

### ASSESSMENT OF RISKS

The MTFS will always contain a significant degree of risk. The finance system within which the city council works is complex and sensitive to a range of variables. For 2013/14 in particular there is a very high level of uncertainty about the impact of reforms to local government finance. In general factors that can have a material effect on the financial position of an authority include:

- The lack of certainty in future resource levels
- Changes in function & funding
- Changes in how services are funded
- Changes in the economy
- Climate change
- Unmanaged service pressures
- Decisions on council tax

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

Internal risks can also arise for a number of reasons, such as cost overruns or changing priorities. 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 impact on the delivery of the city's key priorities.

However, the forecasts within the MTFS are based on 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
<b>Potential Risks affecting 2012/13 onwards</b>					
Collection of council tax falls due to the difficult financial climate and failure to achieve higher target collection rates resulting in a deficit on the collection fund	3	3 0.1% reduction in council tax collection = £0.1m	9	Immediate impact on reserves Would require reductions in the budget for the following year to repay reserves	Close monitoring of the collection fund Implement appropriate collection strategies to minimise impact and review effectiveness of the Debt Prevention Team
Council tax base is lower than anticipated e.g. lower number of new properties / more student exempt properties / more discounts, resulting in a deficit on the collection fund	3	4 1% reduction in council tax base = £1.2m	12	Immediate impact on reserves Would require reductions in the budgets for the following year to repay reserves	Close monitoring of the collection fund and checking validity of exemptions and discounts particularly new property developments, student numbers and discounts Working with further education establishments to develop more dedicated student accommodation
Long term borrowing rates higher than anticipated	2	3 0.5% higher = £0.05m for each £10m	6	Would increase borrowing costs budget over the long-term	Closely monitor long term borrowing rates and future borrowing requirements to help identify the best time to

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		borrowed		Would hinder business cases involving borrowing and make invest to save schemes less financially attractive	borrow
Services fail to operate within set budgets due to: <ul style="list-style-type: none"> <li>• Increased service demand</li> <li>• Price variations</li> <li>• Unachieved income levels</li> <li>• Unachieved savings</li> </ul>	2	4 1% overspend on net GF budget = £2.3m in 2012/13	8	Departmental service pressures that can only be met through additional resources, such as the risk provisions, or savings elsewhere in the budget. Reduction in reserves	Monitor corporate critical budgets and overall budget through TBM. Identify action plans to mitigate cost pressures.
Waste tonnages higher than projected resulting in additional disposal costs particularly landfill	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
Continuing difficult financial climate has a greater than anticipated impact on collection of	3	4 1% reduction in income =	12	Services would need to identify compensating savings and in particular look at whether expenditure could	Identify action plans to mitigate income and rent shortfalls

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income and commercial rents		£1m 1% reduction in commercial rents = £0.1m		be reduced in those income generation areas	
The uncertainties within housing market and changes in housing benefit create spending pressures within the homelessness budget	4	3 10% increase in homelessness budget = £0.3m	12	Would create additional pressures in the Housing Strategy budget which would need to find compensating savings	Assess the potential impact of proposed changes to the housing benefit system and the introduction of universal credit and lobby accordingly
Provisions for Equal pay and future pay insufficient to meet liabilities	3	4 1% variation in total pay = £1.4m p.a.	12	Settlement of existing equal pay claims above the provision would reduce the level of reserves	Maintain and update the risk register Monitor progress on a frequent basis and update financial forecasts regularly particularly in the light of any new legal rulings
Major civil incident occurs e.g. storm, flooding, riot	2	3 Estimated "Bellwin" threshold = £0.8m	6	Budget overspend/reduction in reserves Pressures on other budgets	Ensure adequate levels of reserves to cover threshold expenditure Ensure appropriate insurance

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					cover is in place.
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 in one-off risk provisions	Advance planning to minimise possible disruption
Pupil numbers lower than projected	2	3 1% of Dedicated Schools Grant = £1.5m	6	Schools funding through dedicated schools grant lower than anticipated.	Review & improve pupil number projections. Consultation with schools forum.
Cost overruns occur on schemes in the agreed capital programme	2	3 1% cost overrun on total programme = £0.97m	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.
Capital receipts lower than anticipated	4	4 10% reduction in receipts = £0.5m in	16	Fewer resources available for transport programme and other strategic funds	Flexible capital programme that allows plans to be reduced or re-profiled. Alternative site disposal plans

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		12/13 & £0.8m in 13/14			capable of being accelerated
<b>Further risks affecting 2013/14 onwards</b>					
Income from business rates is lower than expected due to adverse changes in local economy / successful rating appeals / collection performance declines	3	4 1% of forecast retained business rates income = £0.6m	12	Immediate impact on reserves Would require reduction in the budget for following year to repay reserves and meet ongoing resource shortfalls	Make appropriate provisions in resource forecasts Close monitoring of business rates yield and collection Consider measures to encourage growth in local businesses
Council tax collection is lower than anticipated in relation to households previously receiving higher levels of council tax benefit	3	3 10% non-collection = £0.26m	9	Immediate impact on reserves Would require reductions in the budget for the following year to repay reserves	Close monitoring of the collection fund Implement appropriate collection strategies to minimise impact and review effectiveness of the Debt Prevention Team
Cash reductions in remaining specific grants in 2013/14 and beyond causing additional budget pressures	3	4 5% reduction in specific grants =	12	Reductions in budgets or upward pressure on council tax	Provisions for reductions made in resource forecasts Develop strategies to identify priorities and mitigate impact

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		£1.2m			of reductions
Energy and fuel prices increase above 10%	3	3 10% increase = £0.3m	9	Would reduce resources within budgets creating the need to find additional savings	Reduce consumption and implement measures to generate energy Monitor energy/fuel market for contracts closely Risk provisions and service pressures provide some cover for higher inflation
Council unable to deliver a council tax benefit (CTB) scheme with a 10% cost reduction from 1 April 2013	3	3 1% of CTB = £0.26m	9	Reductions in budgets or upward pressure on council tax	Define as a corporate critical budget, closely monitor and allow for periodic review of adopted scheme.
Number of council tax benefit claimants higher and / or CTB scheme costs more than anticipated	3	4 1% of CTB = £0.26m	12	Immediate impact on reserves Ability to review scheme to meet new financial pressures	Closely monitor claimant numbers Make appropriate changes to the scheme to reduce financial cost
Investment interest rates lower than anticipated	2	3 0.5% lower = £0.3m	6	Would need more reserves to cover any shortfall in the investment interest budget	Keep investment strategy under constant review
The council fails to reduce its carbon footprint resulting	3	2 Allowances	6	Would reduce resources within budgets creating the	Continue developing council carbon budgets for services

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in higher than anticipated energy costs and need to purchase more allowances than anticipated under the CRC scheme		budget = £0.260m		need to find additional savings	and report / monitor alongside financial budget. Programme of investment to reduce carbon footprint across the council
Transfer of funding for Public Health responsibility from 1 April 2013 insufficient to meet existing service requirements and future demand	2	3 Budget not known	6	Reductions in budgets or upward pressure on council tax	Work closely with NHS to ensure appropriate budget transfer and full knowledge of current and future spending pressures.  Monitor budget and spending closely and identify strategies to meet any additional resource requirements.
Reduction in Dedicated Schools Grant following review of existing formula and possible introduction of a national model for distribution between schools	3	4 1% reduction in DSG = £1.5m	12	Additional pressure on schools budgets	Respond to consultation papers and lobby Government on impact  Early discussions with Schools Forum on potential impact



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New reimbursement arrangements after current concessionary fares fixed deals end result in higher than anticipated costs in 2014/15 and beyond	3	3 5% change = £0.5m	9	Reductions in budgets or upward pressure on council tax	Monitor national reimbursement arrangement and lobby DfT for changes Closely monitor local data including new smart-card data to inform reimbursement calculations Early negotiations with bus companies about options for new fixed arrangements
Pay assumptions for 2013/14 onwards are lower than agreed pay awards and other pay related costs	3	4 0.5% change in pay award = £0.8m	12	Immediate impact on reserves if risk provisions prove insufficient Would require reductions in the budgets for the following year to repay reserves	Monitor progress on pay award negotiations and wider national settlements Settlement of existing equal pay claims above the provision would reduce the level of reserves
Pension costs increase at next actuarial review in 2014/15 to cover any deficit greater than anticipated due to lower investment performance /	3	3 Each 0.1% additional employer contribution = £0.08m	9	Reductions in budgets or upward pressure on council tax	Implement actuarial advice on contribution rate. All employment decisions include allowance for full pension costs.

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higher level of opt out following increased employee contribution rates					Maximise contributions to pension fund where affordable

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.

### **Opportunities**

A number of potential specific financial opportunities have been identified from 2013/14:

- A Government consultation on technical reforms to the council tax could allow the council to reduce discounts on second and empty homes generating potential additional income from 1<sup>st</sup> April 2013.
- Revised calculations of funding reductions associated with the introduction of academies will be made following the January 2013 pupil count which cannot decrease funding to any authority but may lead to a lower reduction for Brighton & Hove because the proportion of pupils attending academies within the city is relatively low.