

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 significant and varying degrees of risk. The pandemic and the impacts of lockdowns have had a profound effect on the council's expenditure and income which have highlighted the council's financial resilience for demand led services, and reliance on fees charges and rents. The government has responded to these financial pressures and provided funding for 2020/21 and for 2021/22. What is unclear at this stage is the ongoing financial impact of the pandemic and how the government will support those impacts in future years.

For a second year running, the government announced a one-year spending review in November 2020 and a one-year local government finance settlement in December 2020 which is reflected in the budget for 2021/22. These short term announcements were prompted by the uncertainty around Brexit and the national financial response to the pandemic, however this does mean that funding for local government services in the medium term remains uncertain and presents potentially significant financial risks.

The last 4-year settlement provided some additional certainty for resources, however, in practice there were significant elements of funding, such as the Improved Better Care Fund, that remained uncertain over the 4-year period, making long term financial planning very challenging. Therefore, even if a multi-year settlement for local government is announced in the future, this could be subject to substantial revision. There are also uncertainties relating to the Fair Funding Review and government proposals relating to the Business Rates system of taxation. 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 Council Tax Reduction claimant numbers;
- Similarly, impacts on the levels of house building which affects both Council Tax and New Homes Bonus or its successor;
- 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 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 2021/22 onwards					
Council Tax base is lower than anticipated e.g. higher caseload for CTRS 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 = £0.156m	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 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 = £0.156m	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. Collection rates in recent years have been maintained at target levels however have been adjusted down in 2021/22 due to the short term impact of the pandemic. Appropriate communications, advice (linked to Welfare Reform advice services), discretionary funds (£0.200m for 2021/22) 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	12	Departmental service pressures that can only be met through additional resources, such as reserves,	Close monitoring and analysis of demand-led budgets and overall budget through budget monitoring (TBM).

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		budgets = £1.4m		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.	Identify action plans to mitigate cost pressures. Health & Social Care system management activity prioritised through the Better Care Fund and integrated commissioning. Strategic Corporate Plan investments for addressing Homelessness and demand-led pressures. Continued efforts to embed adolescent and care leaver strategies across agencies.
<p>Services fail to operate within set budgets due to:</p> <ul style="list-style-type: none"> • Unachievable income • Price variations • Exceptional legal costs 	3	4 1% of fees and charges income = £1.2m	12	Departmental cost or income pressures that can only be met through additional resources, such as the using reserves, 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	Government support for 75% of unachieved (non-commercial) income up to June 2021. Monitor income budgets through TBM and the Corporate Modernisation Delivery Board governance arrangements for the Corporate Debt programme. 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. Ongoing support for improved contract management and procurement.

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					Internal Audit review of services where performance issues or financial concerns are identified.
<p>Services fail to operate within set budgets due to unachievable savings arising from:</p> <ul style="list-style-type: none"> - Over-estimate of the savings potential; - Industrial relations issues; - Withdrawal of political support; - Higher than estimated costs to implement the savings opportunity. 	3	3 1% of GF savings = £0.1m	9	<p>Departmental service pressures that 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 controls with potential impacts on service delivery and quality. Reduction in reserves / working balance.</p>	<p>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 cannot be mitigated elsewhere.</p>
Pay assumptions for 2021/22 are lower than agreed pay awards and other pay related costs	3	3 0.5% change in pay award = £0.6m for the general fund	9	<p>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 controls with potential impacts on service delivery and quality. Reduction in reserves / working balance.</p>	<p>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 Spending Review).</p>
PFI Waste tonnages higher than projected resulting in additional disposal costs	2	4 1% increase in tonnage per annum = £1.3m	8	<p>Would increase the waste disposal budget and compensating savings would need to be identified</p>	<p>Provision (contingency) for higher tonnages made in the assessment of the waste PFI reserve.</p>

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		p.a. over life of PFI contract		elsewhere in the budget.	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 = £0.64m	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. There are a number of supporting strategies linked to the corporate plan priorities including the Homelessness, Financial Inclusion and Welfare Reform strategies. An additional one-off resource (£0.260m) is proposed in 2021/22 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 = £0.21m	6	Would require compensating savings to be identified in 2021/22 and future years.	Insurance premiums have been retendered and are reviewed annually. Continued emphasis on risk management to help prevent future claims.

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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 risks in addition to the “Bellwin” threshold.	Ensure adequate levels of 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	3	3 Depends on severity of weather event	9	Need to use reserves.	Advance planning to minimise possible disruption. A 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 = £2.2m	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

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					strategy as appropriate.
Capital receipts lower than anticipated	3	3 10% reduction in receipts = £2.0m (including JV)	9	Fewer resources available for regeneration programmes, Workstyles, Modernisation, and Digital and IT infrastructure,	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 city regeneration.
Further risks affecting 2022/23 onwards					
Potential transfer to 75% retained business rates results in a net loss of resources from combined impact of: <ul style="list-style-type: none"> Reduced grant funding including the RSG; New responsibilities transferred to authorities; Increased business rates income; Downward changes in 	3	4 1% reduction in Settlement Funding Assessment = £0.7m	12	Transfer was 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. Government is currently taking stock of potential reforms to local government finance having delayed this proposal a further year

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business rates tax base have bigger impact than the current 49% exposure					
<p>The Government's Fair Funding Review results in lower Relative Needs leading to reduced government resources : -</p> <ul style="list-style-type: none"> • Reduced grant funding • Higher Business Rates tariff payment 	3	4 1% reduction in Settlement Funding Assessment = £0.7m	12	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. Government is currently taking stock of potential reforms to local government finance having delayed this proposal a further year.
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 2022/23 onwards are lower than agreed pay awards and other pay related costs	3	3 0.5% change in pay award = £0.6m for the general fund	9	Impact on budget gap if pay provisions are insufficient to meet increased ongoing costs arising from transformation, pay awards and/or impact of the National Living Wage.	Monitor progress on pay award negotiations and wider national settlements.
Cash reductions in remaining unringfenced government grants in 2022/23 and beyond are above levels included in future years'	4	4 5% reduction in unringfenced government	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

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budgets		grants = £1.5m			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	2	2 1% of DSG = £1.8m	4	Additional pressure on schools' budgets. However, the government has promised £14.3bn additional funding for schools over the next 3 years.	Detailed monitoring of schools' budgets including 'licenced deficit' recovery plans.
Forecast resources from 2022/23 onwards lower than forecast in the MTFS	3	4 1% reduction in Settlement Funding Assessment = £0.7m	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 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 = £7.2m	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.
Energy and fuel prices increase above budgeted provision	3	2 10% increase to the general fund = £0.33m	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. Service pressures provide some cover for higher inflation.

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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 although investment interest at historically low levels and reflected in budget estimates. 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.

