KEY FINANCIAL RISKS (annexe 1.3)

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)		
A - Almost Certain	**> 95%**	Highly likely to occur
B - Likely	↑	Will probably occur
C - Possible	**50%**	Might occur
D - Unlikely	↓	Could occur but unlikely
E - Very Unlikely	**< 5%**	May only occur in exceptional circumstances

IMPACT (Consequence)	
1 - Extreme	Loss or loss of income > £20m
2 - Major	Loss or loss of income £10m < £20m
3 - Significant	Loss or loss of income £5m < £10m
4 - Moderate	Loss or loss of income £500k < £5m
5 - Minor	Loss or loss of income £10k < £500k

- **Robustness of estimates**

	Key Financial Risk	INHERENT RISK		Comments/Mitigating Actions in place	RESIDUAL RISK	
		Likelihood	Impact		Likelihood	Impact
FE1.	**Interest rates** are underestimated.	Likely	Major	*• PWLB rates increased 1% on 9 October 2019 with less than 1 hour notice. Funding was secured about 1 month prior to this for £90M for the capital programme at advantageous rates, in anticipation of subsequent step ups with interest rates. Prudent estimates are made around future rates when costing the financing of the capital programme.* *• PWLB rates discounted by 1% for new HRA loans in March 2020 Budget.* *• Market intelligence provided by Treasury Management advisors.* *• Treasury Management Strategy is aligned with CIPFA Code and MHCLG Guidance re investing funds prudently and having regard to the security and liquidity of its investments before seeking the highest rate of return.*	Possible	Significant
FE2.	**Existing fees and charges:** Projected levels of income within the period are not achieved and/or maintained.	Possible	Moderate	*• Fees and charges have been reviewed as part of the business planning process. If there are 'in year' shortfalls these form part of the budget monitoring processes.* *• Loss of income from fees and charges is forecast for 2020/21 due to the impact of COVID-19 measures and economic downturn. This will be mitigated by the Government scheme to fund 75p in every £1 lost over and above a 5% budget threshold. This does not apply to commercial activities.*	Possible	Moderate
FE3.	**New income streams:** Projected levels of income within the period are not achieved.	Possible	Moderate	*• Income generating activity has been identified as part of current approved savings proposals. There is a risk that in light of the economic backdrop and exit from the European Union that these levels of income will not be achieved.* *• Higher risk as it is based on new sources of income.* *• Implementation of new income generation proposals has been delayed due to the impact of COVID-19 and economic downturn.*	Possible	Moderate
FE4.	**Volatility of Business Rates funding** given the uncertainty around impact of successful appeals.	Likely	Significant	*• The Valuations Office undertook a 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 to deal with this element of the financial impact.* *• The appeals window for the 2010 rating list has been closed.*	Unlikely	Minor

- **Robustness of estimates**

Key Financial Risk		INHERENT RISK		Comments/Mitigating Actions in place	RESIDUAL RISK	
		Likelihood	Impact		Likelihood	Impact
FE5.	**Increase in demand led spending pressures** (including impact of Welfare Reform, social care, safeguarding) over and above the current budget provision.	Possible	Significant	• *Annual budget setting process developed in consultation with service managers* • *Monitoring of capital (quarterly) and revenue (monthly) budgets, reported to EMT and Cabinet (Quarterly).* • *Action plans to address any significant in year budget variances are agreed with EMT with the status of the agreed actions reported to EMT on a monthly basis* • *Action plans intended to manage/reduce the number of Looked After Children*	Possible	Moderate
FE6a.	Third party provider costs will increase as a result of the introduction of the **National Living Wage**	Almost certain	Moderate	• *As each contract is procured any impact of this will need to be assessed and addressed to ensure services are procured within budget.*	Possible	Moderate
FE6b.	**Third party provider costs increase** as result of SCC having to 'step in' in the event of potential provider failure (social care providers)	Possible	Moderate	• *ICU contract monitoring arrangements and general market oversight and intelligence*	Unlikely	Minor
FE7.	**Legal challenge to savings proposals** that could result in the proposal being either discontinued or revised.	Possible	Moderate	• *Robust budget consultation process in place.*	Unlikely	Minor
FE8.	**Pressure on returns from investment properties** in both the short and longer term.	Possible	Significant	• *There is a full and robust process around the financial and legal analysis of the individual investments.* • *Investments are diversified between sectors.*	Possible	Moderate
FE9.	**Voluntary sector** is either unwilling or unable to support the delivery of certain services or activities	Possible	Significant	• *Review the overall expectation and co-ordination of the services required of the voluntary sector.* • *Consideration is given to this risk in deciding whether to design services around the voluntary sector*	Possible	Moderate
FE10.	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.	Likely	Significant	• *Central Contracts Team monitors and work closely with the council's significant service delivery partners.* • *Contractual obligations on both parties that set out the respective roles and responsibilities.*	Possible	Moderate
FE11.	The Council may received reduced funding if Government make changes to the Local Government funding mechanism. Such changes may include removing the ring-fence for Public Health Grant and rolling it in to general funding.	Possible	Significant	• *The Council will plan for any proposed changes through the Medium Term Financial Strategy process.*	Possible	Significant

- **Adequacy of proposed financial reserves**

Key Financial Risk		INHERENT RISK		Comments/Mitigating Actions	RESIDUAL RISK	
		Likelihood	Impact		Likelihood	Impact
FR1.	**Business Rate Retention & Council Tax Growth -** the council fails to collect, retain and grow business rate income	Significant	Significant	*• The assumption built into the MTFS is based on an annualised CPI Rate reflecting the uplift set by government. • The current MTFS includes assumptions on growth which have been reviewed compared with past expectations as factored into budget plans. This has been undertaken in conjunction with the Growth service team and Business rate collection team, including pipeline developments and their assumed operation dates. This will be monitored on a frequent basis as part of the standard monitoring. • Reserves can be used to offset the impact of shortfalls in estimated business rates, giving time to adapt the budget and service planning.*	Possible	Moderate
FR2.	**Delivery of all of the agreed savings** is not achieved.	Possible	Major	*• Progress and delivery of the overall Programme and individual projects is monitored at Executive Director level, by EMT, with any non achievement forming part of the normal budget monitoring action plan process. • EMT review the validity and achievability of projects and provide approval (or not) to projects*	Unlikely	Significant
FR3.	The Government could impose a lower **Council Tax referendum** threshold and/or reduce or remove the **Adult Social Care Levy**	Possible	Moderate	*• The 2020/21 budget included no increase in the general Council Tax and the MTFS agreed in February 2020 assumed a 1.99% increase in Council Tax for the years 2021/22 and 2022/23. • The Adult Social Care Levy was introduced as part of the Autumn 2015 Spending Review and allowed local authorities with social care responsibilities to increase Council Tax by a further 6% over the 3 years 2017/18 - 2019/20 (3% was applied in 17-18 & 18-19 and 0% in 19-20). The Government consulted on a further 2% Levy in the 2020/21 Provisional Settlement and the Council applied this increase instead of an increase in general Council Tax. The MTFS agreed in February 2020 assumed no further increases in the Levy beyond 2020/21. • Given the national recognition of pressures within the Adult Social Care system it is unlikely that the ASC Levy will be removed or reduced.*	Unlikely	Moderate
FR4.	**Slippage in capital receipts** (not accompanied by a slippage in spend).	Possible	Moderate	*• Non-receipt of any planned income will require a permanent draw from reserves, additional borrowing or for savings to be found in the capital programme. • Impact reflects the cost of borrowing in short term (the interest payments).*	Possible	Minor
FR5.	If **building inflation** was to exceed general inflation over a prolonged period, this would have a significant adverse impact on **HRA balances** and, in turn, the business model in respect of the redevelopment and refurbishment of the SCC Housing stock.	Possible	Significant	*• Surpluses are liable to change annually, either favourably or not, and this will be reflected the annual review of stock investment needs and estimated unit rates. • Monitoring and assessment of potential impact with business model sufficiently flexible to allow for reassessment of priority outcomes against available budget*	Possible	Moderate
FR6.	The level of funds within the **internal insurance provisions** is inadequate to meet current or future demand	Possible	Moderate	*• The adequacy of the provision is informed by the output from periodical (at least triennial) external actuarial reviews of the funds. • The level of funding required is reviewed as part of annual budget setting process and the position, in respect of potential liabilities is reviewed on a monthly basis.*	Unlikely	Moderate

- **Adequacy of proposed financial reserves**

Key Financial Risk		INHERENT RISK		Comments/Mitigating Actions	RESIDUAL RISK	
		Likelihood	Impact		Likelihood	Impact
FR7.	**Ad hoc or unforeseen events / emergencies.**	Possible	Major	*• The Council's Reserves may 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 e.g. Bellwin Scheme.* *• The Government has allocated 3 tranches of un-ringfenced Emergency Funding to local authorities to meet COVID-19 pressures and confirmed funding will be available to meet some fees and charges income losses, as well as providing some ring-fenced grant funding for specific measures e.g. testing and tracing.*	Possible	Significant
FR8.	The cost of implementing the **Care Act** 2014 is greater than anticipated.	Unlikely	Moderate	*• Current assumption is for the cost of this new burden to be met by the funding allocation provided within the Better Care Fund and the new Carers and Care Act Implementation grant* *• The main implications of the Care Act have been deferred beyond 2020/21.*	Unlikely	Moderate
FR9.	**CCG** could seek to reduce its level of contribution to the **'pooled budgeting '** arrangement with SCC	Possible	Significant	*• Ongoing relationship and dialogue with CCG re shared objectives and outcomes.*	Unlikely	Moderate
FR10.	The council is unable to quantify the financial impact on both vulnerable individuals and key council services arising from implementation **of welfare reforms**	Possible	Moderate	*The impact of Welfare Reform on all service areas will be difficult to monitor or to mitigate against.*	Possible	Moderate
FR11.	**Inflation increases** at a higher rate than anticipated	Possible	Moderate	*• Assumptions have been made in the estimates about the likely level of general inflation that will apply in 2020/21. CPI is currently running at 1.0%, well below the anticipated level.* *• Market intelligence provided by Alnicos - independent treasury advisors* *• An amount is included in the MTFS to cover key elements of inflation.* *• Beyond this provision, it would be managed as an 'in year' issue and services would be expected to absorb the difference.*	Unlikely	Minor
FR12.	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 investment decisions and local employment which, in turn, would impact on business rate income.	Likely	Moderate	*• National and local modelling in respect of the future approach to business rate retention will need to reflect changes in the financial environment.* *• There may be either pressure or incentives for non UK owned business to move operations back to within an EU country.* *• 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.*	Likely	Moderate
FR13.	There are unplanned and unforeseen consequences (and costs) arising from the implementation of new, or changed, systems and processes across service areas within the organisation	Possible	Moderate	*• A Projects and Change Team has been established. A full programme management process is in place including planning and risk assessment, with significant support to major projects.*	Unlikely	Moderate
FR14.	New accounting rules for financial investments may result in adverse valuation movements being charged to the General Fund in the year that they occur.	Possible	Moderate	*• New accounting rules require gains/losses from valuation movements for certain types of financial investments to be recognised in the year they occur, rather than when the investments are sold. The Risk Reserve will be used to manage the volatility that the timing difference may cause.*	Possible	Moderate
FR15	Impact of COVID-19 on budgets	Almost certain	Extreme	*COVID is having ongoing financial effects, as well as introducing significant uncertainty for future financial projects. Major income streams are likely to be impacted, such as council tax and business rates, as well as numerous service costs rising as demand increases e.g. for social care. The situation is being closely monitored each month, by the finance team and the impact captured. The Council set a prudent budget in Feb 2020, with inbuilt financial resilience from a solid reserves position and with corporate contingency budget. The MTFS will be used to model the potential effects and ensure the authority continues to plan ahead with robust estimates. Corporately, a further risk register is maintained for all COVID related risks, including financial, which is monitored frequently*	Almost certain	Significant