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. 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 review of services, action to act more commercially and monthly monitoring of our financial position and reporting of variances.

1. The budget assumes £14.3 million of income from fees and charges, recycling, property and investments. Whilst this assumption is realistic it includes significant rental income from Market Walk and there is always the risk that income could fall or be less than anticipated. **A drop in income as compared to budget of around 10% would result in a loss of £1,434,000.**

2. A small provision of 1% has been made for potential losses in council tax collection which is likely to be more difficult next year with the estimated overall increase of 4.1% in council tax.

3. Inflation on costs is being managed through energy reduction measures and cost effective procurement. An allowance of £156,000 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 2020/21.

6. Business rates retention income from rates growth above the baseline and some pooling gain has been assumed for the four plan years. This is reasonable being largely based on the special grants we are due to get to cover the cost to Teignbridge of government schemes to help businesses. 75% retention is included for 2021/22. 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 £507,000**.

7. New homes bonus was 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 £2.2 million has been used in the budget and continuing baseline reductions of 0.4% have been assumed for 2021/22 and 2022/23. 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.

8. The capital programme is financed over the next three years using realistic estimates of contributions from revenue, receipts, grants, prudential borrowing and other funding including community infrastructure levy. Three major town centre investments will be funded mainly from prudential borrowing. There is also a provision for potential Future High Street fund projects. These would be funded from a combination of government grant and other co-funding, including CIL, grant and prudential borrowing. There are also provisions for employment site investment to be funded through prudential borrowing. Both the Future High Street fund and employment site projects 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 2019/20 of £1.9 million. However, revenue reserves are planned to be 12.3% 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 by the Autumn of 2020. 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 **24 February 2020**