APPENDIX G

Sensitivity analysis and risk analysis of the Medium Term Financial Strategy (MTFS) – Section 25 assessment

On an annual basis when the Council is agreeing its budget for the next financial year and the council tax level, the S151 Officer (Chief Finance Officer) is required to report to Council on the robustness of the estimates made within the Budget Proposals and the adequacy of the proposed level of reserves. This is a requirement of the Local Government Act 2003 (section 25).

1. The budget assumes approximately £12 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 £600,000.

2. The MTFS relies on proposed savings and income generation over the next 3 years of £2,190,000. A 5% reduction in this figure would equate to £109,500.

3. The MTFS assumes budget pressures over the next 3 years of £5.44 million. A 5% increase in the budget pressures would equate to £272,000.

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 £38,000 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 £190.96 (an increase of £5.54). The additional council tax income this would generate is £225,000. 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 22/23 was 98.55% which was top quartile of all Councils nationally), this would mean a reduction of council tax income of around £77,000. Similarly if Business Rates income collection fell by 1% (collection in 22/23 was 97.95%, which was second quartile of all Councils nationally), this would mean a reduction in business rates income of £30,000.

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 £85,000.

Borrowing Levels

Exempt Appendix G of the Medium Term Financial Strategy from September 2018 gave advice on the borrowing level for the Council (maximum borrowing of £75m) and the Interest payments on the borrowing as a percentage of available Reserves. The table below shows the impact of current interest payable of 2.5% on existing debt of £14m and modelling Interest payable at 5% on borrowing headroom (£61m) has on this Indicator. Interest payments would equate to 19.9% of the level of reserves if the Council had a total of £75m of borrowing. The current level of borrowing is £14m as at 31.3.2024 as shown.

Total Borrowing	Interest repayments	Level of Reserves (£2.1m Unearmarked Reserves and £14.96m Earmarked Reserves) – predicted 31.3.2025 – as per Appendix C	Interest payments as % of available Reserves
£14m (current debt level)	£350,000 (at 2.5%)	£17,090,000	19.9%
£61m (headroom)	£3,050,000 (at 5%)		
TOTAL £75m	**£3,400,000**		

8. The capital programme is financed by known capital receipts, government 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.

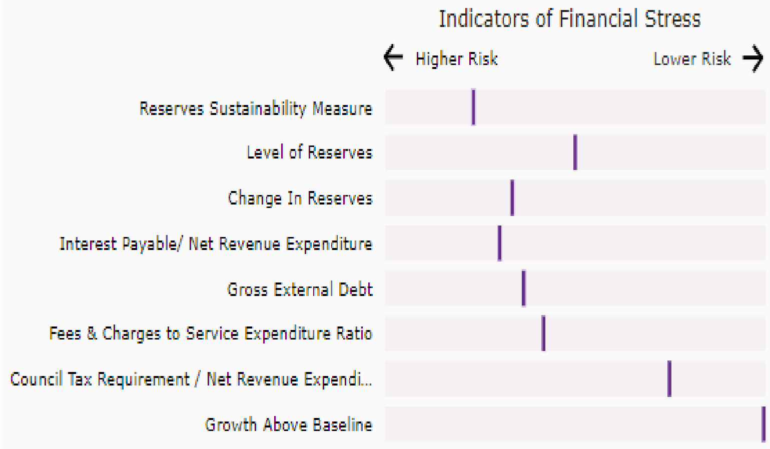
The extracts below show the financial resilience indicators for South Hams District Council for 2023, when compared against Nearest Neighbours and Non-Metropolitan Districts. Bars on the left show a higher risk of financial stress for different categories e.g. Gross External Debt, interest payments as 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 2023 (based on the 2022-23 financial year)

CIPFA Financial Resilience Index

Authority: South Hams | Indicator Group: Primary | Year: 2022-23

Results Breakdown



Indicator	Min	Indicator Value	Max
Reserves Sustainability Measure	0.32	70.54	100.00
Level of Reserves	-8,561.18 %	104.62%	270.03%
Change In Reserves	-90.39%	-4.08%	118.06%
Interest Payable/ Net Revenue Expenditure	-8.63%	2.47%	7.16%
Gross External Debt	£0k	£14,284k	£87,407k
Fees & Charges to Service Expenditure Ratio	4.70%	30.31%	53.78%
Council Tax Requirement / Net Revenue Expenditure	-2,279.55 %	69.47%	89.88%
Growth Above Baseline	28.78%	28.78%	148.70%

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 higher risk around reserves sustainability and change in reserves. ***The level of reserves for 23-24 and 24-25 have been modelled in Appendix C and reserves are predicted to remain at a constant level of around 17million (between 147% and 130% of the net revenue budgets).***

Interest payable on borrowings and gross external debt is slightly higher than average risk. There is a lower risk around the reliance on council tax income to fund the net revenue expenditure and business rates growth above the baseline.

Assumptions within the Budget for 2024/25 onwards

The Executive report of 25 January 2024 (attached in Appendix I) set out the key assumptions within the Budget Proposals for 2024/25 and are as follows:

- The business rates baseline reset will be deferred until 2026/27 at the earliest (with no negative Revenue Support Grant in 2024/25 or 2025/26)
- There will be a phasing in of negative Revenue Support Grant as part of the business rates baseline reset (predicted to be in 2026/27) with a transition period, to avoid Local Authorities losing/gaining too much in one go. The modelling assumes negative RSG of £450,000 in 2026/27. Some of the negative RSG could be offset by growth.
- It is assumed Council Tax limits for District Councils will remain at the higher of 2.99% or £5 for the next three years.
- 2024/25 is another roll over settlement, which will give an amount of £704,173 of New Homes Bonus funding that it is proposed is used to fund the 2024/25 revenue base budget.
- A business rates pooling gain of £400,000 has been modelled for 2024/25 and 2025/26, with no further gains for 2026/27 onwards.
- A council tax surplus of £59,000 for 24/25 has been assumed, with a council tax collection rate of 98.25% built into the 24/25 TaxBase calculation (98.55% was achieved in 2022/23)
- Rural Services Delivery Grant will continue annually at the same level for 24/25 (£554,149)
- A 4% pay increase has been modelled from 2024/25 onwards (4% equates to £456,000 on total pay of £11.4m). The pay assumption has been reduced to 3% in 2025/26 and 2026/27
- It is predicted that bank base rate will remain at 5.25% until September 2024 when it is predicted to reduce to 5%, with a predicted reduction to 4.5% by December 2024 and 4% by March 2025. An income target of £1.6m has been set for 24/25, with a reduced income target of £1.2m for 2025/26.
- It is assumed that New Homes Bonus (or a replacement similar scheme) will continue and this seems reasonable based upon past events and the 4% funding guarantee grant.

Detailed numbers are only available for 2024/25 in the Finance Settlement and there remains significant uncertainties for 2025/26, particularly for District Councils. These include the future of the New Homes Bonus Scheme, which is now simply a one-year retrospective payment. The Fair Funding Review, business rates baseline reset, and other funding reforms now look set to be pushed back to 2026/27 although this has not been confirmed by the Government so the MTFS assumes that these changes could happen in 2026/27. The 2025/26 finance settlement will be the first year of a new spending review period.

The Council has used local government finance modelling tools which are available, to predict the level of resources that the Council will have available for 2025/26 and 2026/27. If significant local government reforms happen in 2026/27, an assumption has been made that a 'damping mechanism' and 'transitional funding' will be introduced alongside those reforms, to ensure any single authority does not lose or gain a significant change in its resources level in one single year. This will smooth in any changes over a longer period.

The Council will continue to assess various options for closing the budget gap for 2025/26 onwards, and in the longer term, to achieve long term financial sustainability and further options will be presented to Members in further budget reports. This will consider ways to reduce the Council's operating costs and generating further income and savings.

Prudent financial management in the past, has meant that the Council was in a relatively healthy position financially before the pandemic hit. The management of risk and promoting financial resilience is a key principle of our budget strategy and this has helped facilitate our response. Key to the authority's financial resilience are our reserves, which are at a prudent level.

Financial metrics

The Office for Local Government has set out financial metrics and these are set out below for 2024-25:-

Unearmarked Reserves as a % of net revenue spend - £2,129,000/ £13,134,894 = 16.2%

Reserves as % of net revenue spend (as shown in Appendix C) – £17,090,000/£13,134,894 = 130%

Total core spending power per dwelling – £12,282,000 / 46,867 = £262

Debt servicing as a % of core spending power – £951,000/ £12,282,000 = 7.7%

Total debt as a % of core spending power - £13,364,000 / £12,282,000 = 109%

The Council has complied with a number of Codes including the Accounting Code of Practice issued by CIPFA annually to guide how the Council produces its statutory Accounts and the Prudential Code which covers our treasury management activities and setting prudential indicators including the level of borrowing. The Council budgets for a prudent level of MRP (Minimum Revenue Provision – capital repayment of debt) in line with guidance. All current borrowing has been taken out longer term and at fixed interest rates (so the Council is not exposed to interest rate risk).

The capital programme is financed for 2024-25 (see Appendix E) using realistic estimates of capital receipts, government grants, prudential borrowing and other funding such as developer contributions (S106 funding). The projects within the current capital programme for 2023/24 are all within their allocated capital budgets (as set out in the Executive report 25 January 2024).

The latest forecast of the revenue budget monitoring report (Executive 25 January 2024) is forecasting a surplus of £16,000 for 2023-24 (0.1% of the total Budget of £11.738 million). This is very close to a break-even position.

Summary & conclusion

Sensitivity analysis and risks are identified above with a potential total adverse revenue effect for 2024/25 of **£1.44 million**. However, revenue reserves are recommended to be maintained at a minimum level of £1.5 million, with an operating level of £2million. Unearmarked Reserves of £2.1m are predicted to be 16.2% of the net revenue spend for 2024/25 of £13.1m.

I therefore confirm the robustness of the Medium Term Financial Strategy and Budget Proposals and the adequacy of the level of reserves.

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

5 February 2024