

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

1. The predicted revenue support grant figure for 2016/17 is £1,032,000. This is a reduction of £374,000 or 27% on the current year. For 2017/18 and 2018/19 further reductions of £313,000 (30%) and £290,000(40%) have been assumed based on forecasts. A variation of 10% on the 2016/17 predicted figure for Revenue Support Grant equates to £103,200.
2. Extra business rates retention income from rates growth above the baseline funding has been assumed for the five year plan. A growth averaging £58,000 (3%) annually over the next five years has been assumed.
3. A realistic provision of £2.33 million (equating to 7.5%) has been made for business rates appeals (the gross amount payable for Business Rates is £31.2 million in 15/16). However the Council is only protected against any rates downturn or by large appeals impacting on business rates base by a safety net of 7.5% of the baseline of £1,750,214. Therefore the potential annual loss of business rates income if the Council were to be impacted adversely by large business rates appeals equates to £131,000 per annum. This would be the case until the business rates baseline is reset in a few years time. (The risk of large business rates appeals is the reason why the Council withdrew from the Devonwide business rates pool as per 3.3 of the MTFS).
4. The budget assumes approximately £7.5 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 £375,000.
5. The MTFS relies on proposed savings in 2016/17 of £1.242 million. These savings have been agreed as part of the Business case for the T18 Transformation Programme and are mainly from a reduction in staffing numbers being fully realised in 2016/17. A 5% increase or reduction in the savings would equate to £62,000.

6. New Homes Bonus has been modelled based on an extra 200 properties per annum increase. Each extra property attracts £1,174 (80% of £1,468). If this figure were to actually be an extra 250 properties say (an extra 50 properties), this would attract an additional £58,700 per annum for the next 6 years of New Homes Bonus.
7. Council Tax has been assumed in the MTFs to increase by 1.99% per annum. A 1% increase in council tax equates to £53,000.
8. Income from investments has been assumed to increase in line with the expected interest rate forecasts in Section 2.3 i.e. 0.75% in 2016/17 and rising to 1.5% by 2018/19. A 0.25% variation in interest rates on investment income equates to £50,000.
9. An allowance of 2% for inflation is included in the budget. Inflation costs are being managed through cost effective procurement.
10. The capital programme is funded by receipts, grants, and contributions. Realistic assumptions about these have been made for the future.
11. Known liabilities have been provided for and there are no significant outstanding claims.

Summary & conclusion

Sensitivity analysis and risks are identified above with a potential total adverse revenue effect for 2016/17 of £832,000. However, revenue reserves are recommended to be maintained at a minimum of £1.5 million. I therefore confirm the robustness of the Medium Term Financial Strategy and the adequacy of the reserves.

Mrs Lisa Buckle, Finance Community of Practice Lead (S151 Officer)