APPENDIX 5

ASSESSMENT OF MEDIUM TERM RISKS

The Medium Term Financial Strategy (MTFS) of a large organisation with many demand-led services, and complex and uncertain funding streams will always contain a significant and varying degree of risk. While the government's 4-year settlement offer should have provided additional certainty, in practice this is not the case as there are significant elements of funding, particularly the Improved Better Care Fund that are uncertain in the future and that continue to make long term financial planning very challenging. There are also uncertainties relating to the forthcoming Fair Funding Review and government proposals relating to the potential retention of up to 75% of Business Rates locally. 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;
- Similarly, impacts on the levels of house building which affects both Council Tax and New Homes Bonus;
- 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 programmes;
- Ability to manage identified demand-led service pressures;
- Decisions on council tax 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, 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 MTFS aims to minimise the impact of some of the major financial risks and the impact on investment in support of the council's priorities.

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 where any of the forecasts are found to overstate actual expenditure or under-estimate actual income.

Risk	**Likelihood (L)**	**Impact (I)**	**Risk = (L) x (I)**	**Possible Impact on Financial Strategy**	**Mitigation / Management**
Potential Risks affecting 2019/20 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 CTRS discounts, resulting in a deficit on the collection fund	3	3 0.1% reduction in council tax = £0.140m	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. Trends in recent years have been positive and there is no indication for this to change in 2019/20.
Collection of council tax for CTRS claimants falls due to its impact on household budgets alongside other Welfare Reform impacts, resulting in a deficit on the collection fund	3	2 0.1% reduction in council tax collection = £0.140m	6	Would require reductions in the budget (increased savings) for the following year	Close monitoring of the collection fund, including claimants 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

Risk	Likelihood (L)	Impact (I)	Risk = (L) x (I)	Possible Impact on Financial Strategy	Mitigation / Management
					levels. Appropriate communications, advice (linked to Welfare Reform advice services), discretionary funds (£0.140m for 2019/20) 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 = £1.3m	12	Departmental service pressures that can only be met through additional resources, such as the one-off risk provision, or unplanned savings having to be made elsewhere. Possible need for emergency spending and/or recruitment controls 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.	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 the Better Care Fund and integrated commissioning. New (trailblazer) strategy for addressing Homelessness. Continued efforts to embed adolescent and care leaver strategies across agencies.

Risk	Likelihood (L)	Impact (I)	Risk = (L) x (I)	Possible Impact on Financial Strategy	Mitigation / Management
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 one-off risk provision, 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. Value for money qualification of accounts by not securing economy, efficiency and effectiveness in the use of resources	Monitor income budgets through TBM and the Corporate Modernisation Delivery 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 absolutely necessary. Support for improved contract management and procurement is planned for 2017/18 to 2019/20. Internal Audit review of services where performance issues or financial concerns are identified.
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	3	3 1% of GF savings = £0.120m	9	Departmental service pressures that can only be met through additional resources, such as the one-off risk provision, or savings being made elsewhere in the budget. Possible need for emergency spending and/or recruitment	Monitor savings through TBM and identify action plans to mitigate the unachievable savings. Potentially refer back to members for decisions on alternative savings proposals where these are significant or

Risk	Likelihood (L)	Impact (I)	Risk = (L) x (I)	Possible Impact on Financial Strategy	Mitigation / Management
support; - Higher than estimated costs to implement the savings opportunity.				controls with potential impacts on service delivery and quality. Reduction in reserves / working balance.	cannot be mitigated elsewhere.
PFI Waste tonnages higher than projected resulting in additional disposal costs	2	4 1% increase in tonnage per annum = £1.3m p.a. over life of PFI contract	8	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. 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 budget = £0.26m	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 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. An

Risk	Likelihood (L)	Impact (I)	Risk = (L) x (I)	Possible Impact on Financial Strategy	Mitigation / Management
					additional one-off resource (£0.260m) is proposed in 2019/20 to provide continued welfare reform support & advice.
Increased insurance premiums as a result of national or international storm damage claims over the longer term	3	2 30% increase = £0.18m	6	Would require compensating savings to be identified in 2019/20 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.
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. 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 = £0.4m	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 reserves and working balance to cover threshold expenditure. Ensure appropriate insurance cover is in place and that the

Risk	Likelihood (L)	Impact (I)	Risk = (L) x (I)	Possible Impact on Financial Strategy	Mitigation / Management
				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	3	3 Depends on severity of weather event	9	Need to use reserves or one-off risk provisions.	Advance planning to minimise possible disruption. Plan to replenish reserves in future years would be required.
Cost overruns occur on schemes in the agreed capital programme	3	2 1% cost overrun on total programme = £1.6m	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. 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 receipts = £0.4m	9	Fewer resources available for regeneration programmes, Workstyles, Modernisation, Digital and IT infrastructure, Integrated Service & Financial Plans, and/or other corporate 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 = £0.6m	9	Would require an increased budget gap to be addressed in the following financial year.	Make appropriate provisions in resource forecasts. Respond to MHCLG consultations on business rates changes. Detailed monitoring of business rates yield and collection to ensure it reflects the latest known position. Corporate approach to economic development and

Risk	Likelihood (L)	Impact (I)	Risk = (L) x (I)	Possible Impact on Financial Strategy	Mitigation / Management
					city regeneration.
Further risks affecting 2020/21 onwards					
Transfer to 75% 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 (e.g. Public Health and RSG) of approximately £30m 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 appeals result in losses of business rate income in excess of the provision for appeals	3	4 1% of forecast retained business rates income = £0.6m	12	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 VOA to ensure good access to data. Monitor the impact of appeals throughout the remaining revaluation period.
MTFS pay assumptions for 2019/20 onwards are lower than agreed pay awards and other pay related costs	3	3 0.5% change in pay award = £0.6m	9	Impact on budget gap if pay provisions are insufficient to meet increased ongoing costs arising from transformation, pay awards and/or impact of	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**
				the National Living Wage.	
Cash reductions in remaining unringfenced government grants in 2019/20 and beyond are above levels included in future years' budgets (either directly or via 75% BRR)	4	4 5% reduction in unringfenced government grants = £0.65m	16	Would require an increased budget gap to be addressed in the following financial year	Provisions for reductions are made in MTFS resource forecasts. Develop strategies to identify priorities and mitigate impact of reductions.
Reduction in Dedicated Schools Grant following review of existing formula and introduction of a national formula funding model for distribution between schools	4	4 1% of DSG = £1.2m	16	Additional pressure on schools' budgets. If overall deficits exceed schools' combined balances, may impact on General Fund reserves.	Respond to consultation papers and lobby Government on impact. Early discussions with Schools Forum on potential impact. Detailed monitoring of schools' budgets including 'licenced deficit' recovery plans.
Forecast resources from 2019/20 onwards lower than forecast in the MTFS	3	4 1% reduction in Settlement Funding Assessment = £0.6m	12	Would require an increased budget gap to be addressed in the following financial year/s.	Lobby LGA and government over future spending totals, particularly long term funding of social care. Lobby for greater overall share of funding assessment (SFA) and respond in detail to the consultation on the Fair Funding Review and 75% BRR in particular.
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 = £9.0m	6	Would require an increased budget gap to be addressed in the following financial year/s.	Lobby MHCLG to ensure any new measures impacting on business rates income are fully funded.

Risk	Likelihood (L)	Impact (I)	Risk = (L) x (I)	Possible Impact on Financial Strategy	Mitigation / Management
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 and consider alternative procurement routes if necessary. Risk provisions and service pressures provide some cover for higher inflation.
Investment interest rates lower than anticipated	2	3 0.1% lower = £0.07m	6	Would need more reserves to cover any shortfall in the investment interest budget.	Keep investment strategy under constant review. 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.

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): 1 to 3 Low, 4 to 7 Moderate, 8 to 14 Significant, 15 to 25 High.

Other potential risks

- The UK's withdrawal from the European Union presents a very wide range of possible risks depending on the terms of the withdrawal. Many of the risks will be at a macro-economic level affecting for example interest rates, currency valuations, government tax revenues and borrowing, consumer inflation (prices), etc. However, these could clearly impact on both the city and the council itself including impacts such as the level of house-building (Council Tax growth), the prosperity of business and/or visitor economies (Business Rates) and a wide range of employment and labour market impacts. The risks are too broad and fundamental for the council to address and, in a worst case scenario, are likely to require a national government response both in terms of public sector funding and fiscal policy measures.
- Financial risks concerning the transfer of service delivery to alternative delivery models (ADMs), Trusts, other providers and the joining up of services through shared services or other partnerships will need to be managed through good business case development, robust legal and financial agreements and effective governance arrangements.
- School Balances are low levels and many schools currently have Licensed Deficits which they are normally required to turn around within 2 years. It is possible that combined deficits may exceed future schools balances and this will require support from the council's General Fund reserve until deficits are repaid.

Opportunities

- Business Rates Retention scheme – Retaining 49% of business rates growth above the baseline funding level and up to 75% from 2020/21.
- 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.