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 'Better 2022' review of services, the Modern 25 agenda, action to act more commercially, monthly monitoring of our financial position and reporting of variances.

1. The budget assumes £15.6 million of income from sales, fees and charges, recycling and property for 2023/24. Whilst this assumption is realistic for the 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 £1,559,000.**

2. The small provision of 1.9% which has traditionally been made for potential losses in council tax collection has been increased to 2.1% in 2023/24 to reflect changing economic circumstances which is likely to be more difficult next year with the estimated overall increase of 5.2% in council tax.

3. Inflation on costs is being partly managed through energy reduction measures and cost effective procurement. However significant inflationary pressures have resulted in an allowance of £774,000 for inflation (excluding pay award provision) which is included in the budget and 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 elimination of legacy payments.

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 business rates reset may arise in 2025/26 but depends on Government funding reforms. A realistic provision of £528,000 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 £597,000**.

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 £0.4 million has been used in the budget as legacy payments are now 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 alternative funding in 2025/26 and thereafter.

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 (CIL). Major town centre regeneration in Newton Abbot will be funded mainly from prudential borrowing and government grant of £9.2 million approved for Future High Street projects. Other co-funding includes developer and external contributions. The rate of inflation on construction projects has risen steeply over recent months due to a combination of issues. The current recessionary economic climate also has the potential to affect the future budgetary impacts of these projects, the business cases for which rely on forecasts for rental income. Business cases are compiled with the benefit of expert external advice where appropriate and are reviewed regularly to assess the impact of the economic environment on capital and revenue costs. 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. The business case for the current Forde House decarbonisation and agile working project is dependent on rental income from letting out space at Forde House. Future projects relating to the Carbon Action Plan and a provision for employment site investment are also to be funded through prudential borrowing. Any project which is funded through borrowing is subject to interest rate risk. Further detail on how this risk is managed can be found in Appendix 12 (Treasury Management Strategy) and Appendix 12a (Capital Strategy). The next phase of Teignbridge 100 projects, future carbon reduction schemes and the employment site provision are indicative 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 2023/24 of £2.2 million. However, revenue reserves are planned to be 13.0% of the net revenue budget or £2.3 million. It is anticipated, dependent upon progress of the town centre developments and the Teignbridge 100, that external borrowing will be required during 2024/25. 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 **21 February 2023**