APPENDIX G

Sensitivity analysis and risk analysis of the Medium Term Financial Strategy (MTFS)

1. The budget assumes approximately £8 million of income from fees and charges, recycling and investments. Given the position of the economy there is a risk that income could fall or be less than anticipated. A 10% reduction in income would result in a loss of £800,000.

2. The MTFS relies on proposed savings over the next 5 years of £554,000. A 5% reduction in the savings would equate to £27,700.

3. The MTFS assumes budget pressures over the next 5 years of £2.19 million. A 5% increase in the budget pressures would equate to £110,000.

4. Council Tax Income has been modelled based on an extra 400 Band D Equivalent properties per annum increase. If this figure were to actually be say 200 properties (i.e. 200 properties less), this would mean that Council Tax Income would be £36,000 less.

5. Council Tax has been assumed in the MTFS to increase by the higher of £5 or 1.99% over each of the next three years. For example, for 2023-24 this would equate to a Band D of £185.42 (an increase of £5). The additional council tax income this would generate is £198,000. If council tax for 2023/24 were to remain at £180.42, the income from council tax would be overstated by this amount in the MTFS.

6. If Council Tax income collection fell by 1% (collection in 20/21 was 97.81% – 2.11% higher than the national average of 95.7%), this would mean a reduction of council tax income of around £70,000. Similarly if Business Rates income collection fell by 3% (collection in 20/21 was 91.74%, which was 1.26% lower than the national average of 93%), this would mean a reduction in business rates income of £70,000.

7. Income from investments has been assumed to increase in line with the expected interest rate forecasts. A 0.25% variation in interest rates on investment income equates to £75,000.

Borrowing Levels

Exempt Appendix G of the Medium Term Financial Strategy from September 2018 gave advice on the borrowing level for the Council and the Interest payments on the borrowing as a percentage of available Reserves. The table below shows the impact that Interest payable at 2% on borrowing has on this Indicator.

Total Borrowing	Interest repayments at 2%	Level of Reserves (£2.2m Unearmarked Reserves and £13.1m Earmarked Reserves) – predicted levels at 31.3.2021 – as per Appendix C	Interest payments (at 2%) as % of available Reserves
£75m	£1,500,000	£15,300,000	9.8%

8. The capital programme is funded by capital receipts, grants, and contributions. Realistic assumptions about these have been made for the future.

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

CIPFA'S Financial Resilience Index 2022

CIPFA has published a Financial Resilience Index which is a comparative analytical tool that can be used by Chief Financial Officers (S151 Officers) to support good financial management and to provide a common understanding within a Council of its financial position. The index shows a Council's position on a range of measures associated with financial risk. Section 151 Officers can use the index in the annual budget report.

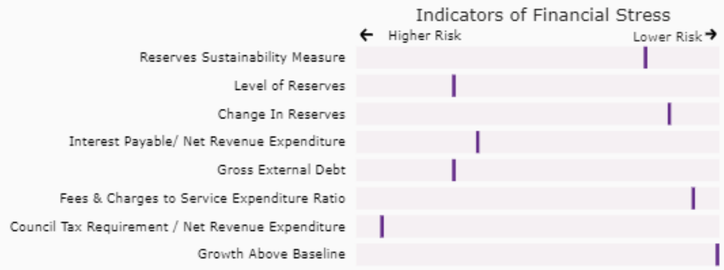
The extracts below show the financial resilience indicators for South Hams District Council for 2022, when compared against Nearest Neighbours and Non-Metropolitan Districts. Bars on the left show a higher risk of financial stress for different categories e.g. level of Reserves, Gross External Debt, interest payments as a proportion of net revenue expenditure etc. Similarly bars on the right show a lower risk of financial stress for each indicator.

Resilience Index 2022

CIPFA Financial Resilience Index

Tier	Authority	Comparator Group	Year
Lower	South Hams	Nearest Neighbour	2020-21

Results Breakdown



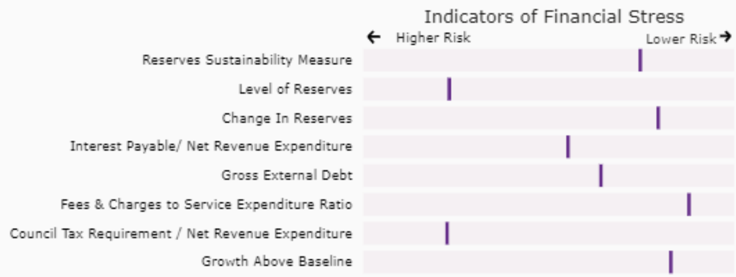
Indicator	Min	Indicator Value	Max
Reserves Sustainability Measure	100.00	100.00	100.00
Level of Reserves	65.18%	117.83%	300.00%
Change In Reserves	9.75%	132.21%	316.98%
Interest Payable/ Net Revenue Expenditure	0.00%	2.07%	15.63%
Gross External Debt	£0k	£14,475k	£126,906k
Fees & Charges to Service Expenditure Ratio	9.31%	27.80%	50.44%
Council Tax Requirement / Net Revenue Expenditure	33.61%	46.40%	99.24%
Growth Above Baseline	28.78%	28.78%	148.70%

Resilience Index 2022

CIPFA Financial Resilience Index

Tier	Authority	Comparator Group	Year
Lower	South Hams	Non Metropolitan Dis...	2020-21

Results Breakdown



Indicator	Min	Indicator Value	Max
Reserves Sustainability Measure	0.00	100.00	100.00
Level of Reserves	29.65%	117.83%	300.00%
Change In Reserves	-100.00%	132.21%	440.14%
Interest Payable/ Net Revenue Expenditure	-1.82%	2.07%	423.28%
Gross External Debt	£0k	£14,475k	£1,706,735k
Fees & Charges to Service Expenditure Ratio	0.55%	27.80%	73.28%
Council Tax Requirement / Net Revenue Expenditure	18.35%	46.40%	100.00%
Growth Above Baseline	-153.23%	28.78%	435.83%

The tables show that when compared against nearest neighbours and non metropolitan districts, South Hams has a higher than average risk around its level of reserves and its high reliance on council tax income to fund its net revenue expenditure. Interest payable on borrowings and gross external debt is higher than average risk when compared against nearest neighbours, but lower than average risk when compared against non metropolitan districts. All other indicators are lower risk when benchmarked against nearest neighbours and non-metropolitan districts.

Summary & conclusion

Sensitivity analysis and risks are identified above with a potential total adverse revenue effect for 2022/23 of **£1.39 million**. However, revenue reserves are recommended to be maintained at a minimum of £1.5 million, with an operating level of £2million. I therefore confirm the robustness of the Medium Term Financial Strategy and the adequacy of the reserves.

Mrs Lisa Buckle, Corporate Director for Strategic Finance (S151 Officer)

1 February 2022