

Sensitivity analysis and risk analysis of the Budget Proposals 2020-21

1. The budget assumes approximately £3.3 million of income from fees and charges, recycling and investments. Whilst this assumption is realistic, given the position of the economy there is a risk that income could fall or be less than anticipated. A 5% reduction in income would result in a loss of £165,000.
2. The Budget Proposals rely on proposed savings over the next 5 years of £931,000. A 5% reduction in the savings would equate to £46,550.
3. The Budget Proposals assume budget pressures over the next 5 years of £1.63 million. A 5% increase in the budget pressures would equate to £81,500.
4. Council Tax Income and New Homes Bonus have been modelled based on an extra 70 Band D Equivalent properties per annum increase. Each extra property attracts £1,337 in NHB. If this figure were to actually be say 50 properties (i.e. 20 properties less), this would mean that Council Tax Income would be £5,000 less and New Homes Bonus income would be £27,000 less.
5. Council Tax has been assumed in the Budget Proposals to increase by £6.91 to £238.54 in 2020/21. The additional council tax income this would generate is £140,000. If council tax for 2020/21 were to remain at £231.63, the income from council tax would be overstated by this amount in the Budget Proposals.
6. If Council Tax income collection fell by 1% (collection in 18/19 was 97.7%), this would mean a reduction of council tax income of £47,000. Similarly if Business Rates income collection fell by 1% (collection in 18/19 was 97.6%), this would mean a reduction in business rates income of £15,000.
7. Income from investments has been assumed to increase in line with the expected interest rate forecasts in Section 3. A 0.25% variation in interest rates on investment income equates to £22,000.
8. An allowance of 2% for inflation is included in the budget. Inflation costs are being managed through cost effective procurement.

9. The capital programme is funded by receipts, grants, and contributions. Realistic assumptions about these have been made for the future.
10. Known liabilities have been provided for and there are no significant outstanding claims.
11. **Borrowing Levels**

Exempt Appendix G of the Medium Term Financial Strategy presented to Council last year in September 2018, gave advice on the borrowing level for the Council (recommended at £50 million) and the Interest payments on the borrowing as a percentage of available Reserves. The tables below show the impact that a change of Interest payable at 2.5% on borrowing to 3% on borrowing has on this Indicator.

| Total Borrowing | Interest repayments at 2.5% | Level of Reserves £5.6m* | Interest payments (at 2.5%) as % of available Reserves |
|------------------------|------------------------------------|---------------------------------|---|
| £50m | £1,250,000 | £5.6m | 22.3% |

| Total Borrowing | Interest repayments at 3% | Level of Reserves £5.6m* | Interest payments (at 3%) as % of available Reserves |
|------------------------|----------------------------------|---------------------------------|---|
| £50m | £1,500,000 | £5.6m | 26.8% |

*(£1.3m of Unearmarked Reserves and £4.3m of Earmarked Reserves)

Summary & conclusion

Sensitivity analysis and risks are identified above with a potential total adverse revenue effect for 2020/21 of £549,000.

Recommendation 6 of the report is that the minimum level of Unearmarked Reserves to be retained is increased from £750,000 (2019/20 level) to £900,000 for 2020/21, to reflect the increase in financial risks which the Council faces (see 4.7 of the main report). I therefore confirm the robustness of the Budget Proposals and the adequacy of the reserves.

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