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)		
5 - Very Likely	>95%	Is expected to occur in most circumstances
4 - Likely	↑	Will probably occur in most circumstances
3 - Possible	50%	Might occur at some time
2 - Unlikely	↓	Could occur at some time
1 - Very Unlikely	<5%	May only occur in exceptional circumstances

IMPACT	1 - Minor	2 - Moderate	3 - Significant	4 - Major	5 - Critical
Service delivery/ key priorities	No noticeable effects	Some temporary disruption to a single service area / delay in delivery of one of the council's	Regular disruption to one or more services / a number of corporate objectives would be delayed or not	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 or 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	*• PWLB rates reduced by 1% for all new standard rate borrowing and by 0.8% for certainty rate loans in Spending Review 2020. Rates were discounted by 1% for new HRA loans in March 2020 Budget. • 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 DLUHC 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 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 due to the impact of COVID-19 restrictions. This has been mitigated by the Government scheme to fund 75p in every £1 lost over and above a 5% budget threshold for the first quarter of 2021/22 (continuation of the scheme in place for 2020/21). This does not apply to commercial activities.*	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 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.*	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 2010 rating list has been closed. • Legislation has been enacted to prevent appeals as a consequence of measures to control COVID-19. Billing authorities have been allocated a share of a £1.5Bn COVID-19 Additional Relief Fund for 2021/22 to award discretionary relief to those business ineligible for existing support linked to 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	Critical	*• Annual budget setting process developed in consultation with service managers • Monitoring of capital (quarterly) and revenue (monthly) budgets, reported to EMB and Cabinet (Quarterly). • Action plans to address any significant in year budget variances are agreed with EMB with the status of the agreed actions reported to EMB on a monthly basis • Action plans intended to manage/reduce the number of Looked After Children*	Possible	Major
FE6a.	Third party provider costs will increase as a result of the introduction of the **National Living Wage**	Very Likely	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 result of SCC having to 'step in' in the event of potential provider failure (social care providers)	Unlikely	Significant	*• ICU contract monitoring arrangements and general market oversight and intelligence • The market has benefited from funding relating to additional COVID support from government*	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.*	Unlikely	Moderate
FE8.	**Pressure on returns from investment properties** in both the short and longer term.	Possible	Major	*• There is a full and robust process around the financial and legal analysis of the individual investments. • Investments are diversified between sectors. • Expansion of the Property Investment Fund was removed in the 2021/22 budget agreed in February 2021*	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 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	Major	*• The Council will plan for any proposed changes through the Medium Term Financial Strategy process.*	Possible	Major

- **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	*• For the business rates multiplier, the assumption built into the MTFS is based on an annualised CPI Rate reflecting the uplift set by government. The government has frozen the business rate multiplier for 2021/22 adn 2022/23, however councils will be compensated for this via grants.* *• The MTFS includes assumptions on growth which have been reviewed in conjunction with the Growth service team and Business rate collection team, including pipeline developments and their assumed operational 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	Significant
FR2.	**Delivery of all of the agreed savings** is not achieved.	Possible	Critical	*• Progress and delivery of the overall Programme and individual projects is monitored at Executive Director level, by EMB, with any non achievement forming part of the normal budget monitoring action plan process.* *• EMB review the validity and achievability of projects and provide approval (or not) to projects*	Possible	Major
FR3.	The Government could impose a lower **Council Tax referendum** threshold and/or reduce or remove the **Adult Social Care Precept**	Possible	Significant	*• The 2022/23 budget proposed by the Executive includes a freeze in both the 'core' Council Tax and Adult Social Care Precept. The MTFS assumes increases of 1.99% for 'core' Council Tax and no increase in the Adult Social Care Precept for future years.* *• The Adult Social Care Precept was introduced as part of the Autumn 2015 Spending Review and allowed local authorities with social care responsibilities to increase Council Tax provided it was ring-fenced to Adult Social Care budgets. In the 2022/23 Provisional Settlement the Government consulted on a further 1% Precept.* *• The option for a Social Care Precept has applied for a number of years and the Spending Review 2021 indicated a 1% flexibility is likely to apply for each year of the 3-year spending review.*	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 short term (the interest payments).*	Possible	Moderate
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	Significant
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 Likelihood	INHERENT RISK Impact	Comments/Mitigating Actions	RESIDUAL RISK Likelihood	RESIDUAL RISK Impact
FR7.	**Ad hoc or unforeseen events / emergencies.**	Possible	Critical	*• 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 5 tranches of un-ringfenced support funding to local authorities to meet COVID-19 pressures and provided funding to meet some fees and charges income losses and some irrecoverable tax losses, as well as providing some ring-fenced grant funding for specific measures e.g. testing and tracing.* *• Use of reserves may be required to meet COVID-19 expenditure pressures/income losses not funded by Government.*	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 on 7 September 2021, with a "cap and floor" scheme being implemented from October 2023 to be funded via a new Health and Social Care Levy.* *• No costing analysis has been provided so it is unclear whether the quantum of funding allocated at a national level will be sufficient to cover the costs of the scheme. There is also a risk that the method for distributing the funding will be unfavourable to the Council.* *• The 2022/23 Services Grant announced in the Provisional Local Government Finance Settlement provides funding to meet the Council's cost of the new Health and Social Care Levy (payable from April 2022), however this funding is only guaranteed for 1 year.*	Possible	Significant
FR9.	**CCG** could seek to reduce its level of contribution to the **'pooled budgeting '** arrangement with SCC	Possible	Major	*• Ongoing relationship and dialogue with CCG 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 2021/22. CPI is currently running at 5.4% (December 2021), well above the level that had been anticipated.* *• Market intelligence provided by Arlingclose - 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.*	Possible	Significant
FR12.	**Pay Inflation** is at a higher rate than anticipated	Possible	Significant	*• The MTFF model approved in February 2021 is based on a pay award of 0.5% for 2021/22, 1% for 2022/23 and 2023/24 and 2% for 2024/25 - this is based on the Government's announcement in the Spending Review 2020 to freeze pay for non-NHS public sector workers earning more than £24,000 a year* *• It should be noted that the current offer for 2021/22 is 1.75%, with 2.75% for lowest paid workers, however this has been rejected by the unions.*	Possible	Significant
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	*• 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	Significant

- **Adequacy of proposed financial reserves**

Key Financial Risk		INHERENT RISK		Comments/Mitigating Actions	RESIDUAL RISK	
		Likelihood	Impact		Likelihood	Impact
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 has been established. A full programme management process is in place 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	*• 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.* *• The Government has put in place legislation to mitigate the impact on the General Fund for the five years 2018/19 to 2022/23.*	Unlikely	Significant
FR16.	COVID-19 will adversely impact on budgets	Very Likely	Critical	*• COVID-19 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 included anticipated additional expenditure/income losses in the budget set in Feb 2021. The Government has provided un-ringfenced support funding for local authorities in 2021/22, as well as ring-fenced funding for specific COVID-19 expenditure, e.g. Test & Trace service, and some compensation for loss of fees & charges income.The MTFS will continue 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-19 related risks, including financial, which is monitored frequently*	Very Likely	Major