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 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.*	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 that these levels of 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 will be closed on 31 March 2023 and there may be an increase in the number of cases lodged as the deadline approaches.* *• Legislation has been enacted to prevent appeals as a consequence of measures to control COVID-19. Billing authorities were 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.* *• 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	*• Annual budget setting process developed in consultation with service managers • Monitoring of capital (quarterly) and revenue (monthly) budgets, reported to the Executive Management Board (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 plan within Children's Services intended to 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**	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 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 • Market Sustainability and Fair Cost of Care grant funding has been received in 2022/23, at least 75% of which is to be used to increase fee rates (if rates are below the fair cost of care); further market sustainability funding has been announced for 2023/24 in the provisional local government finance settlement.*	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	*• There is a full and robust process around the financial and legal analysis of the individual investments. • Investments are diversified between sectors. • No current plans to expand the Property Investment Fund*	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. • The Local Government Finance Policy Statement published in December 2022 confirmed that no changes will be made to the main funding mechanisms in 2023/24 or 2024/25.*	Unlikely	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 2022/23 and 2023/24, however councils will be compensated for this via grants.* *• The MTFS includes assumptions on growth which have been reviewed in conjunction with the Development & Growth team and business rates collection team, including pipeline developments and their assumed operational dates. This will be monitored on a frequent basis as part of the standard monitoring arrangements.* *• Business rates have been revalued with an effective date of April 2023. The draft 2023 List shows that the rateable value of properties in Southampton has increased by 2.6%. This may impact on business rates collectability, however a transitional relief scheme will apply to dampen the impact where there has been an increase in rateable value.The Council's 2023/24 Top-Up Grant has been adjusted to eliminate, as far as reasonably practicable, the impact of the 2023 revaluation on its retained business rates.*	Possible	Significant
FR2.	**Delivery of all of the agreed savings** is not achieved.	Possible	Extreme	*• 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	*• SCC's 'core' Council Tax and Adult Social Care Precept were frozen in the 2022/23 budget. The February 2022 MTFS assumed 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.* *• The Local Government Finance Policy Statement published in December 2022 confirmed that for 2023/24 and 2024/25 a 'core' Council Tax increase of up to 3% and an Adult Social Care Precept of up to 2% could be applied without the need for a local referendum.*	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	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'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. • In previous years the Government allocated un-ringfenced funding to support local authorities in meeting 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. infection control. No un-ringfenced funding has been provided for 2022/23, so use of reserves may be required to meet any COVID-19 related expenditure or income losses not provided for within the budget.*	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 to be funded via a new Health and Social Care Levy. In the Growth Plan published in September 2022 the Health and Social Care Levy was scrapped. A delay in implementation of the "cap and floor" scheme to October 2025 was announced in the Autumn Statement in November 2022. • No costing analysis has been provided so it is unclear whether the quantum of funding identified 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 Local Government Finance Policy Statement published in December 2022 and the provisional local government finance settlement confirmed that the funding for the Health and Social Care Levy will be removed from the Services Grant for 2023/24, following its scrapping.*	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	Likey	Significant	*• Assumptions have been made in the estimates about the likely level of general inflation that will apply in 2022/23. CPI is currently running at 10.5% (December 2022), 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, based on assumed inflation rates at the time the MTFS is agreed. • Beyond this provision, it would be managed as an 'in year' issue and services would normally be expected to absorb the difference.*	Likely	Significant
FR12.	**Pay Inflation** is at a higher rate than anticipated	Likely	Major	*• The MTFS model approved in February 2022 was based on a pay award of 2.5% for 2022/23 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. • A £1,925 flat rate increase on all spinal column points was agreed for 2022/23. This is equivalent to a 5.6% increase for the Council.*	Likely	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 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 for the five years 2018/19 to 2022/23 and in December 2022 this was extended for a further two years to 2024/25. Once the override is removed the Medium Term Financial Risk Reserve will be used to manage the volatility that the timing difference may cause.*	Unlikely	Significant
FR16.	COVID-19 will adversely impact on budgets	Almost certain	Major	*• COVID-19 is having ongoing financial effects through its impact on income streams and service costs rising due to increased demand e.g. for social care.The Council included anticipated additional expenditure/income losses in the MTFS agreed in Feb 2021. The MTFS will continue to be used to model the potential effects and ensure the authority continues to plan ahead with robust estimates.*	Almost certain	Significant
FR17.	The cumulative deficit on the Dedicated Schools Grant (DSG) may have to be met from the General Fund.	Possible	Extreme	*• The cumulative DSG deficit, forecast to be £10.24M at the end of 2022/23, is being held in a separate account in accordance with legislation. The statutory override initially ran until the end of 2022/23, however the Local Government Finance Policy Statement in December 2022 announced that the override would be extended until the end of 2025/26.* *• Work is being undertaken as part of the DfE programme Delivering Better Value in Special Education Needs & Disabilities to reduce costs.*	Unlikely	Major
FR18.	Pressure on the Housing Revenue Account means it becomes financially unsustainable without savings and/or reductions in capital spending plans	Possible	Extreme	• A minimum working balance has been set at £2M to provide an in-year buffer. • This buffer should be increased over time to at least £3.5M 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
FR19.	Reserves are used up. This adversely impacts on financial resilience and also restricts the funding/investment available for any transformation work and invest to save proposals	Likely	Extreme	*• The 2022/23 overspend will deplete the MTFR reserve as is stands by £10.3M.* *• Major use of the MTFR reserve for the 2023/24 budget is anticipated (as reported elsewhere on the agenda) potentially depleting it under £12M.* *• More work is needed on the 2023/24 budget, both now and during 2023/24 itself, to find ways to balance the budget but which rely less on such as large drawdown from reserves.*	Possible	Extreme