APPENDIX 6

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. There is relative uncertainty over the level of government funding after 2015/16 which will be determined after the 2015 General Election but it is inevitable that all local authorities will experience further significant reductions in government grants. 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 and future grant distribution models
- Changes in function & funding
- Changes in how services are funded
- Changes in the economy including the impact on business rates income
- The level of future successful appeals against the business rating list
- Levels of house building on both council tax and new homes bonus
- Achievement of performance targets for performance related funding
- 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 Corporate Plan commitments.

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
Potential Risks affecting 2015/16 onwards					
Collection of council tax falls due to the continuing squeeze on household budgets and further changes to discounts and exemptions agreed in December, resulting in a deficit on the collection fund	3	4 0.1% reduction in council tax collection = £0.1m	12	Would require reductions in the budget for the following year	Close monitoring of the collection fund, including council tax payers under the CTR scheme and changes to discounts and exemptions. Additional debt collection resources provided and appropriate communication, advice and collection strategies agreed to minimise impact
Council tax base is lower than anticipated e.g. lower number of new properties / more student exempt properties / more discounts awarded / higher numbers entitled to CTR discounts, resulting in a deficit on the collection fund	3	3 0.1% reduction in council tax collection = £0.1m	9	Would require reductions in budgets 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 develop more dedicated student accommodation

Risk	**Likelihood of occurrence (L)**	**Impact (I)**	**Risk (L) X (I)**	**Possible Impact on Financial Strategy**	**Mitigation / Management**
Increased insurance premiums as a result of national or international storm damage claims over the longer term	4	3 30% increase = £0.13m	12	Would require compensating savings to be identified in 2015/16 and future years.	Consider options such as retendering and self-insurance to minimise potential cost increases Continued emphasis on risk management to help prevent future claims
Long term borrowing rates higher than anticipated	3	2 0.1% higher = £0.02m for £20m	6	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
Services fail to operate within set budgets due to: • Increased service demand • Price variations • Unachieved income levels • Unachieved savings	3	4 1% overspend on net GF budget = £2.20m in 2015/16	12	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.

Risk	Likelihood of occurrence (L)	Impact (I)	Risk (L) X (I)	Possible Impact on Financial Strategy	Mitigation / Management
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
Continuing squeeze on household incomes and difficult trading conditions on the high street has a greater than anticipated impact on collection of income and commercial rents	3	4 1% reduction in income = £1m 1% reduction in commercial rents = £0.1m	12	Services would need to identify compensating savings and in particular look at whether expenditure could be reduced in those income generation areas or alternatively reviewing fees and charges tariffs and policies in year	Identify action plans to mitigate income and rent shortfalls

Risk	Likelihood of occurrence (L)	Impact (I)	Risk (L) X (I)	Possible Impact on Financial Strategy	Mitigation / Management
The uncertainties within 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	Assess the potential impact of proposed changes to the housing benefit system / welfare reform and plan and lobby accordingly. A range of additional discretionary funds set aside to be directed to most appropriate area as needed
Reduction in Better Care Fund (BCF) through failure to achieve performance targets may impact on CCG funding for protection of social care	3	4 CCG amount subject to achievement of targets = £1.3m	12	Would reduce the CCG's flexibility of funding to support Adult Social Care and therefore impact on the councils financial position.	Working with Health on the Better Care Fund plan through the Health & Wellbeing Board
Major civil incident occurs e.g. storm, flooding, riot	2	4 Estimated "Bellwin" threshold = £0.7m	8	Budget overspend/reduction in reserves 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

Risk	Likelihood of occurrence (L)	Impact (I)	Risk (L) X (I)	Possible Impact on Financial Strategy	Mitigation / Management
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
Cost overruns occur on schemes in the agreed capital programme	2	3 1% cost overrun on total programme = £1.2m	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	3	4 10% reduction in receipts = £1.0m in 15/16	12	Fewer resources available for transport programme, workstyles and other strategic funds	Flexible capital programme that allows plans to be reduced or re-profiled. Alternative site disposal plans capable of being accelerated

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 / 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 consultation on appeals Close monitoring of business rates yield and collection Consider measures to encourage growth in local businesses
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	3	2 Allowances budget = £0.360m	6	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 2016/17 onwards					

Risk	Likelihood of occurrence (L)	Impact (I)	Risk (L) X (I)	Possible Impact on Financial Strategy	Mitigation / Management
Pay assumptions for 2016/17 onwards are lower than agreed pay awards and other pay related costs	3	3 0.5% change in pay award = £0.7m	9	Immediate impact on reserves if pay provisions are insufficient to meet increased ongoing costs arising from Pay Modernisation, pay awards and/or impact of the Living Wage. This would require reductions in the budgets for the following year/s to repay reserves.	Monitor progress on pay award negotiations and wider national settlements. Monitor progress of pay negotiations on a frequent basis and update financial forecasts regularly.
Cash reductions in remaining unringfenced government grants in 2016/17 and beyond causing additional budget pressures	3	3 5% reduction in unringfenced government grants = £0.8m	9	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	3	4 1% reduction in DSG = £1.56m	12	Additional pressure on schools budgets	Respond to consultation papers and lobby Government on impact Early discussions with Schools Forum on potential impact

Risk	Likelihood of occurrence (L)	Impact (I)	Risk (L) X (I)	Possible Impact on Financial Strategy	Mitigation / Management
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% reduction in PPG = £0.930m	9	Additional pressure on schools budgets	Respond to consultation papers and lobby Government on impact Early discussions with Schools Forum on potential impact
Care Act funding being insufficient to cover the additional costs of new responsibilities including , assessment, safeguarding and the cap on the cost of social care	3	4 Modelling suggests the shortfall could be up to £0.4m	12	Would require an increased budget gap to be addressed in the following financial year	Close monitoring of the likely caseload through the assessment process. Make representations to Department of Health to ensure sufficient funding is made available
Funding for Public Health responsibility reduces following introduction of new distribution formula	4	4 2015/16 Grant = £18.7m	16	Would require an increased budget gap to be addressed in the following financial year	Monitor progress of discussions on new distribution formula and lobby for changes to achieve the best outcome for the city

Risk	Likelihood of occurrence (L)	Impact (I)	Risk (L) X (I)	Possible Impact on Financial Strategy	Mitigation / Management
New Spending Review and/or changes to the grant distribution system leads to greater reductions in B&HCC funding from 2016/17 onwards	3	4 1% reduction in Settlement Funding Assessment = £1.0m	12	Would require an increased budget gap to be addressed in the following financial year	Lobby with LGA over future spending totals Lobby for greater overall share of funding assessment
Business Rates Revaluation due to be implemented in on 1 April 2017 leads to new successful Business Rates appeals	5	4 1% of forecast retained business rates income = £0.5m	20	Would require an increased budget gap to be addressed in the following financial year Protection from safety net at 7.5% below baseline funding	Lobby CLG for changes to the Business Rates Retention scheme Liaison with VOA Monitor the impact of appeals throughout the remaining revaluation period
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 2015/16 = £4.2m	12	Would require an increased budget gap to be addressed in the following financial year	Lobby CLG to ensure any new measures impacting on business rates income are fully funded

Risk	Likelihood of occurrence (L)	Impact (I)	Risk (L) X (I)	Possible Impact on Financial Strategy	Mitigation / Management
Changes to National Insurance contributions in 2016/17 are not matched by an increase in the funding totals for local government	3	4 Estimated increase in NI of £2.2m for GF	12	Would require an increased budget gap to be addressed in the following financial year	Lobby CLG and Treasury to ensure additional burden is 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 additional savings However, higher electricity prices would mean that the share of electricity income from 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 for contracts closely Risk provisions and service pressures provide some cover for higher inflation
Investment interest rates lower than anticipated	3	3 0.1% lower = £0.1m	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	4	3 10% transfer of pupils Reduced Business Rates income =£0.1m Reduced Education Services Grant =£0.3m	12	Would require an increased budget gap to be addressed in the following financial year	Sell central education services to new free schools and academies to help replace loss of Education Services Grant. 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.

Opportunities

Incentives within the current grant distribution system are:

- Business Rates Retention scheme – Retaining 49% of business rates growth above the baseline funding level
- New Homes – Entitlement to New Homes Bonus Grant for 6 years
- New Homes – Increase in council tax resource
- Improve the local economy – Reduce Council Tax Reduction caseload and increase council tax resources