APPENDIX 5

ASSESSMENT OF MEDIUM TERM RISKS

The Medium Term Financial Strategy (MTFS) of a large corporation with many demand-led services and complex and uncertain funding streams will always contain a significant degree of risk. While the government's 4-year settlement deal should have provided additional certainty, in practice this is not the case as there are significant elements of transitional funding (e.g. Education Services Grant), one-off funding (e.g. Adult Services Support Grant) and other uncertainties (e.g. Business Rate Revaluation impact) that continue to make long term financial planning very challenging. In general, factors that can have a material effect on the medium term financial position of an authority include:

- The lack of certainty in future resource levels;
- Changes in function & funding;
- Changes in how some services are funded;
- Changes in the economy including the impact on business rates income;
- Changes in employer costs e.g. pension or national insurance changes;
- The level of future successful appeals against the business rating list;
- Impact of levels of house building on both council tax and new homes bonus;
- Achievement of performance targets for performance related funding;
- Ability to manage identified demand-led service pressures;
- Decisions on council tax and council tax reduction;
- Democratic support for change including partnership working and integration.

Risks to the MTFS arise from both external and internal factors. External risks include, for example, Government policy decisions that can have an adverse impact on the council. External risks are generally the most difficult to manage or plan for.

Internal risks can also arise for a number of reasons, such as cost overruns, changing priorities or ineffective systems of demand management. They may also be influenced by external factors. It is vital to have adequate mechanisms to manage internal risks if financial stability is to be achieved. There are a number of ways in which the effects of risks can be managed and these are set out in the following risk table. Furthermore, the City Council's MTFS aims to minimise the impact of some of the major financial risks and the impact on the delivery of the City's Corporate Plan commitments.

However, the forecasts within the MTFS are based on prudential assumptions that reflect the most likely position based on current knowledge and therefore there are also opportunities if any of the forecasts overstate actual expenditure or under-estimate actual income.

Risk	Likelihood of occurrence (L)	Impact (I)	Risk (L) X (I)	Possible Impact on Financial Strategy	Mitigation / Management
Potential Risks affecting 2017/18 onwards					
Council tax base is lower than anticipated e.g. lower number of new properties / more student exempt properties / more discounts awarded / higher caseload for CTR discounts, resulting in a deficit on the collection fund	3	3 0.1% reduction in council tax = £0.1m	9	Would require reductions in budgets (increased savings) for the following year	Close monitoring of the collection fund and checking validity of exemptions and discounts particularly new property developments, student numbers, CTR discounts and empty discounts. Working with further education establishments to encourage development of more dedicated student accommodation. Trends in recent years have been positive and there is no indication for this to change in 2017/18.
Collection of council tax for CTR claimants falls due to the impact on household budgets and further changes to CTR scheme agreed in December, resulting in a deficit on the collection fund	3	2 0.1% reduction in council tax collection = £0.1m	6	Would require reductions in the budget (increased savings) for the following year	Close monitoring of the collection fund, including council tax payers under the CTR scheme. Additional debt collection resources were provided at the start of the CTR scheme and collection rates have been adjusted for further CTR scheme changes to reflect harder to collect debt. Collection rates in recent years have been maintained at target levels. Appropriate communication, advice and collection strategies have been agreed to minimise impact.

Risk	Likelihood of occurrence (L)	Impact (I)	Risk (L) X (I)	Possible Impact on Financial Strategy	Mitigation / Management
Services fail to operate within set budgets due to increased service demand or weak systems of demand management	3	4 1% gross expenditure on demand led budgets = £1.6m	12	Departmental service pressures that can only be met through additional resources, such as the risk provisions, or savings being made elsewhere. Possible need for emergency spending and/or recruitment controls with potential impacts on service delivery and quality. Reduction in reserves / working balance. Qualification of accounts by not securing economy, efficiency and effectiveness in the use of resources.	Close monitoring and analysis of demand-led budgets and overall budget through TBM. Identify action plans to mitigate cost pressures. Use of the full adult social care precept to mitigate increased demand. Demand management activity prioritised through the Caring Together and Better Care Fund integration programmes in Adult Social Care, Dynamic Purchasing System in Homelessness and through the new model of social work practice (PODS and Adolescent Services) in Children's Social Care.
Services fail to operate within set budgets due to: • Unachievable income • Price variations • Exceptional legal costs	3	4 1% of fees and charges income = £1.1m	12	Departmental cost or income pressures that can only be met through additional resources, such as the risk provisions, or savings being made elsewhere in the budget. Possible need for emergency spending and/or recruitment controls with potential impacts on service delivery and quality. Reduction in reserves / working balance. Qualification of accounts by not securing economy, efficiency and effectiveness in the use of resources	Monitor income budgets through TBM and the Modernisation Board governance arrangements for income and debt collection. Identify action plans to mitigate unachievable income, price variation and exceptional legal costs. In-year review of charging policy and revised charges approved where necessary. Support for improved contract management and procurement is planned for 2017/18.

Risk	Likelihood of occurrence (L)	Impact (I)	Risk (L) X (I)	Possible Impact on Financial Strategy	Mitigation / Management
Services fail to operate within set budgets due to unachievable savings arising from: - Over-estimate of the savings potential; - Industrial relations issues; - Withdrawal of political support; - Higher than estimated costs to implement the savings opportunity.	3	3 1% of GF savings = £0.2m	9	Departmental service pressures that can only be met through additional resources, such as the risk provisions, or savings being made elsewhere in the budget. Possible need for emergency spending and/or recruitment controls with potential impacts on service delivery and quality. Reduction in reserves / working balance	Monitor savings through TBM and identify action plans to mitigate the unachievable savings. Potentially refer back to members for decisions on alternative savings.
Waste tonnages higher than projected resulting in additional disposal costs	2	4 1% increase in tonnage per annum = £0.7m p.a. over life of contract	8	Would increase the waste disposal budget and compensating savings would need to be identified elsewhere in the budget	Provision for higher tonnages made in assessment of waste PFI reserve. Monitor and identify specific areas of growth and undertake waste minimisation and further recycling measures.
The uncertainties within the housing market, changes in housing benefit and welfare reform create spending pressures within the budget e.g. homelessness	4	4 10% increase in net homelessness budget = £0.4m	16	Would create additional pressures in the Housing Strategy and potentially other related budgets which would need to find compensating savings	Continue to assess and monitor the potential impact of changes to the housing benefit system / welfare reform and plan and respond to government consultations accordingly. A range of additional discretionary funds continue to be set aside to be directed to the most appropriate area as needed. There are a number of supporting strategies linked to the corporate plan priorities including the Homelessness, Financial Inclusion and Welfare Reform strategies.
Increased insurance premiums as a result of national or international storm damage claims over the longer term	3	2 30% increase = £0.16m	6	Would require compensating savings to be identified in 2017/18 and future years.	Consider options such as retendering and further self-insurance to minimise potential cost increases. Continued emphasis on risk management to help prevent future claims

Risk	Likelihood of occurrence (L)	Impact (I)	Risk (L) X (I)	Possible Impact on Financial Strategy	Mitigation / Management
Long term borrowing rates higher than anticipated	2	2 0.1% higher = £0.02m for £20m	4	Would increase borrowing costs budget over the long-term. Would hinder business cases involving borrowing and make invest to save schemes less financially attractive	Closely monitor long term borrowing rates and future borrowing requirements to help identify the best time to borrow, supported by independent advisors. Trigger rates have been incorporated into decision making for new borrowing to ensure the council benefits from low interest rates in a fluctuating market. Under-borrowing (using available cash balances) remains a viable short term strategy.
Major civil incident occurs e.g. storm, flooding, riot	2	3 Estimated "Bellwin" threshold = £0.5m	6	Budget overspend / reduction in reserves / working balance. Pressures on other budgets The council would have to meet the costs of uninsured risks in addition to the "Bellwin" threshold.	Ensure adequate levels of reserves to cover threshold expenditure. Ensure appropriate insurance cover is in place and that the Insurance Fund is sufficient to cover uninsured risks.
Severe winter weather places additional spending pressures on winter maintenance and other budgets across the council	3	3 Depends on severity of weather event and length of cold snap	9	Need to use reserves or one-off risk provisions. Plan to replenish reserves in future years will be required.	Advance planning to minimise possible disruption.
Cost overruns occur on schemes in the agreed capital programme	2	3 1% cost overrun on total programme = £1.4m	6	Reserves or other capital resources redirected to fund overspend. Unable to meet capital investment needs.	Effective cost control and expenditure monitoring. Flexibility within programme to re-profile expenditure if necessary. Flexing Capital Financing Strategy.
Capital receipts lower than anticipated	3	4 10% reduction in receipts = £1.2m	12	Fewer resources available for transport programme, workstyles, modernisation, Digital First, 4-year Service & Financial Plans, and/or other strategic funds	Flexible capital programme that allows plans to be reduced or re-profiled. Alternative site disposal plans are capable of being accelerated if necessary.

Risk	Likelihood of occurrence (L)	Impact (I)	Risk (L) X (I)	Possible Impact on Financial Strategy	Mitigation / Management
Income from business rates is lower than expected due to successful rating appeals / higher levels of relief awarded / redevelopment of existing sites gives temporary reduction / collection performance declines	3	3 1% of forecast retained business rates income = £0.5m	9	Would require an increased budget gap to be addressed in the following financial year.	Make appropriate provisions in resource forecasts. Respond to CLG consultations on business rates changes. Close monitoring of business rates yield and collection to ensure it reflects the latest known position. Corporate approach to economic development and city regeneration.
The council fails to reduce its carbon footprint resulting in higher than anticipated energy costs and need to purchase more allowances than anticipated under the CRC scheme	2	2 Allowances budget = £0.2m	4	Would reduce resources within budgets creating the need to find additional savings.	Continue developing council carbon budgets for services and report / monitor alongside financial budget. Programme of investment to reduce carbon footprint across the council.
Further risks affecting 2018/19 onwards					
Transfer to 100% retained business rates by the end of parliament results in a net loss of resources from combined impact of: • Reduced grant funding including the RSG • New responsibilities transferred to authorities • Increased business rates income • Downward changes in business rates tax base have bigger impact than the current 49% exposure	3	4	12	Transfer is expected to involve major transfers of functions and funding of approximately £60m and therefore creates significant uncertainty over resource levels. Would require an increased budget gap to be addressed in the following financial year/s.	Engage fully in upcoming and future government consultations to ensure there is early warning of any adverse consequences
Business Rates Revaluation due to be implemented in on 1 April 2017 leads a loss in business rates income from a change in distribution and new successful appeals	5	4 1% of forecast retained business rates income = £0.5m	20	Would require an increased budget gap to be addressed. Protection from safety net is afforded at 7.5% below baseline funding.	Respond to any government consultation on changes to the distribution mechanism. Liaison with VOA to ensure good access to data. Monitor the impact of appeals throughout the remaining revaluation period.
Pay assumptions for 2017/18 onwards are lower than agreed pay awards and other pay related costs	2	3 0.5% change in pay award = £0.7m	6	Impact on budget gap if pay provisions are insufficient to meet increased ongoing costs arising from transformation, pay awards and/or impact of the National Living Wage.	Monitor progress on pay award negotiations and wider national settlements. Monitor progress of pay negotiations on a frequent basis and update financial forecasts regularly.

Risk	Likelihood of occurrence (L)	Impact (I)	Risk (L) X (I)	Possible Impact on Financial Strategy	Mitigation / Management
Cash reductions in remaining unringfenced government grants in 2017/18 and beyond are above levels included in future years' budgets	4	4 5% reduction in unringfenced government grants = £0.7m	16	Would require an increased budget gap to be addressed in the following financial year	Provisions for reductions made in resource forecasts. Develop strategies to identify priorities and mitigate impact of reductions
Reduction in Dedicated Schools Grant following review of existing formula and possible introduction of a national model for distribution between schools	4	4 1% of DSG = £1.6m	16	Additional pressure on schools' budgets.	Respond to consultation papers and lobby Government on impact. Early discussions with Schools Forum on potential impact.
Reduction in Pupil Premium Grant (PPG) following review of its introduction in 2010/11 and performance of disadvantaged pupils over the period	3	3 10% of PPG = £0.9m	9	Additional pressure on schools' budgets.	Respond to consultation papers and lobby Government on impact. Early discussions with Schools Forum on potential impact.
Forecast resources from 2018/19 onwards lower than forecast in the MTFS	3	4 1% reduction in Settlement Funding Assessment = £0.8m	12	Would require an increased budget gap to be addressed in the following financial year/s.	RSG indicative allocations announced up to 2019/20 providing more certainty subject to the other risks identified. Lobby with LGA over future spending totals. Lobby for greater overall share of funding assessment (SFA).
Government changes to business rates (e.g. cap on multiplier, enhanced or new reliefs) are not fully funded through ongoing section 31 compensation grants	3	4 Estimated value of Section 31 grant = £2.5m	12	Would require an increased budget gap to be addressed in the following financial year/s.	Lobby CLG to ensure any new measures impacting on business rates income are fully funded.
Energy and fuel prices increase above budgeted provision	3	2 10% increase to the general fund = £0.35m	6	Would reduce resources within budgets creating the need to find compensating savings. However, higher electricity prices would mean that the share of electricity income from the Energy From Waste plant will increase to offset some of the cost increase.	Reduce consumption and implement measures to generate energy. Monitor energy/fuel market contracts closely. Risk provisions and service pressures provide some cover for higher inflation.
Investment interest rates lower than anticipated	3	3 0.1% lower = £0.07m	9	Would need more reserves to cover any shortfall in the investment interest budget.	Keep investment strategy under constant review.

Risk	Likelihood of occurrence (L)	Impact (I)	Risk (L) X (I)	Possible Impact on Financial Strategy	Mitigation / Management
Further transfer of schools from local authority to free schools and academies	3	3 10% transfer of pupils Reduced Business Rates income =£0.1m	9	Would require an increased budget gap to be addressed in the following financial year/s.	Provide central education services to new free schools and academies to help replace loss of funding. Reduce costs where possible.

Likelihood: 1 – Almost impossible, 2 – Unlikely, 3 – Possible, 4 – Likely, 5 – Almost certain.
Impact: 1 – Insignificant, 2 – Minor, 3 – Moderate, 4 – Major, 5 – Catastrophic or fantastic.
Risk (L x I): 1-3 Low, 4-7 Moderate, 8-14 Significant, 15-25 High.

Other potential risks

- Risks around alternative delivery models (ADMs), Trusts and outsourcing and joining up of services through shared services or partnerships which will need to be managed through robust legal and financial agreements and effective governance arrangements.

Opportunities

- Business Rates Retention scheme – Retaining 49% of business rates growth above the baseline funding level and up to 100% by the end of parliament.
- New Homes – Entitlement to New Homes Bonus Grant and increase in council tax resources.
- Improving the local economy – Potential to reduce Council Tax Reduction caseload and increase business rates and council tax resources.