ASSESSMENT OF BUDGET SENSITIVITIES AND MEDIUM TERM RISKS

The Medium Term Financial Plan (MTFP) of a large public sector organisation with many demand-led services and complex, uncertain funding streams will always contain significant and varying degrees of risk. The cost of living crisis, higher inflation and higher interest rates have significantly impacted the council's expenditure and income throughout 2023/24 and continues into 2024/25. This includes higher than anticipated pay awards, higher costs of social care, impacts on fees & charges due to economic conditions, continued high levels of Council Tax Reduction claimants (i.e. taxation losses), and continued high levels of support for homelessness.

These pressures have resulted in current forecast overspends in-year requiring ongoing recruitment and spending controls to help mitigate the financial position alongside other financial recovery measures. This highlights the need to recognise the financial risks of unexpected events and the impact this has on the resilience of the authority.

The pressures experienced in recent years may continue well into the medium term given the growth in Education, Health & Care Plans (EHCPs), growing Learning Disability demands, a national obesity crisis, and subject to national and local success in tackling housing demand. The corollary is that current predictions indicate that the council will need to make substantial savings in 2025/26 and over the MTFP period.

For businesses within the city the government has provided ongoing Business Rates reliefs to help the sector, whilst for individuals, the government is providing additional funding through the Household Support Fund.

The previous government again announced a one-year settlement for 2024/25 on 18 December 2023 with no information for 2025/26 onwards. An Autumn Statement is expected on 30 October from the new government which is also expected to cover one-year only but with an indication that a multi-year Comprehensive Spending Review will follow in the Spring.

In general, other 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 and/or funding;
- Changes in the economy including the impact on business rates income and/or Council Tax Reduction claimant numbers or collection rates;
- Similarly, impacts on the levels of house building which affects both Council Tax and New Homes Bonus or a successor mechanism;
- The level of future successful appeals against the business rating list;
- Changes in employer costs e.g. pension or national insurance changes;
- Achievement of performance targets for performance related grant or partnership funding;
- Delivery and achievement of savings and transformation programmes;
- Ability to manage identified demand-led service pressures;
- Decisions on council tax increases and the council tax reduction scheme;
- Democratic support for change including partnership working, integration or devolution.

Risks to the MTFP arise from both external and internal factors. External risks include, for example, government policy decisions that can have positive or negative impacts on costs or national or local economic conditions that can affect income sources up or down. 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, underachievement of savings plans, 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 council’s MTFP, by taking a longer term planning approach, aims to minimise the impact of some of the major financial risks and the impact on investment in support of the council’s priorities.

The forecasts within the MTFP are based on prudential assumptions that reflect the most likely position based on current knowledge and data. There are therefore risks of over or under stating expenditure or income estimates which are considered below.

The identified risks are scored for Likelihood (L) and Impact (I). The scores are multiplied to give a resulting risk score. The key to the scores is given below:

Key:

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

Risk Scores above at the midpoint of the range or higher (12 or higher) are highlighted (shaded) in the table below.

Risk	Likelihood (L)	Impact / Sensitivity (I)	Risk = (L) x (I)	Possible Impact on Financial Strategy	Mitigation / Management
Potential Risks affecting 2025/26					
Council Tax base is lower than anticipated e.g. higher caseload for CTRS (Council Tax Reduction Scheme) discounts /lower number of new properties / more student exempt properties / more SMI exemptions / more discounts awarded /, resulting in a deficit on the collection fund	3	3 0.1% reduction in council tax base = £0.193m	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, CTRS discounts and empty property discounts. Through major projects, working with further education establishments to encourage development of more dedicated student accommodation.
Collection of council tax, including CTRS claimants, falls due to its impact on household budgets alongside other Welfare Reform impacts, resulting in a deficit on the collection fund	3	3 0.1% reduction in council tax collection = £0.193m	9	Would require reductions in the budget (increased savings) for the following year	Close monitoring of the collection fund, including claimants under the CTRS. Appropriate communications, advice (linked to Welfare Reform advice services) and collection strategies have been agreed to minimise impact.
Services fail to operate within set budgets due to increased service demands or weak systems of demand management	3	4 1% gross expenditure on demand led budgets = £3.1m	12	Excess service pressures would have to be met through additional resources, such as reserves, or through unplanned savings having to be made elsewhere. Possible need for emergency spending and/or recruitment restrictions with	Close monitoring and analysis of demand-led budgets and overall budget through budget monitoring (TBM). Identify action plans to mitigate cost pressures. Health & Social Care system management activity prioritised through integrated

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				potential impacts on service delivery and quality. Reduction in reserves / working balance. Value for Money qualification of accounts through not securing economy, efficiency and effectiveness in the use of resources.	commissioning and working towards an Integrated Care System. Strategic Corporate Plan investments provided for ASC, Children's Social Care and Homelessness demand-led pressure areas.
Services fail to operate within set budgets due to unachievable income or poor collection performance	3	3 1% of fees and charges income = £1.2m	9	Income pressures that can only be met through additional resources, such as using reserves, or savings being made elsewhere in the budget. Possible need for emergency spending and/or recruitment restrictions with potential impacts on service delivery and quality. Reduction in reserves / working balance. Value for money qualification of accounts by not securing economy, efficiency and effectiveness in the use of resources.	Monitoring of income budgets and collection performance (rates) through TBM reporting. Identify action plans to mitigate unachievable income, price variations and exceptional legal costs. In-year review of charging policy and revised charges approved if absolutely necessary. Internal Audit review of services where performance issues or financial concerns are identified.
Services fail to operate within set budgets due to increased labour or supply chain costs,	4	4 1% gross expenditure = £5.2m	16	Excess costs would have to be met through additional resources, such as reserves, or through unplanned	Close monitoring of budgets and overall spend through budget monitoring (TBM).

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contract price variations or other inflationary impacts				savings having to be made elsewhere. Possible need for emergency spending and/or recruitment restrictions with potential impacts on service delivery and quality. Reduction in reserves / working balance. Value for Money qualification of accounts through not securing economy, efficiency and effectiveness in the use of resources.	Identify Financial Recovery action plans to mitigate specific areas experiencing cost pressures. Focus contract management resources to areas of concern. Consider financial management controls such as vacancy management and additional spending controls.
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 5% of GF savings = £1.2m	9	Overspending that can only be met from additional resources such as reserves or savings being made elsewhere in the budget. Possible need for emergency spending and/or recruitment restrictions with potential impacts on service delivery and quality. Reduction in reserves / working balance.	Monitor savings through TBM and identify action plans and/or alternative measures to mitigate the unachievable savings. Potentially refer back to members for decisions on alternative savings proposals where these are significant or cannot be mitigated elsewhere.
Pay assumptions are lower than finally agreed pay awards and other pay related costs.	3	3 0.5% change in pay award	9	Pay award pressures can only be met through additional resources, such as reserves, or savings being made elsewhere in the	Monitor progress on pay award negotiations and wider national settlements. Lobby government for more funding if nationally negotiated

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Note: pay award assumptions generally follow government inflation predictions.		= £0.8m for the General Fund		budget. Possible need for emergency spending and/or recruitment restrictions with potential impacts on service delivery and quality. Reduction in reserves / working balance.	pay awards are significantly higher than local or national assumptions (e.g. assumed within the Chancellor's Spending Review and inflation assumptions). As with 2023/24, higher pay awards need to be addressed in-year through financial management controls and then built into budget planning (MTFS) for future years.
PFI Waste tonnages higher than projected resulting in additional disposal costs	2	3 1% increase in tonnage per annum = £0.2m p.a. over life of PFI contract	6	Would increase the waste disposal budget and compensating savings would need to be identified elsewhere in the budget.	Provision (contingency) for higher tonnages made in the assessment of the waste PFI reserve for future years. Monitor and identify specific areas of growth and undertake waste minimisation and further recycling measures. Trends are monitored and reflected in the MTFS for future years.
Inflation continues to impact on contracted social care provider costs	4	4 1% increase in contract prices = £1.8m	16	Excess costs would have to be met through additional resources, such as reserves, or through unplanned savings having to be made elsewhere. Possible need for emergency spending and/or recruitment restrictions with	Identify Financial Recovery action plans to mitigate specific areas experiencing cost pressures. Focus contract management resources to areas of concern. Consider financial management controls such as vacancy

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				potential impacts on service delivery and quality. Reduction in reserves / working balance. Value for Money qualification of accounts through not securing economy, efficiency and effectiveness in the use of resources.	management and additional spending controls.
The uncertainties within the housing market, changes in housing benefit and welfare reform, or ongoing impacts of the cost of living crisis create spending pressures within the budget e.g. homelessness	4	3 10% increase in net temporary accommodation and rough sleeping budget = £1.3m	12	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 welfare benefit system and plan and respond to government consultations accordingly. Lobby Government for additional funding.
Increased property related insurance premiums as a result of national or international storm damage claims over the longer term	3	2 10% further increase = £0.3m	6	Would require compensating savings to be identified in 2025/26 and future years.	Insurance premiums have been retendered and are reviewed annually. Budget has planned increase in 2025/26 as price increases expected Continued emphasis on risk management to help prevent future claims.
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	Ensure adequate levels of useable reserves and working balance to cover threshold expenditure. Ensure appropriate insurance cover is in place and that the

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				risks in addition to the "Bellwin" threshold.	Insurance Fund is sufficient to cover uninsured risks.
Severe winter weather places additional spending pressures on winter maintenance and other budgets across the council	2	3 Depends on severity of weather event	6	Need to use Working Balance and/or reserves.	Advance planning to minimise possible disruption. A plan to replenish the Working Balance in future years would be required.
Cost overruns occur on schemes in the agreed capital programme	3	2 1% cost overrun on total 2024/25 programme = £2.1m	6	Reserves or other capital resources redirected to fund overspend. Unable to meet capital investment needs. Increased borrowing requirement.	Effective cost control and expenditure monitoring. In the first instance, use flexibility within or across programmes to re-profile expenditure if necessary. Flexing Capital Financing Strategy or HRA self-financing strategy as appropriate.
Capital receipts lower than anticipated	3	3 10% reduction in planned 2024/25 receipts = £1.6m	9	Fewer resources available for regeneration programmes, Transformation Fund and corporate Capital Funds	Flexible capital programme that allows plans to be reduced or re-profiled. Alternative site disposal plans are capable of being accelerated if necessary. Borrowing is an option for invest-to-save schemes.
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 = £0.9m	9	Would require an increased budget gap to be addressed in the following financial year.	Make appropriate provisions in resource forecasts. Detailed monitoring of business rates yield and collection to ensure it reflects the latest known position.

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					Corporate approach to economic development and city regeneration.