APPENDIX 5

ASSESSMENT OF BUDGET AND MEDIUM TERM RISKS

The Medium Term Financial Strategy (MTFS) 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 legacy of the pandemic, the cost of living crisis and very high inflation has significantly impacted the council's expenditure and income throughout 2023/24. This includes higher than anticipated pay awards, higher costs of social care provision, impacts on fees & charges, continued high levels of Council Tax Reduction claimants (i.e. taxation losses), and continued high levels of support for hospital discharges and homelessness in particular. These pressures have resulted in unprecedented predicted in-year overspends requiring early adoption of robust recruitment and expenditure controls to help mitigate the financial position. This highlights the need to recognise the financial risks of unexpected events and the impact this has on the resilience of the authority.

Many of the pressures experienced in the current year are expected to continue over the medium term and the government has recognised these pressures in part by providing additional funding to support social care and the flexibility to increase council tax through a further Adult Social Care levy in 2024/25. However the scale of financial challenges the council faces means that even with these additional resources, the council will need to make substantial savings in 2024/25 and future years.

For businesses within the city, the government has provided further Business Rates reliefs to help the business sector and has frozen the Small Business Rates Multiplier.

For 2024/25 the government has again announced a one-year settlement, the sixth in succession, on 18 December 2023.

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 modernisation 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 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 financial 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, underachievement of savings plans, changing political or service 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.

The forecasts within the MTFS 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 (I)	Risk = (L) x (I)	Possible Impact on Financial Strategy	Mitigation / Management
Potential Risks affecting 2024/25 onwards					
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, or more discounts awarded resulting in a deficit on the collection fund	3	3 0.1% reduction in council tax = £0.185m	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 = £0.185m	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 = £2.8m	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 potential impacts on service	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 commissioning and working

Risk	Likelihood (L)	Impact (I)	Risk = (L) x (I)	Possible Impact on Financial Strategy	Mitigation / Management
				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.	towards an Integrated Care System. Strategic Council Plan investments provided for ASC, Children's Social Care, Homelessness and Home-t-School Transport 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 could be 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, contract price variations or other inflationary impacts	4	4 1% gross expenditure = £5.0m	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	Close monitoring of budgets and overall spend through budget monitoring (TBM). Identify Financial Recovery action plans to mitigate specific

Risk	Likelihood (L)	Impact (I)	Risk = (L) x (I)	Possible Impact on Financial Strategy	Mitigation / Management
				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.	areas experiencing cost pressures. Focus contract management resources to areas of concern. Consider unilateral financial management controls (short of restrictions) 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; - 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 for 2024/25 are lower than finally agreed pay awards and other pay related costs. Note: pay award assumptions generally follow government inflation predictions.	3	3 0.5% change in pay award = £0.8m for the general fund	9	Pay award pressures can only be met through 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	Monitor progress on pay award negotiations and wider national settlements. Lobby government for more funding if nationally negotiated pay awards are significantly higher than local or national assumptions (e.g. assumed within the Chancellor’s Autumn

Risk	Likelihood (L)	Impact (I)	Risk = (L) x (I)	Possible Impact on Financial Strategy	Mitigation / Management
				delivery and quality. Reduction in reserves / working balance.	Statement 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 = £0.154m 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.
The uncertainties within the housing market, changes in housing benefit and welfare reform 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. A range of additional discretionary funds continue to be set aside to be directed to the most appropriate area as needed including CTRS and DHP.
Increased property related insurance premiums as a result of national or international storm	3	2	6	Would require compensating savings to be identified in 2024/25 and future years.	Insurance premiums have been retendered and are reviewed annually. Budget increased in

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damage claims over the longer term		10% further increase = £0.120m			2024/25 as price increases expected. Continued emphasis on risk management to help prevent future claims.
Long term borrowing rates higher than anticipated	2	2 0.1% higher = £0.02m for £20m borrowing	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. Shorter term borrowing used to avoid locking into longer term higher rates. Under-borrowing (using available cash balances) remains a viable medium term strategy.
Major civil incident occurs e.g. storm, flooding, riot	2	3 Estimated “Bellwin” threshold = £0.4m	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 useable reserves and working balance 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	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	6	Reserves or other capital resources redirected to fund overspend.	Effective cost control and expenditure monitoring.

Risk	Likelihood (L)	Impact (I)	Risk = (L) x (I)	Possible Impact on Financial Strategy	Mitigation / Management
		1% cost overrun on total programme = £2.1m		Unable to meet capital investment needs. Increased borrowing requirement.	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	4	3 10% reduction in receipts = £2.0m	12	Fewer resources available for regeneration programmes, Workstyles, Modernisation, Digital and IT infrastructure 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.
Capital Programmes are not delivered on time or in accordance with the expected payment profile or delivery timeline due to limitations on officer capacity, supply chain issues and/or contractual issues	3	3 1% cost overrun on total programme = £2.1m	9	Corporate Plan priorities not achieved. In the short-term slippage may reduce financing costs but in the medium term there may be cost over-runs due to delays in delivery while construction or other inflation is high or due to an increase in borrowing costs due to interest rate risk (i.e. risk of rates increasing over time).	If affordable, may require additional short-term resources to ensure delivery on time. Use flexibility within or across programmes to re-profile expenditure if necessary. Flexing Capital Financing Strategy or HRA self-financing strategy as appropriate.
Income from business rates is lower than expected due to successful rating appeals / higher levels of relief awarded / redevelopment of existing sites	3	3 1% of forecast retained business rates income = £0.8m	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

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gives temporary reduction / collection performance declines					ensure it reflects the latest known position. Corporate approach to economic development and city regeneration.
Further risks affecting 2025/26 onwards					
The Government's Fair Funding Review (or other Local Government Funding review) is progressed and results in lower Relative Needs leading to a reduced distribution of government resources including: • Reduced grant funding • Lower Business Rates top-up payment or change to tariff payment	3	3 1% reduction in Settlement Funding Assessment = £0.7m	9	Would require an increased budget gap to be addressed in the following financial year/s.	Engage fully in government consultations. Ensure core data used to determine relative needs is accurate and up to date. This is now likely to be progressed by a new Government following a General Election. The council would lobby for damping and transitional mechanisms if the outcome is unfavourable.
Business Rates revaluation appeals result in losses of business rate income in excess of the provision for appeals.	3	3 1% of forecast retained business rates income = £0.8m	9	Would require an increased budget gap to be addressed. Limited protection from safety net is afforded at 7.5% below baseline funding.	Respond to any government consultation on changes to the distribution mechanism. Continued liaison with Valuation Office Agency (VOA) to ensure good access to data. Monitor the impact of appeals throughout the remaining revaluation period.
MTFS pay assumptions for 2025/26 onwards are lower than agreed pay awards and other pay related costs	3	3 0.5% change in pay award	9	Impact on budget gap if pay provisions are insufficient to meet increased ongoing costs arising from transformation, pay awards	Monitor progress on pay award negotiations and wider national settlements.

Risk	Likelihood (L)	Impact (I)	Risk = (L) x (I)	Possible Impact on Financial Strategy	Mitigation / Management
		= £0.85m for the general fund		and/or impact of the National Living Wage.	Consider revising assumptions in future years based on CPI trends and forecasts.
Forecast resources from 2025/26 onwards lower than forecast in the MTFS	2	3 1% reduction in Settlement Funding Assessment = £0.7m	6	Would require an increased budget gap to be addressed in the following financial year/s.	Lobby Local Government Association (LGA) and government over future spending totals, particularly long term funding of social care. Lobby for greater overall share of Settlement Funding Assessment (SFA) and respond in detail to any further consultation
Government changes to business rates (e.g. cap on multiplier, enhanced or new reliefs) are not fully funded through ongoing section 31 compensation grants	2	4 Estimated value of Section 31 grant = £18m	6	Would require an increased budget gap to be addressed in the following financial year/s.	Lobby DLUHC 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 = £0.45m	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 the Waste PFI plant will increase to offset some of the cost increase.	Reduce consumption and implement measures to generate energy. Monitor energy/fuel market contracts closely and consider alternative procurement routes if necessary. Service pressures provide some cover for higher inflation.
Investment interest rates lower than anticipated	2	3	6	Would need more reserves to cover any shortfall in the investment interest budget.	Keep investment strategy under constant review as investment rates have rapidly increased with

Risk	Likelihood (L)	Impact (I)	Risk = (L) x (I)	Possible Impact on Financial Strategy	Mitigation / Management
		0.1% lower investment return = £0.13m			base rate increases but will reverse if base rates reduce in the future. Work with Treasury Advisers to maximise return within agreed risk parameters. Seek decisions from members for changes to risk appetite, counterparties or investment strategy if market availability moves outside of current parameters.