

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

1. The budget assumes approximately £9.5 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 5% reduction in income would result in a loss of £475,000.
2. The MTFS relies on proposed savings and income generation over the next 3 years of £3,592,000. A 5% reduction in this figure would equate to £179,600.
3. The MTFS assumes budget pressures over the next 3 years of £6.17 million. A 5% increase in the budget pressures would equate to £308,000.
4. Council Tax Income has been modelled based on an extra 500 Band D Equivalent properties per annum increase. If this figure were to actually be say 300 properties (i.e. 200 properties less), this would mean that Council Tax Income would be £37,000 less.
5. Council Tax has been modelled in the MTFS to increase by £5 over each of the next three years. For example, for 2024-25 this would equate to a Band D of £190.42 (an increase of £5). The additional council tax income this would generate is £202,000. If council tax for 2024/25 were to remain at £185.42, 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 21/22 was 98.34% – 2.44% higher than the national average of 95.9%), this would mean a reduction of council tax income of around £75,000. Similarly if Business Rates income collection fell by 1% (collection in 21/22 was 98.13%, which was 2.63% higher than the national average of 95.5%), this would mean a reduction in business rates income of £25,000.

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 4% on borrowing has on this Indicator.

<b>Total Borrowing</b>	<b>Interest repayments at 4%</b>	<b>Level of Reserves  (£2.0m Unearmarked Reserves and £13.9m Earmarked Reserves) – predicted levels at 31.3.2023 – as per Appendix C</b>	<b>Interest payments (at 4%) as % of available Reserves</b>
<b>£75m</b>	£3,000,000	£15,900,000	18.9%

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. 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.

## CIPFA Financial Resilience Index 2022 (based on the 2021-22 financial year)



The tables show that when compared against nearest neighbours and non metropolitan districts, South Hams has a median risk around its level of reserves and a lower risk around the reliance on council tax income and fees and charges 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 2023/24 of **£1.38 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)**

**6 February 2023**