Appendix C

Medium Term Financial Strategy – Financial Risk Analysis

Impact of the outcome of the 4 year Settlement and Proposed Changes to Local Government Funding System

Risk is that the funding cuts have a significantly greater impact on the authority's financial position than currently envisaged as a result of unknown factors, such as the impact of Brexit and other possible economic financial 'shocks'. Assumptions beyond 2019/2020 are based on indicative data released by Government as part of the 2016/2017 4 year settlement and the updates received annually, adjusted for the best local knowledge and information available. The Authority also takes into account, the economic environment and other financial implications of service developments, the political landscape and gauges the impact of government announcements and reviews. A new system of funding local government will be implemented from 2020/2021 and a Fair Funding Review will also to be implemented at the same time. The outcome of these and other developments will be carefully monitored and included in the MTFS and/or the Budget as they become known.

Business Rates Retention Scheme

Risk is that each district council does not collect the level of income indicated, which would then filter through to a reduction to the funding received by the Authority, thereby becoming a budget pressure in future years.

Risk that the Government's safety net level is not directly linked to the level of business rates collectable and as such has been set too low year on year.

From notifications of each district's business rates, the projected position for 2018/2019 is indicating a small deficit over the government's assessment of business rates income, provided the level of business rates notified is actually collected in the year. This has been accommodated within the estimates for 2018/2019.

These risks can be mitigated by regular monitoring of the actual positions on collection with each of its district councils to identify issues and to take corrective action where possible. The Authority also has earmarked funding in a separate MTFP reserve to address the risk of significantly lower business rates income should it arise which will help bridge the considerable gap between the 'lost income' up to the threshold level that the government has set when funding support then becomes available.

Council Tax Support Scheme

Risk that the Council Tax Benefit schemes which are determined by each district council (the Authority has little real influence over these) could impact on the collectable Council Tax income of the Authority. This will become transparent when the surplus/deficit position on the Collection Fund is reported by each district.

The risk will be mitigated by regular monitoring of the actual positions on collection with each of its district councils, to identify issues and to take corrective action where possible. This action will complement funding that the Authority has earmarked in a separate MTFP reserve to address this risk should it arise.

Inflation

Risk is that pay and price increases may exceed the levels provided for within the MTFS.

This is very unlikely to occur due to the realistic provisions made:

- Prudent provision has been made for all employees' pay awards;
- CPI is forecast to remain around 2.75% before gradually falling to around 2.2% by the end of 2019; a prudent approach has been maintained;
- Expenditure in respect of most of the budget heads can be either influenced or controlled through regular budget monitoring arrangements.

Debt Charges

Risk is that Debt Charges will be greater than budgeted.

This is very unlikely to arise due to:

- the current level of variable rate debt is low in comparison to the fixed-rate level of debt;
- the impact of the increase in interest rates from the historical low of 0.25% to 0.50% has been considered, with a further small increase anticipated later in 2018/19;
- the economic outlook is that base rates are likely to remain low over the course of the coming year and the Treasury Management Strategy can be adjusted to minimise the impact of any significant increases;

Investment Interest

Risk is that income generated will not match budget provision.

This is unlikely to arise in relation to investment income as a prudent rate of return has been included in the budget which reflects the investments made to date, the prevailing market conditions and the economic forecasts for the year ahead.

Interest receipts are small in the context of the overall budget and would not therefore cause a major issue for the revenue budget.

Contingencies

Risk is that the contingency provision will be insufficient to meet the needs identified.

This is unlikely to occur due to:

- prudent estimates included for each category of contingency provision;
- specific contingencies are created for all known spending pressures;
- the total contingency provision is deemed sufficient in the context of the net revenue budget;
- past experience suggests an underspending against the contingency provision.
- can, if required, be supplemented by use of reserves if all avenues have been explored and the need arises.

Risk Management

Risk is that all risks have not been identified and that major financial consequences may result.

This is very unlikely to occur due to:

- existence of Bellwin Scheme;
- a corporate risk profile in place, which is regularly and formally reviewed, and action is taken to mitigate and manage risks;
- Authority risk management action plans developed;
- comprehensive self and external insurance arrangements are in place;
- an adequate self insurance fund.

Financial Planning

Risk is that a major liability or commitment currently exists but has not been taken into account in the financial planning of the Authority.

This is unlikely to arise due to:

- the existence of a comprehensive Medium Term Financial Strategy process with regular updates during the year;
- benchmarking and networking with other senior finance staff in other Authorities who are likely to identify similar liabilities;
- access to fire service and other professional bodies that help to raise awareness of key issues and developments nationally eg NFCC / CIPFA / LGA

Revenue Budget - Budgetary Control

Risk is that the budget will be overspent in the year.

This is very unlikely to occur due to:
- monthly budget monitoring procedures;
- quarterly Revenue Budget Budgetary Control reviews undertaken, reported to the Authority and corrective action agreed or set in train;
- Financial Procedure Rules relating to delegated budgets provide for virements and carry forward of under / over spending to be used / met in the following financial year;
- clear budget management responsibilities in place;
- annual half yearly full review with all budget holders takes place to avoid overspends;
- demonstrable track record.

Capital Programme Implications

Risk is that funding will not be available as planned or that over spending may occur.

This is unlikely to happen due to:
- prudent level of capital receipts retained;
- quarterly Capital Programme Budgetary Control reviews undertaken through the Asset Management Group, reported to the Authority and corrective action agreed or set in train;
- Revenue Contribution to Capital, Fire Capital Grant and prudential regime gives added flexibility in terms of financing the Capital Programme;
- The Capital Programme may need to be re-prioritised / and schemes may have to be rescheduled to accommodate the available resources.

Reductions to the Revenue Budget

Risk is that planned reductions to the Revenue Budget will not occur or are unachievable.

This is unlikely to occur due to:
- the reductions to budgets planned have all been subject to due diligence and there are no significant barriers to implementation;
- the budgetary control processes that are in place will identify any shortfall and remedial action will be taken;
- contingencies exist to safeguard against the non-realisation of some of the efficiency reductions;
- Use of the General Fund and /or Reserves could be diverted depending on how extreme the position is.

Income from Business Rates and Council Tax

Risk is that forecast levels of income from Business Rates and Council Tax are not achieved.

This is unlikely to occur due to:

- a prudent approach taken in setting the forecast income levels;
- the establishment of enhanced monitoring processes to identify any shortfall and remedial action will be taken;
- provision exists to meet any shortfall in business rates income above the safety net threshold;
- The Authority holds a Medium Term Planning Reserve to help bridge a significant shortfall of this kind should it occur.

Availability of Other Funds

Risk is that the Authority could not call on any other funds to meet unforeseen liabilities.

This is very unlikely as the Authority has:

- a range of other funds which, whilst earmarked and wholly committed, could be used in an emergency;
- Use of Bellwin funding if the liability or issue satisfies the requirements;
- Utilise General Fund Balances as appropriate
- Seek additional government support as appropriate.

Appendix D

Statement of Earmarked Reserves and Provisions

Title and Purpose of Earmarked Reserve / Provision	**Estimated Opening Balance (01/04/18)**	**Estimated Movement in 2018/2019**	**Estimated Closing Balance (31/03/19)**
	£000	**£000**	**£000**
Insurance Reserve Reserve held to protect the Authority from unexpected volatility from changes in legislation that could be retrospective, unknown exposures that may arise in the future, and to cover a possible shortfall in the eventual settlement in respect of MMI.	999	0	999
Early Retirements Reserve Reserve to cover future compensatory added years payments associated with an early retirement during 2002/2003. This ensures no ongoing revenue implications.	16	-16	0
PFI Smoothing Reserve Reserve established to smooth the impact of the PFI scheme on the Authority's revenue budget over the 25 year life-span of the scheme.	7,946	253	8,199
Budget Carry Forward Reserve Reserve established to fund the slippage of specific items of revenue expenditure.	357	-357	0
Organisational Change Reserve Reserve covers expected costs following a review of the organisational changes required for the Authority to operate more effectively.	6,243	-1,172	5,071
Development Reserve Reserve created to fund medium term and long term capital and revenue developments.	6,717	-3,895	2,822
Medium Term Planning Reserve Reserve established to plan for future grant reductions and the effects of localisation of business rates retention.	700	0	700
Total Reserves that prevent an increase in revenue budgets	**22,978**	**-5,187**	**17,791**

Title and Purpose of Earmarked Reserve / Provision	Estimated Opening Balance (01/04/18)	Estimated Movement in 2018/2019	Estimated Closing Balance (31/03/19)
	£000	£000	£000
Contingency Planning Reserve Reserve to enable appropriate contingency arrangements to be put in place to ensure continued service delivery.	1,512	0	1,512
New Dimensions Reserve Reserve to be used to provide for any adverse effect of potential changes in grant arrangements and to provide resources to support delivery of the Urban Search and Rescue response.	687	-124	563
Community Safety Reserve Reserve to deliver community safety initiatives in future years.	240	-240	0
Civil Emergency Reserve Reserve to enable the Authority to respond to a catastrophic event, locally or nationally.	200	0	200
Carbon Management Plan Reserve Invest to Save on specific carbon management initiatives with the aim of reducing revenue costs.	61	0	61
ESMCP Reserve Reserve to finance the Emergency Services Mobile Communications Project	453	-190	263
Total Reserves to support service delivery requirements	**3,153**	**-554**	**2,599**
Total Reserves	**26,131**	**-5,741**	**20,390**