APPENDIX 8

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 certainty over the level of government funding over the next 2 years but 2015/16 is the first year of the next spending review where the government has only given broad indications of future reductions in local authority funding levels. 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 including the impact on business rates income
- The level of future successful appeals against the business rating list
- 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 2013/14 onwards					
Collection of council tax falls due to the difficult financial climate and new collection requirements as a result of the council tax reduction scheme and changes to discounts and exemptions, resulting in a deficit on the collection fund	3	3 0.1% reduction in council tax collection = £0.1m	9	Would require reductions in the budget for the following year	Close monitoring of the collection fund, particularly of new 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	4 1% reduction in council tax base = £1.0m	12	Would require reductions in the 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 class C/D 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
Long term borrowing rates higher than anticipated	2	3 0.5% higher = £0.4m for £80m	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	2	4 1% overspend on net GF budget = £2.3m in 2013/14	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	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	2	4	8	Services would need to	Identify action plans to

Risk	Likelihood of occurrence (L)	Impact (I)	Risk (L) X (I)	Possible Impact on Financial Strategy	Mitigation / Management
financial climate has a greater than anticipated impact on collection of income and commercial rents		1% reduction in income = £1m 1% reduction in commercial rents = £0.1m		identify compensating savings and in particular look at whether expenditure could be reduced in those income generation areas	mitigate income and rent shortfalls
The uncertainties within housing market, changes in housing benefit and welfare reform create spending pressures within the budget e.g. homelessness	4	5 10% increase in net homelessness budget = £0.4m	20	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
Reserves for Pay Modernisation and/or potential pay-related liabilities are insufficient to meet one-off and ongoing costs.	4	4 1% variation in total pay = £1.4m p.a.	16	Use of one-off resources above the current level of reserves and provisions would require unallocated General Reserves or the Working Balance to be used. This will require replenishment in future years, potentially increasing the level of savings required in the MTFS.	Maintain and update the risk register Monitor progress of pay negotiations and/or settlements on a frequent basis and update financial forecasts regularly Update financial forecasts for any new legal rulings or potential liabilities.

Risk	**Likelihood of occurrence (L)**	**Impact (I)**	**Risk (L) X (I)**	**Possible Impact on Financial Strategy**	**Mitigation / Management**
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
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 = £0.8m	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	3 10% reduction in receipts =	12	Fewer resources available for transport programme and other strategic funds	Flexible capital programme that allows plans to be reduced or re-profiled.

Risk	Likelihood of occurrence (L)	Impact (I)	Risk (L) X (I)	Possible Impact on Financial Strategy	Mitigation / Management
		£0.3m in 13/14 & £0.3m in 14/15			Alternative site disposal plans capable of being accelerated
Income from business rates is lower than expected due to adverse changes in local economy / successful rating appeals / collection performance declines	3	3 1% of forecast retained business rates income = £0.5m	9	Would require reduction in the budget for following year	Make appropriate provisions in resource forecasts 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 2014/15 onwards					
New Spending Review leads to greater reductions in Local Government	3	4 1% reduction in CLG Start-	12	Reductions in budgets or upward pressure on council	Lobby with LGA over future spending totals

Risk	Likelihood of occurrence (L)	Impact (I)	Risk (L) X (I)	Possible Impact on Financial Strategy	Mitigation / Management
funding over the period 2015/16 to 2017/18		Up Funding Assessment = £1.2m		tax	
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 = £0.6m	20	Reductions in budgets or upward pressure on council tax 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
Cash reductions in remaining unringfenced government grants in 2014/15 and beyond causing additional budget pressures	3	3 5% reduction in unringfenced government grants = £0.6m	9	Reductions in budgets or upward pressure on council tax	Provisions for reductions made in resource forecasts Develop strategies to identify priorities and mitigate impact of reductions
Energy and fuel prices increase above budgeted provision	3	2 10% increase = £0.4m Offset by: 10% increase in electricity prices = £0.1m electricity	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	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

Risk	Likelihood of occurrence (L)	Impact (I)	Risk (L) X (I)	Possible Impact on Financial Strategy	Mitigation / Management
		income		will increase to offset some of the cost increase	
Investment interest rates lower than anticipated	2	3 0.5% lower = £0.4m	6	Would need more reserves to cover any shortfall in the investment interest budget	Keep investment strategy under constant review
Funding for Public Health responsibility reduces following introduction of new distribution formula from 1 April 2015	4	4 2014/15 Grant = £18.7m which is £16 per head over national average	16	Reductions in budgets or upward pressure on council tax	Monitor progress of discussions on new distribution formula and lobby for changes to achieve the best outcome for the city
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 = £1.6m	12	Additional pressure on schools budgets	Respond to consultation papers and lobby Government on impact Early discussions with Schools Forum on potential impact
New reimbursement arrangements after current concessionary fares fixed deals end result in higher	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

Risk	Likelihood of occurrence (L)	Impact (I)	Risk (L) X (I)	Possible Impact on Financial Strategy	Mitigation / Management
than anticipated costs in 2014/15 and beyond					including smart-card data to inform reimbursement calculations Early negotiations with bus companies about options for new fixed arrangements
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 =£0.4m	12	Reductions in budgets or upward pressure on council tax	Sell central education services to new free schools and academies to help replace loss of Education Services Grant. Reduce costs where possible.
Pay assumptions for 2014/15 onwards are lower than agreed pay awards and other pay related costs	3	4 0.5% change in pay award = £0.7m	12	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	Monitor progress on pay award negotiations and wider national settlements. Monitor progress of pay negotiations on a frequent basis and update financial

Risk	Likelihood of occurrence (L)	Impact (I)	Risk (L) X (I)	Possible Impact on Financial Strategy	Mitigation / Management
				Living Wage. This would require reductions in the budgets for the following year/s to repay reserves.	forecasts regularly.
Pension costs increase at next actuarial review in 2014/15 to cover any deficit greater than anticipated due to lower investment performance / higher level of opt out following increased employee contribution rates	2	3 Each 0.1% additional employer contribution = £0.1m	6	Reductions in budgets or upward pressure on council tax	Implement actuarial advice on contribution rate. All employment decisions include allowance for full pension costs. 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

New incentives within the new 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