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:

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

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

- ## 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 previous MTFS model was based on a pay award of 2% pa, however this assumption has been amended to 1% over the medium term following the July 2015 budget and the announcement to cap public sector pay awards at 1%*	Unlikely	Moderate
FE2.	**Interest rates** are underestimated.	Possible	Moderate	• *Reliance placed on market intelligence provided by Treasury Management advisors.* • *Interest Equalisation Reserve which would provide transitional funding if it were deemed appropriate to convert from variable to fixed rate debt.* • *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.*	Unlikely	Moderate
FE3.	**Projected levels of income**	Possible	Moderate	• *The identification and assessment of income generating*	*Possible*	*Moderate*

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	within the period are not achieved and/or maintained.			*activities forms part of one of the Transformation Programme workstreams.* • *The Service Cost Recovery programme is tasked with ensuring that charges and fees are set at the appropriate level and all charges and fees from income generating services are collected.*		
FE4.	**Delivery of all of the agreed savings** is not achieved.	Possible	Major	• *Progress and delivery of the overall Programme and individual projects is in the first instance monitored at Transformation Director and Portfolio Lead level, and thereafter by CMT and a Transformation Improvement Board led by Cabinet Members.* • *CMT and TIB review the validity and achievability of projects and provide approval (or not) to projects.* • *A Benefits & Commercial Governance Group led by the Transformation Director and CFO review the validity of potential project savings before being presented to CMT and TIB.*	Unlikely	*Moderate*
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 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*		Moderate
FE6.	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 provided within budget.*		

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- **Adequacy of proposed financial reserves**

	Key Financial Risk	INHERENT RISK		Comments/Mitigating Actions	RESIDUAL RISK	
		Likelihood	Impact		Likelihood	Impact
FR1.	**Business Rate Retention** – the council fails to collect, retain and grow business rate income recognising the move to 100% retention of receipts	Possible	Significant	• *The assumption built into the MTFS is a 1% increase per annum reflecting the uplift set by government. At this stage, no assumptions have been made about growth.* • *As the council's evidence base builds on business rates, it is anticipated that modelling in terms of growth against downside reductions will become more sophisticated over time.*	Possible	Significant
FR2.	**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 is undertaking a reset of rateable values from 2017/18. This means the level of volatility of business rates in 2017 is at the moment higher until the outcome of the reset exercise is known.* • *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.*	Possible	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** (2%)	Possible	Moderate	• *Assumption is that Council Tax rises will be set at just below the 2% referendum limit in future years, at 1.99%.* • *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 2%.* • *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.*	Possible	Moderate
FR4.	**Slippage in capital receipts** (not accompanied by a	Possible	Moderate	• *Non-receipt of any planned income will require a permanent draw from balances, additional borrowing or for savings to be*	Possible	Moderate

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	slippage in spend).			*found in the capital programme.*		
FR5.	If building inflation was to exceed general inflation over a prolonged period, this would have a significant adverse impact on **HRA balances.**	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.*	Possible	Moderate
FR6.	As schools transfer to Academy status the council's **share of the Education Services Grant** will 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*	Almost certain	Moderate
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	Moderate
FR8.	**Ad hoc or unforeseen events / emergencies.**	Possible	Significant	• *The council's Reserves 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.	The council is unable to quantify the financial impact on both vulnerable individuals and key council	Possible	Moderate	• *Future changes to welfare have been announced in the Summer Budget 2015 and Autumn statement that will impact on across a range of residents, including those on in work benefits. It is difficult to predict the full consequences of*	Possible	Moderate

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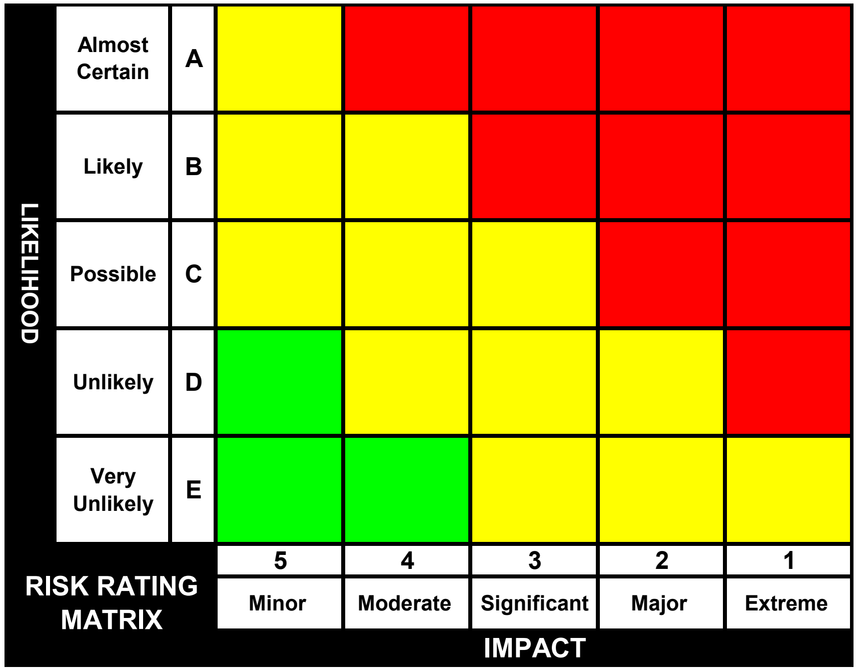
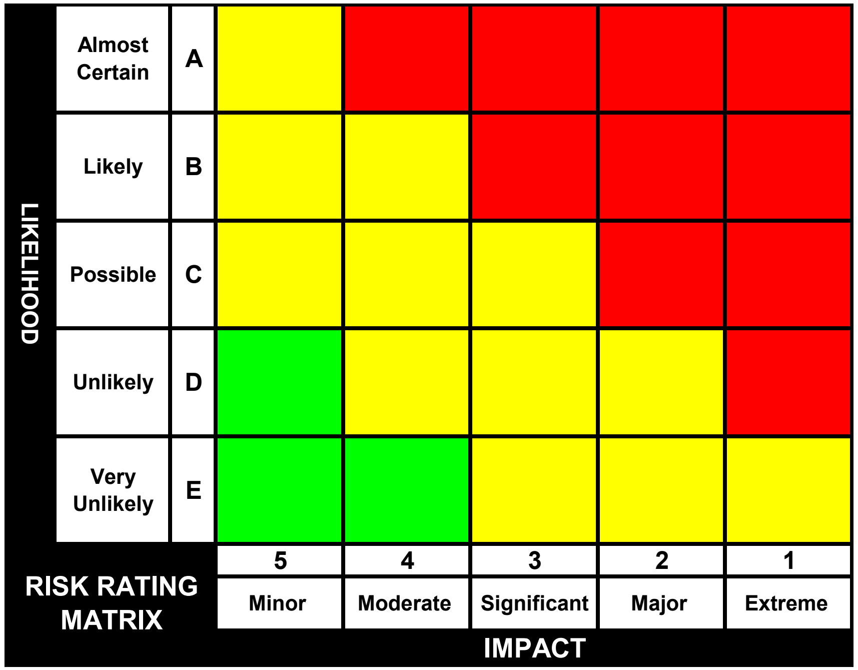
	services arising from implementation **of welfare reforms**			*implementation of key policy changes in Welfare Reform, Council Tax and Universal Credit (UC).* • *The Welfare Reforms Monitoring Group is updating its action plan and communication plan to residents. No budget has been identified for this work for 2016/17.*		
FR11.	**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 2015. Current indications are that in the short term an increase is unlikely.* • *An amount has however been included in the Risk Fund 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.*	Possible	Moderate

INHERENT RISK RATING



RESIDUAL RISK RATING



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