## Financial plan sensitivity and risk analysis (section 25 assessment and report)

The Local Government Act 2003 (section 25) requires that when a local authority is agreeing its annual budget and precept, the Chief Finance Officer must report to it on the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves.

In expressing this opinion the Chief Finance Officer has considered the financial management arrangements that are in place, the level of reserves, the budget assumptions, the overall financial and economic environment, the financial risks facing the Council and its overall financial standing.

The key long term driver is preserving the Councils financial resilience within the financial strategy and the medium term financial plan.

The main risks are around revisions to local authority funding and reductions likely for future years and the continuing impact of Covid 19 and support from Government. These are described below together with potential adverse changes in other income and expenditure streams. The risks are mitigated by careful use of earmarked funding reserves, the ongoing BEST2020 (now 'Better 2022') review of services, action to act more commercially, reviewing Covid recovery plans and monthly monitoring of our financial position and reporting of variances and inclusion of appropriate Covid provisions for loss of income.

**1.** The budget assumes £14.2 million of income from fees and charges, recycling, property and investments for 2021/22. Against this gross budget target is a Covid 19 provision to cover any potential losses of £3.3 million. Whilst this assumption is realistic for the net income it includes significant rental income from Market Walk and there is always the risk that income could fall further or be less than anticipated. **A drop in income as compared to the net budget of around 10% would result in a loss of £1,092,000.**

**2.** The small provision of 1% which has traditionally been made for potential losses in council tax collection has been increased to 2.5% in 2021/22 to reflect changing economic circumstances brought about by Covid 19 and which is likely to be more difficult next year with the estimated overall increase of 4.9% in council tax.

**3.** Inflation on costs is being managed through energy reduction measures and cost effective procurement. An allowance of £189,000 for inflation (excluding pay award provision) is included in the budget which is considered reasonable.

**4.** Known liabilities have been provided for and there are no significant outstanding claims.

**5.** The final settlement confirmed significantly reducing figures for New Homes Bonus and legacy payments after 2021/22.

**6.** Business rates retention income from rates growth above the baseline and some pooling gain has been assumed for part of the four plan years. This is reasonable being largely based on the special grants we get to cover the cost to Teignbridge of government schemes to help businesses and tempered by ongoing uncertainties in relation to projections in growth. Potential 75% retention may arise in 2022/23 but depends on Government funding reforms. A realistic provision of £520,000 has been made for business rates appeals next year. We are only protected against any rates downturn or further rates appeals by a relatively low safety net and **a 10% reduction in funding would be £473,000**.

**7.** New homes bonus has traditionally been estimated on 620 extra homes per year as in the local plan and a 4 year payment. In addition a 0.4% baseline deduction reduces the figure year on year. The reducing figure of £1.5 million has been used in the budget as legacy

payments fall are eliminated from the funding stream. The Government has intimated eliminating New Homes Bonus and replacing with an alternative form of housing funding. No details of what the changes might be are available at present or whether this will actually take place however there are assumptions built into receiving such funding in 2022/23 and 2023/24.

**8.** The capital programme is financed over the next three years using realistic estimates of capital receipts, grants, prudential borrowing and other funding including developer contributions such as Section 106 and community infrastructure levy. Major town centre regeneration investment in Teignmouth and Newton Abbot will be funded mainly from prudential borrowing. Government has approved £9.2m grant in principle for Future High Street projects, subject to final scheme approval. Other co-funding includes developer contributions, grant and prudential borrowing. The main provision for social and affordable housing – the Teignbridge 100 is forecast to be funded from a combination of government grant, capital receipts, developer contributions and borrowing. Projects relating to the Carbon Action Plan and a provision for employment site investment are also to be funded through prudential borrowing. The Teignbridge 100, Future High Street project and carbon reduction schemes (with the exception of the grant-funded leisure element) and employment site provision are indicative projects only and not being approved in this budget. Individual business cases will be brought to members for consideration as they are developed.

**Summary & conclusion**

Significant risks are identified above with a potential total adverse revenue effect for 2021/22 of £1.6 million. However, revenue reserves are planned to be 13.0% of the net revenue budget or £2.0 million. It is anticipated, dependent upon progress of the town centre developments, that external borrowing will be required during 2021/22. Such financing is costed within the budget estimates and in line with the requirements of the Treasury Management Strategy and Prudential Indicators. I therefore confirm the robustness of the budget and the adequacy of the reserves.

**Martin Flitcroft, Chief Finance Officer** **22 February 2021**