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%**	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.	Pay Inflation - underestimated in the original estimates.	Possible	Moderate	*The MTFS model is based on a pay award of 1% over the medium term - this is following the July 2015 budget and the announcement to cap public sector pay awards at 1%*	Unlikely	Minor
FE2.	Interest rates are underestimated.	Possible	Moderate	*Reliance placed on market intelligence provided by Treasury Management advisors.*	Unlikely	Minor
				Treasury Management Strategy is aligned with CIPFA Code and the CLG Guidance re investing funds prudently and having regard to the security and liquidity of its investments before seeking the highest rate of return.		
FE3.	Existing fees and charges: Projected levels of income within the period are not achieved and/or maintained.	Possible	Moderate	*As part of the estimate setting process we are reviewing all fees and charges on annual basis, to reset these if necessary. If there are in year shortfalls these form part of the budget monitoring processes.*	Possible	Moderate
				Lower risk as existing income streams are known and are therefore more predictable		
FE4.	New income streams: Projected levels of income within the period are not achieved.	Possible	Moderate	*Income generating activity has been identified as part of savings proposals for 2017/18 and onwards. There is a risk that in light of the economic backdrop and brexit that these levels of income will not be achieved.*	Possible	Moderate
				Higher risk as it is based on new sources of income		

FE5.	Volatility of Business Rates funding given the uncertainty around impact of successful appeals (SCC retains almost half the risk from the volatile nature of the receipts).	Likely	Significant	*The Valuations Office has undertaking 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.* *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.*	Unlikely	Minor
FE6.	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 CMT and Cabinet (Quarterly).* *Action plans to address any significant in year budget variances are agreed with CMT with the status of the agreed actions reported to CMT on a monthly basis* *Action plans & Transformation programme in place that are intended to manage/reduce the number of Looked After Children*	Possible	Moderate
FE7a.	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
FE7b.	Third party provider costs increase as result of SCC having to 'step in' in the event of potential provide failure (social care providers)	Possible	Moderate	*ICU contract monitoring arrangements and general market oversight and intelligence*	Unlikely	Moderate
FE8.	Legal challenge to savings proposals that could result in the proposal being either discontinued or revised.	Possible	Moderate	Budget consultation process in place.	Unlikely	Minor
FE9.	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 not confined to the Southampton area	Possible	Moderate
FE10.	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

FE11.	The council's service delivery partners seek to exit an agreement or are no longer able to deliver the required service.	Unlikely	Significant	Central Contracts Team monitors and work closely with the council significant service delivery partners. In addition, there are contractual obligations on both parties that set out the respective roles and responsibilities.	Very Unlikely	Moderate

- **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 council tax and business rate income.	Possible	Significant	*The assumption built into the MTFS is a 1% increase per annum reflecting the uplift set by government.* *The current MTFS includes assumptions on growth which have been developed in conjunction with the Growth service area and recognise pipeline developments and their assumed operation dates. These will be monitored on a monthly as part of the standard monitoring.*	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 Service Director level, and thereafter by SLT & CMT, with any non achievement forming part of the normal budget monitoring action plan process.* *CMT & SLT 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 (currently 1.99%) and/or reduce or remove the Adult Social Care Levy (3%)	Possible	Moderate	*Assumption is that Council Tax rises will be set at just below the 2% referendum limit in future years, at 1.99% (excluding the Adult Social Care Levy).* *The Adult Social Care Levy was only introduced as part of the Autumn 2015 Spending Review and allows local authorities with social care responsibilities to increase Council Tax by a further 3% (17-18 & 18/19). No further assumptions have been made beyond 2019/20 for any increase in this income over and above the 6%* *The MTFS assumes this levy will be taken in all years as the calculated increase in funding for adult social care far outweighs the income gained from this levy.*	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 balances, 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.	As schools transfer to Academy status the council's share of the retained and general element of the Education Services Grant may reduce	Almost certain	Moderate	*Costs need to be reduced in line with reductions in funding.* *Development of a strategy in terms of whether / what services SCC may choose to still offer to Academy Schools*	Possible	Minor
FR7.	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 is 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	Minor
FR8.	Ad hoc or unforeseen events / emergencies.	Possible	Significant	*The Council's Balance may 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.*	Possible	Significant

FR9.	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* *This funding has now been included within the Revenue Support Grant and the main implications of the Care Act have been deferred until 2019-20.*	Unlikely	Moderate
FR10.	CCG could seek to reduce it 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
FR11.	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 monitor or to mitigate against.*	Possible	Moderate
FR12.	Inflation increases at a higher rate than anticipated	Possible	Moderate	*Assumptions have been made in the forecast about the likely level of general inflation that will apply from April 2017. Current indications are that an increase is likely and 1.6% rising to % CPI has been included in the MTFS Model* *Market intelligence provided by Arlingclose - independent treasury advisors* *An amount is included in the MTFS to cover key elements of inflation, for example in relation to fuel and energy costs, which can be volatile.* *Beyond this provision, it would be managed as an 'in year' issue and services would be expected to absorb the difference.*	Unlikely	Moderate
FR13.	Brexit - 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 us on the economic impact of Brexit, the strength of the pound, inflation and interest rates*	Likely	Moderate
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	Moderate	*A Programme Delivery Office has been established and will be liaising with Finance to track benefits and unintended consequences. A full programme management process is being put in place including planning and risk assessment.*	Unlikely	Moderate