

RISK ASSESSMENT

The following table identifies the key financial risks to the council's financial position over the short to medium term together with a summary of the mitigating actions in place and planned. These financial risks are reflected in the assessment of the adequacy of estimates and reserves. The assessment of risk is based on the following risk scoring criteria:

LIKELIHOOD (Probability)	
6 – Very High > 95% chance	Almost certain to occur
5 – High > 85%, less than 95% chance	Highly likely to occur
4 – Significant > 50%, less than 85% chance	Will probably occur
3 – Possible >15%, less than 50% chance	Might occur
2 – Low > 5%, less than 15% chance	Could occur but unlikely
1 – Almost Impossible < 5% chance	May only occur in exceptional circumstances

FINANCIAL IMPACT (Consequence)	
IV – Catastrophic	Loss or loss of income £10M plus
III - Critical	Loss or loss of income £3M - £10M
II - Marginal	Loss or loss of income £50k - £3M
I - Negligible	Loss or loss of income £0k - £50k

Robustness of Estimates

Key Financial Risk	INHERENT RISK		Comments/Mitigating Actions in place	RESIDUAL RISK	
	Likelihood	Impact		Likelihood	Impact
Pay Inflation - underestimated in the original estimates	Possible	Marginal	<ul style="list-style-type: none"> The MTFS model approved in November 2020 is based on a pay award of 2.75% over the medium term. It is proposed to reduce this to 2% in the February Update Provision is available in the MTFS Risk Reserve for additional 1% increase. 	Low	Marginal
Investment Income rates are overestimated	Possible	Marginal	<ul style="list-style-type: none"> Reliance placed on market intelligence provided by Treasury Management advisors. Treasury Management Strategy is aligned with CIPFA Code and MHCLG Guidance for investing funds prudently and having regard to the security and liquidity of its investments before seeking the highest rate of return. Monthly reporting on all treasury management activity. Interest Risk Reserve maintained of £2.6M to cover in year shortfall. 	Almost Impossible	Marginal
Covid-19 financial impact on unforeseen costs or reduced income from the ongoing pandemic	Possible	Marginal	<ul style="list-style-type: none"> The MTFS approved in November 2020 included a pressure of reduced income from fees and charges of £1M in 2021/22 and £0.6M pa 2022/23, 2023/24 and 2024/25. The February MTFS update includes £0.5M provision for Covid-19 cost pressures and £0.45M NHB allocated into the MTFS Risk Reserve to mitigate Covid-19 pressures Government have announced measures to support council's into 2021/22 and these have been built into the February MTFS update. Monitoring of capital (quarterly) and revenue (monthly) budgets, reported to SLT and Cabinet (Quarterly). Regular Covid-19 reporting to MHCLG. Actions to address any significant in year budget variances are agreed with SLT with the status of the agreed actions reported to SLT on a monthly basis. 	Significant	Critical
Fees and charges income: Projected levels of income within the period are not achieved and/or maintained	Possible	Marginal	<ul style="list-style-type: none"> Fees and charges have been reviewed as part of the business planning process. If there are 'in year' shortfalls these form part of the robust budget monitoring processes. 	Possible	Marginal

				<ul style="list-style-type: none"> Existing income streams are known and are therefore more predictable, however in light of the economic backdrop and exit from the European Union these levels of income may not be achieved. 		
	<p>Volatility of Business Rates funding given the uncertainty around impact of successful appeals</p>	Possible	Marginal	<ul style="list-style-type: none"> The MTFS model assumes the impact of the Valuations Office's reset of rateable values from 2017/18. The provision has been reviewed in light of the revaluation and known current appeals and will be reviewed on a regular basis, at present this is deemed to be adequate. Appeals can be backdated and as a consequence of this the Council has set aside a provision of £3.2M to deal with this element of the financial impact. In December 2014 the Government announced it was closing the appeals window and that appeals received on or after 1 April 2015 will only be backdated until this date. 	Possible	Marginal

Robustness of Estimates

Key Financial Risk		INHERENT RISK		Comments/Mitigating Actions in place	RESIDUAL RISK	
		Likelihood	Impact		Likelihood	Impact
	Increase in demand led spending pressures (including impact of Welfare Reform) over and above the current budget provision.	Possible	Marginal	<ul style="list-style-type: none"> Annual budget setting process developed in consultation with service managers. Monitoring of capital (quarterly) and revenue (monthly) budgets, reported to SLT and Cabinet (Quarterly). Actions to address any significant in year budget variances are agreed with SLT with the status of the agreed actions reported to SLT on a monthly basis. 	Possible	Marginal
	Inflation increases at a higher rate than anticipated	Possible	Negligible	<ul style="list-style-type: none"> Assumptions have been made in the forecast about the likely level of general inflation that will apply in 2021/22. CPI is currently running at 1.5% in 2020/21 and 2% has been assumed in the MTFS. RPI is currently running at 2.2% in 2020/21 and 3% has been assumed in the MTFS. Provision for pay inflation identified as a separate risk. Impact of additional inflation on other areas would increase income and expenditure by similar amounts. Beyond this provision, it would be managed as an 'in year' issue and services would be expected to absorb the difference. 	Possible	Negligible
	Overall Government Grant Funding through formula grant, new homes bonus and other grants is less than assumed.	Possible	Critical	<ul style="list-style-type: none"> The impact of the Provisional Local Government Finance Settlement has been assessed at the earliest opportunity and the MTFS has been revised accordingly. The MTFS assumes that only £0.25M of new homes bonus grant supports the revenue budget with the remainder allocated to reserves in accordance with financial policy. Should no ongoing savings be identified, there is provision in the MTFS Risk reserve to provide cover should government grant funding be reduced or stopped. 	Possible	Marginal
	Legal challenge to savings proposals that could result in the proposal being either discontinued or revised	Low	Marginal	<ul style="list-style-type: none"> Robust budget consultation and equalities impact assessments process in place. General Fund Balance of £1.5M in place. 	Low	Negligible
	Pressure on returns from commercial rents in both the short and longer term	Significant	Critical	<ul style="list-style-type: none"> There is a full and robust risk based process around the financial analysis and in year monitoring of the rental income forecasts. Rent Risk Reserve with a balance of £3.4M is in place to meet in year shortfalls. 	Significant	Critical
	The council's service delivery partners seek to exit an agreement or are no longer able to deliver the required service or the council seeks to reach an exit agreement.	Possible	Marginal	<ul style="list-style-type: none"> Procurement Team and Service Managers monitor and work closely with the council significant service delivery partners. Contractual obligations on both parties that set out the respective roles and responsibilities 	Possible	Marginal

Adequacy of Proposed Financial Reserves

Key Financial Risk		INHERENT RISK		Comments/Mitigating Actions in place	RESIDUAL RISK	
		Likelihood	Impact		Likelihood	Impact
	Business Rate Retention - the council fails to collect, retain and grow business rate income	Significant	Marginal	<ul style="list-style-type: none"> The assumption built into the MTFs is based on an annualised CPI Rate reflecting the uplift set by Government. The actual growth will be monitored on a monthly basis.. A Business Rates Risk Reserve exists with a balance of £2.4M to meet in year shortfalls of income. 	Significant	Marginal
	The Government could impose a lower Council Tax referendum threshold (currently 2.00%) or £5.00	Possible	Marginal	<ul style="list-style-type: none"> Assumption is that Council Tax rises are set at the £5.00 referendum limit in 2021/22, 2022/23, 2023/24 and 2024/25 The Provisional Local Government Finance Settlement announced a £5.00 referendum limit for 2021/22. 	Possible	Marginal
	Council Tax Growth - the council fails to collect, retain and grow council tax income	Possible	Marginal	<ul style="list-style-type: none"> The assumption built into the MTFs is based on an average growth of 850 new band D properties reflected the annual target in the council's Local Plan. The actual growth will be monitored on a regular basis. 	Possible	Marginal
	Delivery of all of the agreed savings and future savings targets is not achieved	Significant	Critical	<ul style="list-style-type: none"> Progress and delivery of the overall savings programme and individual proposals monitored at Service Director level, by SLT, with any non achievement forming part of the normal budget monitoring actions process. SLT and Cabinet review and risk assess the validity and achievability of savings proposals and provide approval (or not). 	Significant	Critical
	Non-receipt or slippage in capital receipts or contributions (not accompanied by a slippage in spend)	Possible	Critical	<ul style="list-style-type: none"> £26.79M new capital receipts and contributions (eg DFGs, S106 developer contributions) assumed over the MTFs period. <p>Other capital reserves held that could be used to cover shortfall.</p>	Possible	Critical
	Legislative changes not anticipated	Low	Marginal	<ul style="list-style-type: none"> Keep up to date with Government policy and consultations. General Fund Balance of £1.5M is held to cover the financial implications or look for alternative sources of funding. 	Low	Marginal
	Ad hoc or unforeseen events / emergencies	Low	Marginal	<ul style="list-style-type: none"> General Fund Balance of £1.5M can be utilised in respect of the financial impact of such an event. Subject to the nature of the event alternative sources of funding might be available. 	Low	Marginal
	Exiting the European Union - Uncertainty and economic forces, at least in the short term, within both the local business and wider business sector may have an adverse impact on commercial rent income, investment decisions and local employment which, in turn, would impact on business rate income.	Very High	Marginal	<ul style="list-style-type: none"> National and local modelling in respect of the future approach to business rate retention will need to reflect changes in the financial environment. Treasury Management advisors are regularly updating the Council on the economic impact of exiting the European Union, the strength of the pound, inflation and interest rates. There may be either pressure or incentives for non UK owned business to move operations back to within an EU country. 	Very High	Marginal