

There will be a disparity between the Council’s capital spending aspirations being greater than the amount of finance available. In producing these figures, previous recommendations have now been implemented to help fund the programme going forward, these being:

- Capital works associated with the Housing Revenue Account are self funded; these costs have been included in the HRA business model. Any capital receipts generated from the HRA are used to finance HRA expenditure.

- External Interest achieved above a base level (determined at £0.5m) will be used to assist in funding the Capital Programme instead of it being used to fund revenue services.

- Members agreed that the savings achieved in 2015/16 General Fund position should be transferred into the Capital Reserve (£0.101m).

- A capital bid process is in place whereby appraisal forms are completed for each scheme and a scoring methodology applied to prioritise expenditure within resources available. This prioritisation is overseen by the Member Capital Strategy & Allocation Group.

MTFP Model – Capital Expenditure and Funding Position

	2016/17 £000	**2017/18** £000	**2018/19** £000	**2019/20** £000	**2020/21** £000
Net Capital Expenditure	26,992	9,748	6,465	5,831	5,831
HRA Financing	(5,477)	(5,475)	(5,475)	(5,475)	(5,475)
GF Capital Receipts	(1,880)	(8,085)	(180)	(180)	(180)
External Interest	-	-	-	-	-
New Homes Bonus – allocated	(2,154)	(3,403)	(3,796)	(4,495)	(5,094)
Sec 106 & Grants	(581)	(85)	-	-	-
Project Reserves	(5)	-	-	-	-
Net Internal/ External Borrowing & Repayments	(14,490)	6,855	-	-	**-**
Budget (Surplus)/ Deficit	**2,405**	**(445)**	**(2,986)**	**(4,319)**	**(4,319)**
Capital Reserve Remaining after funding (opening bal £2.405m	**-**	**(445)**	**(3,431)**	**(7,750)**	**(12,069)**

The significant change in fortunes above in 2017/18 is as a result of capital receipt in relation to the Exmouth Regeneration scheme which pays off previous funding of the project (this is based on project timing presented at Outturn in June 2016 - further detailed proposals need to be considered by Council relating to this project).

It should also be noted that the programme expenditure includes only those schemes already approved by Council and rolling items such as; the provision of statutory disabled facility grants, the public toilet renovation programme, equipment replacement for street scene services and housing improvement schemes (fully funded by HRA contribution). **Bids will come through the annual budget process giving a completely different picture to that given above and there will be choices to make in order to keep expenditure within resources available.**

Key issues to consider for this Plan in terms of capital are:

- Only rolling items, or early request for items, have been included in the MTFP. No amount is included for future coast protection or flood prevention schemes. If any schemes do come forward, it is assumed they will attract Government funding if of high enough priority.

- Any scheme inclusion in the Programme over and above this core annual expenditure needs to be considered carefully for inclusion in future programmes on a case by case basis to determine if they meet corporate objectives and, if they can be self funded, evidenced in a business case or delivered in conjunction with other agencies/partners. Some schemes will come with no funding but may still be required to be funded due to their nature.

- **New Homes Bonus monies allocated to the Capital Programme represents the Balance available after deducting £1.5m to fund the General Fund. Income calculations of the New Homes Bonus monies has been based on the current scheme, there was however a Government consultation paper issued in December 2015 considering reduced funding proposals. A conclusion to these proposals have yet to be determined, possible implications are consider further below in this Plan and the affect this might have on the Council's capital programme to that presented above.**

The Way Forward – Capital programme

- There is a clear necessity for the continuation of the member **Capital Strategy & Allocation Group** to consider the allocating of capital resources against competing capital scheme bids.

- The programme needs to be populated with realistic expenditure estimates into the future; further work is required with budget managers across the Council to start formulating a more forwarded looking capital programme for the Council.

Some key issues to highlight for MTFP - Revenue

- **New Homes Bonus**

In April 2011 the Government introduced the New Homes Bonus (NHB) scheme which rewards local authorities where there is housing growth in their area.
A 6 year payment of an average council tax per additional property is paid to the Council. **The table below shows monies received to date by the Council and projections going forward based on the current NHB scheme in place**.

New Home Bonus payments to East Devon						
	2016/17 £000	**2017/18 £000**	**2018/19 £000**	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**
Yr1 = 2011/12	311	-	-	-	-	-
Yr2 = 2012/13	448	448	-	-	-	-
Yr3 = 2013/14	418	418	418	-	-	-
Yr4 = 2014/15	646	646	646	646	-	-
Yr5 = 2015/16	1,193	1,193	1,193	1,193	1,193	-
Yr6 = 2016/17	1,360	1,360	1,360	1,360	1,360	1,360
Yr7 = 2017/18		913	913	913	913	913
Yr8 = 2018/19			841	841	841	841
Yr9 = 2019/20				1,116	1,116	1,116
Yr10 = 2020/21					1,171	1,171
Yr11= 2021/22						1,171
Totals	**4,376**	**4,978**	**5,371**	**6,069**	**6,594**	**6,572**
Shaded areas are estimated						

<u>Effects on the Council's MTFP</u>

Members have agreed to date to use £1.5m to support General Fund expenditure. This has been reflected in MTFP through the life of the Plan.

NHB has also been used for specific expenditure related to encouraging housing growth; £350,000 funding for loan repayments associated with Cranbrook infrastructure and over £400,000 towards planning costs and specific assistants to effected parish councils.

The Cabinet meeting on 8th June 2016 considered further proposals relating to the Council making a contribution of £2.4m from NHB to Cranbrook Town centre facilities including a leisure centre and a health and well being centre – bringing forward key assets ahead of planning obligation to support the new community.

This is however on hold awaiting the outcome of the Government's consultation on the future of NHB which is further discussed below.

The balance of the annual NHB allocation is used to support the Council's capital programme.

There are two key risks affecting the projection of income through NHB;

- In December 2015 Government issued a consultation paper on NHB with the clear implication of reduced funding. No conclusion to this consultation has been published and it is assumed, but no certainty, that changes will be announced in the autumn statement for the 2017/18 settlement. For the purpose of projecting NHB income going forward it could be assumed that 57% of NHB will be directed to social care (a broad statement made in the consultation paper) and we will lose this proportion of income. The projected NHB for 2017/18 has been calculated at £5m (even after taking account of reduced delivery at Cranbrook). A 57% reduction drops this sum to £2.1m.

  The Council's policy is to retain £1.5m of NHB annually to fund the General Fund with the balance in the main being used to support the Council's Capital Programme. In 2017/18 the Council has allocated £3.4m to the capital programme. If this decrease in funding is applied to the element that is transferred to capital this reduces the level going to capital in 2017/18 to £0.6m and would mean the need to borrow £2.3m to fund the proposed capital programme in 2017/18. This is a very pessimistic view and any changes made to the scheme are likely to be phased, however taking this view the capital programme would be affected as follows.

Shaded area is how the capital programme is presented in body of Financial Plan Report	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Net Capital Expenditure	26,992	9,748	6,465	5,831	5,831
HRA Financing	(5,477)	(5,475)	(5,475)	(5,475)	(5,475)
GF Capital Receipts	(1,880)	(8,085)	(180)	(180)	(180)
External Interest	-	-	-	-	-
New Homes Bonus – allocated	(2,154)	(3,403)	(3,796)	(4,495)	(5,094)
Sec 106 & Grants	(581)	(85)	-	-	-
Project Reserves	(5)	-	-	-	-
Net Internal/ External Borrowing	(14,490)	6,855	-	-	**-**
Budget (Surplus)/ Deficit	**2,405**	**(445)**	**(2,986)**	**(4,319)**	**(4,319)**
Capital Reserve Remaining after funding (opening bal £2.405m)	**-**	**(445)**	**(3,431)**	**(7,750)**	**(12,069)**
Affect if NHB falls by 57%					
Revised Budget (Surplus)/ Deficit	**-**	**2,392**	**75**	**(860)**	**(8,311)**
Revised Capital Reserve Balance	**-**	**-**	**-**	**(860)**	**(9,171)**
Additional borrowing required to meet existing programme	**-**	**2,392**	**75**	**-**	**-**

As stated with any reduction in NHB it is likely there will be a phased reduction in any funding which is discussed in the consultation paper.

At this stage for the preparation for the MTFP it is assumed it is the capital programme which will take the pain of the assumed reduction of income, at least initially, as it is so uncertain at this stage. The capital programme can be adjusted more readily to deal with such fluctuations in resources whereas to adjust revenue would mean a radical restructure of our services and staffing which would have to be done now to be effective for the 2017/18 budget and this would be for a level of change which is unknown. Once further details are available this position can be revisited for 2018/19.

The Council does hold a New Homes Bonus Volatility Fund of £1.4m to mitigate reduced levels of funding should a worse position arise to that projected.

- There has been a recent slow down in the delivery of housing numbers in Cranbrook whereby in recent years we have seen delivery around 400 a year; this will drop to around 166 for 2017/18. The NHB calculation assumes a level of just 100 for 2018/19 with the numbers then rising steadily again in future projections.

  These issues are to be followed up and discussed at the Strategic Planning meeting

  This has been mitigated in part by additional growth in the rest of the District.

- **Government multi-year settlement offer**

The Secretary of State for Communities and Local Government wrote to every local authority in England setting out conditions of a multi-year settlement offer. Councils have until the 14th October 2016 to apply and to submit a published efficiency plan. It was made clear that the offer and the production of an efficiency plan should be as simple and straightforward as possible using exiting plans in place. Should members agree to apply for the multi-year settlement it is considered that the Financial Plan (containing the Council's MTFP) and the Transformation Strategy would meet this requirement.

The offer, as described in the Secretary of State's letter includes:

- Revenue Support Grant
- Business rates tariff and top up payments, which will not change for reasons relating to the relative needs of local authorities
- Rural Services Delivery Grant and
- Transition Grant.

Details are shown in the table below for East Devon

Finance Settlement	2016/17 £	2017/18 £	2018/19 £	2019/20 £
Revenue Support Grant	1,202,791	533,365	126,655	0
Tariff Payments	-10,424,873	-10,629,913	-10,943,504	-11,620,926
Rural Services Delivery Grant	224,199	181,030	139,254	181,030
Transitional Grant	62,356	62,132	0	0

These allocations have been used in the preparation of the MTFP.

- **<u>Universal Credit</u>**

  In future, the Council will no longer be responsible for the administration of Housing Benefit payments. Benefits payments will form part of the **Universal Credit** proposals amalgamating a number of welfare payments into one system administered directly by the Department for Works and Pensions (DWP). Roll out in East Devon began in November 2015. The roll is extremely slow with only a small number of new claimants affect in the initial period.

  This brings with it uncertainties for customers, Council staff and the financial uncertainty. The current administration of the scheme is in theory cost neutral when taking direct grant and formula grant together, although with formula grant, individual service grant is not identifiable. There is a risk in the calculations to be used by Government to reduce funding to reflect the stopping of this responsibility that the Council could be disadvantaged.

<u>Effects on the Council's MTFP</u> *A reduction has been taken for the Housing Benefit administration grant in line with general funding reductions of 9% year on year.* *The Plan assumes the same level of staffing and maintains the overall Government funding position except for the expected year on year reduction indicated above. Careful consideration will be required as to the level of workload as more customers are dealt with direct by the DWP, the actual funding reduction to be seen and a determination of the reductions in staffing levels that should be made.* *This will be assessed when more details are known; the reductions in staff will be planned ahead and it is assumed this will be accommodated through normal turnover.*

- **Council offices relocation**

  The Council has agreed to an office relocation whereby the existing Knowle headquarters is sold to fund a new office build next to the East Devon Business Centre in Honiton, on land owned by the Council, and also for the Council to utilise Exmouth Town Hall, again owned by the Council; thereby delivering its operation from two sites.

  Financially, this was assessed as the best option for the Council going forward mainly because of the high running costs associated with the Knowle and the significant costs involved in necessary essential maintenance. The essential maintenance costs have not been included within the Plan as the decision to move has been taken, savings on running costs however have not been taken into account at this stage until further assurance over timings can be more certain. These savings will be reflected in future iterations of the Plan.

- **NNDR / Business Rate Retention Scheme**

  Business Rates income has been assumed under the existing arrangements; the 100% rate retention proposal it appears will not be applicable to us until 2020/21. The MTFP assumes the continued position where our income levels are above our set baseline with additional income included in 2017/18 of £0.9m above the baseline of £2.5m. This level of income has been included each year in the MTFP and current monitoring shows this is sensible and prudent. The Council holds £0.9m in a Business Rates Volatility Fund to mitigate the risk that this income level reduces in order to protect the general fund against significant fluctuations.

  Business Rate revaluation is effective from April 2017; any implication on the Council's income position as a result of revaluation movements in the District should be negated by the Government amending our Tariff payment thereby having no overall effect on our income level.

<u>Effects on the Council's MTFP</u> *The Plan shows income from NNDR at the Government's Baseline amount, in 2017/18 this being £2.489m, and projects the annual amount forward to 2020/21 at £2.805m. The amounts included for 2017/18 to 2019/20 are based on the Governments multi-year settlement announcement.* *The Council currently receives NNDR income above this level. The MTFP includes this additional income at £0.9m in 2017/18 through to the end of the Plan. This is considered to be set at a sensible level, however this is a difficult area to predict and if over estimated could have a significant impact on the Plan.* *This will be monitored carefully and future versions of the MTFP updated as necessary, to mitigate risk Members have agreed to set an NNDR volatility fund of £0.9m at the end of 2015/16 to safeguard the Council against the volatility in this income stream.*

EXTERNAL INFLUENCES AND KEY ASSUMPTIONS WITHIN THE REVENUE MTFP MODEL

- **Inflation**

  Inflation rates used are indentified in Appendix A of the MTFP attached.
  Although the financial model is based upon what are believed to be a series of prudent assumptions, there is inevitably a risk that some or all factors applied could be inaccurate. The table below summarises the impact of any such inaccuracies that would have a detrimental effect upon the financial plan:

Financial impact of changes in inflation assumptions 2017/18.

Factor	**Predicted Cost Base (Revenue)** £000	**Worse by 0.5%** £'000	**Worse by 1.0%** £'000
Pay, N.I & Pension & other employee costs	13,228	66	132
Other costs (excl. HB)	15,256	71	142

- **Investment Returns**

  The approach adopted, of budgeting for investment income remains prudent. Investment return predictions have been factored in to continue at less than 1% during the life of the Plan.

- **Council Tax Income**

  The four year settlement issued by Government in determining councils' grant funding has assumed that Councils will increase their Council Tax year on year to the maximum allowed as detailed in the 2016/17 settlement and this level of income has been taken into account in their calculations. **The MTFP follows this line with £5 a year increase up to 2019/20 with an inflation increase applied thereafter**.

Financial impact of changes in council tax levels.

Level of council Tax increase	**Predicted council tax income** £000	**Loss of income in MTFP 2017/18** £'000
Council tax yield at £5 (3.9%) increase	(7,499)	Nil
Yield at 2.0%	(7,359)	140
Yield at 1.0%	(7,287)	212
Yield at 0.0%	(7,214)	285

This calculation shows a one year effect, this reduction would be lost each year going forward plus the opportunity to increase the level in future on a higher base.

- **Cranbrook & other development**

  The expected build rate for Cranbrook has been considered along with service cost implications. The majority of costs for the new town are to covered in Planning 106 agreements or are not this Council's liability, other areas such as recycling and refuse collection and street cleansing have been included in the Plan when expected demand requires a stepped increase in cost. Other planned development in the area has been considered alongside these figures.