KEY FINANCIAL RISKS

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%**	Is expected to occur in most circumstances
B - Likely	↑	Will probably occur in most circumstances
C - Possible	**50%**	Might occur at some time
D - Unlikely	↓	Could occur at some time
E - Very Unlikely	**< 5%**	May only occur in exceptional circumstances

IMPACT	5 - Minor	4 - Moderate	3 - Significant	2- Major	1- Extreme
Service delivery / key priorities	No noticeable effect	Some temporary disruption to a single service area/ delay in delivery of one of the council's objectives	Regular disruption to one or more services/ a number of corporate objectives would be delayed or not delivered	Severe service disruption on a directorate level / many corporate priorities delayed or not delivered	Unable to deliver most priorities / statutory duties not delivered
Financial Impact	Loss or loss of income < £10k	Loss or loss of income £10k - £499k	Loss or loss of income £500k - £4.99m	Loss or loss of income £5m < £9.99m	Loss or loss of income >£10m
Reputation	Internal review	Internal scrutiny required to prevent escalation	Local media interest. Scrutiny by external committee or body	Intense public, and media scrutiny	Public Inquiry or adverse national media attention

- **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	*• Prudent estimates are made around future rates when costing the financing of the capital programme.* *• 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	Significant	*• Fees and charges have been reviewed as part of the medium term financial planning process and inflationary increases applied in line with the Fees & Charges Policy. If there are 'in year' shortfalls these are dealt with through the business planning and budgeting framework.* *• Impairment allowances for non-collectability of debts are assessed at least annually.*	Possible	Significant
FE3.	**New income streams:** Projected levels of income within the period are not achieved.	Possible	Significant	*• Income generating activity has been identified as part of current approved savings proposals. There is a risk that this income will not be achieved.* *• Higher risk as it is based on new sources of income.*	Possible	Significant
FE4.	**Volatility of Business Rates funding** given the uncertainty around impact of successful appeals.	Likely	Major	*• The appeals provision has been reviewed and updated in light of known current appeals/challenges and potential threats and will be reviewed on a regular basis.* *• 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 2017 rating list closed on 31 March 2023 and the number of outstanding cases is reducing.* *• Estimates have been made on the likely successful appeals against the 2023 rating list and provided for within estimates of collectable business rates.*	Possible	Significant

- **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	Extreme	*• Budget provision for demand led pressures was included in the medium term financial strategy and is under regular review as part of in-year monitoring processes. • Revenue and capital budgets are monitored monthly and reported to the Management Board (MB) and Cabinet. • Deficit recovery plans are required to address any significant in year unfavourable variances. these are subject to review and challenge by the Budget Review Panel chaired by the Chief Executive.*	Possible	Significant
FE6a.	Third party provider costs will increase as a result of increases in the **National Living Wage**	Almost certain	Significant	*• As each contract is procured any impact of this will need to be assessed and addressed to ensure services are procured within budget.*	Possible	Significant
FE6b.	**Third party provider costs increase** as a result of SCC having to 'step in' in the event of potential provider failure (social care providers)	Unlikely	Significant	*• Integrated Commissioning Unit (ICU) contract monitoring arrangements and general market oversight and intelligence*	Very Unlikely	Moderate
FE7.	**Legal challenge to savings proposals** that could result in the proposal being either discontinued or revised.	Possible	Significant	*• Robust budget consultation process in place for any service redesign proposals.*	Unlikely	Moderate
FE8.	**Pressure on returns from investment properties** in both the short and longer term.	Possible	Major	*• Investments are diversified between sectors. • The asset development and disposal programme will result in a reduced property investment portfolio in the longer term. Budget contingency has provided within the medium term financial strategy for a reduction in income.*	Possible	Significant
FE9.	**Voluntary sector** is either unwilling or unable to support the delivery of certain services or activities	Possible	Major	*• 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	Significant
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	Major	*• 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	Significant
FE11.	The Council may receive **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	Major	*• The Council will plan for any proposed changes through the Medium Term Financial Strategy process. • As outlined in the Provisional Local Government Finance Settlement in December 2023, no changes will be made to the main funding mechanisms in 2024/25.*	Very Unlikely	Major
FE12.	**Employer pension contribution rates** are under estimated.	Possible	Significant	*• Local Government Pension Scheme employer contribution rates are assessed as part of the triennial revaluation process and set for a three year period. The latest rates apply to the period 2023/24 to 2025/26. Draft results from the triennial review are normally available 6 months ahead of any revised rate being applicable. • Hampshire Pension Fund provide advice to employers on performance of the Fund. • Any changes to employer contribution rates for nationally run schemes such as the Teachers Pension Fund are normally notified in advance.*	Very Unlikely	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	Possible	Major	*• The government froze the small business rates multiplier for 2024/25 and councils are being compensated via grants. The standard rated mulitplier was uplifted by the annualised Consumer Price Index (CPI) rate. The medium term financial strategy (MTFS) assumes both multipliers will be uplifted by CPI in future years (or the council will receive government funding in compensation).* *• The MTFS includes assumptions on growth which have been reviewed in conjunction with the Economic Development team, including pipeline developments and their assumed operational dates. This will be monitored on a frequent basis as part of the standard monitoring arrangements.*	Possible	Significant
FR2.	**Delivery of all of the agreed savings** is not achieved.	Possible	Extreme	*• Progress on the delivery of savings proposals is monitored as part of the monthly monitoring process and reported to Management Board and Cabinet.* *• Deficit recovery plans are required where savings proposals are not expected to be achived.*	Possible	Significant
FR3.	The Government could impose a lower **Council Tax referendum** threshold and/or reduce or remove the **Adult Social Care Precept**	Possible	Significant	*• SCC's 'core' Council Tax was increased by 2.99% and the Adult Social Care Precept by 2.0% in the 2024/25 budget, in line with the referendum limits.* *• The medium term financial strategy assumes a 2.99% increase in core Council Tax from 2025/26 onwards and no additional Adult Social Care Precept.* *• No government announcements have been made on referendum limits that will apply in future years.*	Unlikely	Significant
FR4.	**Slippage in capital receipts** (not accompanied by a slippage in spend).	Possible	Significant	*• 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 the short term (the interest payments).* *• A shortfall in capital receipts may impact on delivery of the transformation programme.*	Possible	Significant
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	Major	*• Surpluses are liable to change annually, either favourably or not, and this will be reflected in 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	Major
FR6.	The level of funds within the **internal insurance provisions** is inadequate to meet current or future demand	Possible	Significant	*• 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	Significant

- **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	Extreme	*• The council has limited reserves to deal with 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, specific government funding (such as in response to COVID-19).*	Possible	Major
FR8.	The cost of implementing the **Care Act** 2014 is greater than anticipated.	Possible	Significant	*• The Government announced a new basis for Social Care provision in September 2021, with a "cap and floor" scheme due to be implemented from October 2023, subsequently delayed until October 2025. Funding previously earmarked within the Spending Review for the scheme has been allocated to local government for other purposes. No funding for the new scheme has been identified for future years. • No costing analysis has been provided so it is unclear whether the quantum of funding previously identified at a national level would have been sufficient to cover the costs of the scheme. There is also a risk that the method for distributing such funding may be unfavourable to the council.*	Possible	Significant
FR9.	**The Integrated Care Board (ICB)** could seek to reduce its level of contribution to the **'pooled budgeting'** arrangement with SCC	Possible	Major	*• Ongoing relationship and dialogue with ICB re shared objectives and outcomes.*	Unlikely	Significant
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	Significant	*The impact of welfare reform on all service areas will be difficult to monitor or to mitigate against.*	Possible	Significant
FR11.	**Inflation increases** at a higher rate than anticipated	Possible	Significant	*• Assumptions have been made in the estimates about the likely level of general inflation that will apply in 2024/25. CPI is currently running at 2.0% (June 2024), having reduced to the Bank of England's target rate. • Market intelligence provided by Arlingclose - independent treasury advisors. • Directorate cash limited budgets include provision for contract inflation. Beyond this provision it would be managed as an 'in year' issue and services are expected to absorb the difference.*	Possible	Significant
FR12.	**Pay Inflation** is at a higher rate than anticipated	Likely	Significant	*• The MTFS approved in March 2024 was based on an assumed pay award of 3.0% for 2024/25 and 2.0% thereafter. • Pay awards for the majority of local government employees are agreed through the National Joint Council for Local Government Services, with representatives from both employers and trade unions. • The NJC's made a full and final offer for 2024/25 of a £1,290 flat rate increase on all NJC pay points on the pay spine and an increase of 2.5% on all pay points above the maximum of the pay spine but graded below deputy chief officer. This is equivalent to around a 3.5% increase for the council. The additional cost of the pay award over budget is to be managed by directorates as part of their cash limited budgets.*	Likely	Significant

- **Adequacy of proposed financial reserves**

Key Financial Risk		INHERENT RISK		Comments/Mitigating Actions	RESIDUAL RISK	
		Likelihood	Impact		Likelihood	Impact
FR13.	**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	Significant	*• 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	Significant
FR14.	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	Significant	*• A Projects and Change Team is in place. A full programme management approach is taken, including planning and risk assessment, with significant support to major projects.*	Unlikely	Significant
FR15.	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	Significant	*• 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 Government put in place legislation to mitigate the impact on the General Fund which runs to the end of 2024/25.* *• An Investment Risk Reserve has been set up to manage the volatility that the timing difference may cause once the override ends, with contributions made in 2023/24 and planned for 2024/25 and 2025/26 to meet the estimated loss in value of investments.*	Unlikely	Significant
FR16.	The cumulative deficit on the **Dedicated Schools Grant** (DSG) may have to be met from the General Fund.	Very Likely	Major	*• A statutory override is in place until the end of 2025/26 which prevents a DSG deficit impacting on the General Fund.* *• A cumulative DSG deficit of £11.1M as at the end of 2021/22 is being held in an unusable reserve in accordance with legislation. A cumulative surplus of £4.0M from in-year surpluses in 2022/23 and 2023/24 is held within earmarked revenue reserves as the statutory override regulations do not allow for this to be used to reduce the cumulative deficit held in the unusable reserve. An in-year surplus of £1.2M is forecast for 2024/25, which would reduce the cumulative net deficit to £5.9M.* *• Work is being undertaken as part of the DfE programme Delivering Better Value in Special Education Needs & Disabilities to reduce costs, however may only serve to limit cost increases.*	Likely	Major
FR17.	Pressure on the **Housing Revenue Account** means it becomes financially unsustainable without savings and/or reductions in capital spending plans.	Possible	Extreme	*• The HRA working balance was increased to £2.6M at 2023/24 outturn.* *• The HRA business plan includes plans to increase the working balance to £7.0m by 2027/28 to provide a suitable safety net for any major financial risks and shocks and allow time to adjust plans within the 40- year HRA business plan.*	Possible	Major
FR18.	Costs are incurred in meeting **uninsured claims** against the Council or other **liabilities**.	Possible	Extreme	*• Appropriate legal advice is taken to mount a successful defence.* *• The Government is minded to offer the council Exceptional Financial Support in 2024/25 of up to £52M in respect of equal pay costs.*	Possible	Extreme
FR19.	The Council incurs unfunded costs relating to **new legislative burdens**.	Possible	Significant	*• The Government has a policy of funding any "new burdens" imposed on local government, either through the local government finance settlement or via specific grants.*	Unlikely	Moderate
FR20.	**School deficits** may have to be met from the General Fund if a school in deficit transfers to academy status.	Possible	Significant	*• The Government may mandate a school that "requires improvement" to become an academy. When a school in deficit transfers to academy status the deficit must be borne by the General Fund.* *• Schools in deficit are required to develop deficit recovery plans to get back to a balanced position within 3 years (which may be extended to 5 years if necessary, for schools that have experienced significant COVID-19 pressures).*	Possible	Moderate
FR21.	The council's **Transformation Programme** may not achieve the level of savings/cost reductions required to address the structural budget deficit.	Possible	Extreme	*• New governance arrangements aligned to the Transformation Programme have been put in place, with Portfolio Boards led by each Executive Director reporting into the Transformation Board chaired by the Chief Executive.* *• The content and delivery of the programme has been defined through 28 outline business cases.*	Possible	Extreme