ANNEX 5

ROBUSTNESS OF THE BUDGET

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Robustness of the Budget and Adequacy of Reserves

1. Introduction

The Local Government Act (Part II) 2003 requires a council's Chief Finance Officer (CFO) to report to councillors on the robustness of budget estimates and the adequacy of that council's financial reserves. The City Council's CFO (also known as the Section 151 officer) holds the post of Strategic Director of Finance. A summary of this evaluation is set out below.

2. Overall Robustness of the Budget

The City Council's annual budget is constructed in order to deliver the Council Plan. The Medium Term Financial Strategy (MTFS) is the overarching framework within which the Council's financial planning and management activity takes place. The annual budget is an integral part of the rolling multi-year Medium Term Financial Plan (MTFP). This approach enables it to support delivery of the Council's priorities and services. It provides the means by which planned spending may be controlled within available resources. Therefore, this assessment of the robustness of the budget focuses on the likelihood that actual spending will vary from the budget and the subsequent impact on the financial health of the organisation.

The Council is a going concern and the budget process is part of a continuous service planning and financial cycle. A wealth of knowledge and understanding of the local and national financial and economic environments is used to make informed assumptions and judgements about future financial planning. This activity seeks to establish a robust budget which is appropriate, realistic and constructed having taken a practical and appropriate assessment of risk.

Many of the details used to inform this assessment are set out in the other Annexes of this report and are therefore not replicated here.

2a. Financial environment and framework

The external framework in which the Council operates continues to be significantly challenging. There have been well documented and growing examples of Public Sector bodies experiencing financial difficulties and this is expected to continue into 2020/21 and beyond until there is a sustainable long term solution to fund public bodies to an appropriate level. The full consequences of Brexit are unknown and likely to influence the imminent and longer term funding for Local Government. The following section details key elements that have influenced and been noted in the construction of the MTFP.

Previous Financial Performance

Over previous financial years during the period of austerity the Council has been able to deliver outturns under budget, however as with many other Councils in the previous three years (2016/17, 2017/18 and 2018/19) the Council has been over budget. This has been managed by the use of one off resources.

There continues to be pressures on the 2019/20 budget and, at Q3, there is a reported forecast overspend of £6.6m which is being managed by a range of spending controls and one off measures. Any overspend from the final 2019/20 outturn position will need to be managed during 2020/21 to avoid any impact on the General Fund balance.

Use of one off measures
During the last 3 years, there has been a consistent use of one off measures and mitigating management actions used in arriving at the final outrun position spends. The range of management actions required have included:

- reducing contingency balances
- reviews of earmarked reserves
- reduced revenue contribution to the capital programme
- vacancy freeze controls
- stop to non-essential spend and reductions to maintenance spend
- restrictions on travel and conferences

The 2020/21 budget includes **£8.783m** of one-off items or one-year savings in order to present a balanced position. The continued use of reserves and one off measures have had the impact of deferring the more significant changes that are required to balance the revenue budget to secure future financial sustainability. It needs to be recognised there are diminishing options for the use of one-off measures which reduces further any budget flexibility.

2017/18 External Audit – key issues and recommendation
The 2018/19 external audit has not yet been concluded. However, the 2017/18 external Audit report from KPMG details key issues and recommendations in relation to financial sustainability and the use of one off measures.

> *"Sustainable Financial Budget*
> *The Authority has highlighted a number of risks regarding its ability to deliver a self-sufficient and sustainable financial budget in the medium term. Many of these risks are not specific to the Authority but to the sector as a whole, underpinned by reduced central funding and increasing demand for social care services.*
>
> *The Authority's outturn for 2017/18 and 2016/17 has been overspend against budget. For 2017/18 the Authority has relied on a number of non-recurrent measures to help reduce the in-year overspend. Despite setting a balanced budget for 2018/19, it is likely that there will be emerging financial pressures that will require co-ordinated action by CLT."*

Demand led pressures and reduced flexibility within the budget
The CIPFA Financial Resilience Index, together with other benchmarking data, shows the Council has a higher financial risk from the high local demands for the Council's Children's and Adult Services. These demand led services account for an increasing percentage of the overall net budget requirement and therefore it reduces the Council's net budget for other areas. This in turn impacts on the Council's ability and flexibility to make future savings, at a time when there are significant gaps in the budget for 2021/22 onwards.

CIPFA Financial Resilience Index
In response to the unprecedented financial challenges faced by local Government, CIPFA have developed a Financial Resilience Index to act as an analytical tool for chief finance officers to support good financial management and shows the council's position on a range of measures associated with financial risk. The latest information released in 2019 represents the second year of the index and the areas of high and low risk for

Nottingham are consistent with the previous year's assessment. The model shows that Nottingham is carrying risks in the following areas:

- **Council Budget Flexibility** – ratio of total spending on Adults Social Care, Children's Social Care and debt interest to net revenue expenditure. Nottingham has reduced budget flexibility
- **Change in unallocated Reserves** – the average percentage change in unallocated reserves over the past three years. Nottingham has used unallocated reserves more quickly than comparator groups
- **Unallocated Reserves** – the ratio of unallocated reserves to net revenue expenditure. Nottingham has a low level of reserves in relation to comparators
- **Grants to Expenditure ratio** – the proportion of net revenue expenditure funded by central Government grants. Nottingham faces risks if grants are not maintained
- **Council Tax Requirement / Net Revenue Expenditure** – a low Council Tax ratio and therefore a higher dependency on grants may suggest future financial difficulties as grants diminish further. Nottingham has a limited ability to raise revenue from Council Tax when compared to others
- **Children's Social Care ratio** – ratio of spending on Children's Social Care to net revenue expenditure. Nottingham has a higher proportionate spend on Children's services than others in the comparator groups
- **Adults Social Care ratio** - ratio of spending on Adults Social Care to net revenue expenditure. Nottingham has a higher proportionate spend on Adults Social Care services than others in the comparator groups

The following areas are where the Council has been assessed at a lower degree of Financial Stress risk:

- **Earmarked reserves** - the ratio of earmarked reserves excluding Public Health and Schools to net revenue expenditure. Nottingham carries significant earmarked reserves in relation to others (including PFI)
- **Level of reserves** – the ratio of current level of reserves excluding Public Health and Schools to net revenue expenditure. Nottingham holds a number of earmarked reserves
- **Retained Income from Rate Retention / Net Expenditure** – ratio of retained income from business rates as a proportion of net expenditure. As locally raised business rates becomes an increasing percentage of income a higher ratio is seen has having less financial stress for the Council

Symptoms of financial stress

In addition to the financial resilience index, CIPFA has also provided guidance to public bodies regarding the signs that an organisation is suffering from financial stress indicators. This is summarised below:

- **Running down reserves or a rapid decline in reserves -** using up reserves to avoid cuts can only provide temporary relief
- **Failure to plan and deliver savings** to ensure the council lives within its resources
- **Shortening medium-term financial planning horizons -** could indicate a lack of strategic thinking and an unwillingness to confront tough decisions
- **Greater "still to be found" gaps in saving plans**
- Growing tendency for **unplanned overspends and/or carrying forward undelivered savings** into the following year - sign an authority is struggling to translate its policy decisions into actions

As can be seen from the results of the resilience index Nottingham is beginning to experience some of the above such as depletion of reserves and unplanned overspends.

Public Accounts Committee

In March 2019 the Public Accounts Committee released a paper on Local Authority Financial Resilience. A key theme of the paper was the level of reserves and the unplanned use of the resourced by Local Authorities. The paper references the concerns over the uncertainty of future funding and that debates have been held whether there is sufficient funding to enable Local Authorities to discharge their statutory duties. It also had regard to media reports of financial difficulties of Local Authorities since the crisis of Northamptonshire County Council.

The paper makes it clear that the funding of Local Government is a key concern across the sector and the outcomes of the nation funding changes will be fundamental in ensuring that Authorities are financially sustainable.

Medium Term Financial Outlook (MTFO) - Fair Funding Review

The final settlement has confirmed funding for 2020/21 only, the introduction of the Fair Funding Review and 75% Rates Retention has now been delayed until 2020/21, therefore funding for 2021/22+ is unknown and the MTFO assumes funding for 2020/21 will continue for 2021/22+. No assumptions have been made for the likely impact on future settlement funding due to a lack of clear exemplifications of the Government policy options being currently considered.

2b. Internal Measures to monitor the financial performance

Monitoring the financial results and forecasts of the Council in the short and medium term remains a priority and a number of improvements to the process have been implemented as a direct result of the on-going external framework in which the Council operates, these include:

- Enhanced monthly monitoring to CLT
- Budget Manager budget packs
- State of the nation paper – a periodic briefing looking at the authority's overall financial position, including reserve, capital, borrowing levels and financial risk analysis

Enhanced monthly monitoring to CLT and Leadership

The Council's financial controls are set out within financial regulations, allowing significant assurance of the strength of financial management and control throughout the Council. Given the current climate this process has been reviewed with improvements made to give CLT a comprehensive monthly pack. This details the forecasted outturn, variance commentary together with more detailed information by department. Regular updates are also provided to Leadership and Executive with a quarterly report presented to Executive Board.

Accountability Letters – Annual Budget Manager budget packs

Budget Managers are accountable for delivering their services within budget and are required to forecast the outturn position at regular intervals within the financial year, typically monthly. To support Budget Managers with this requirement an annual budget pack is issued prior to the start of the new financial year including the detailed pay budgets, together with non-pay budgets and a statement of the new year budget savings or funded pressures. There is a requirement for Budget Managers to sign their Accountability Letters when taking receipt of their budgets for 2020/21.

New Financial System – Oracle Fusion

A new Finance system is due to go live in April 2020, the Council will be moving to Oracle Fusion, part of this change includes the requirement for a new accounting codes. Budget Managers are being supported through this transition by a series of engagement session, training and budget packs.

State of the nation paper
At the start of the 2018/19 financial year a report was presented to CLT outlining the 2017/18 outturn, financial outlook and risks and issues for 2018-2022, since the introduction of this paper there have been periodic refreshes of the report. The purpose of this report was to bring together the current financial outlook for the Council and describe the associated financial risks and the resulting impact on the financial sustainability of service delivery. This paper has been updated and refreshed then subsequently been used as part of the 2020/21 budget strategy.

Constructing the MTFP
The environment and framework described above has significantly influenced the construction and governance around of the latest MTFP. Throughout the process there has been good and extensive engagement by Senior Colleagues, Finance Colleagues and Executive Councillors.

Assumptions
Underlying assumptions have been examined and found to be satisfactory as follows:

- The funding for inflation is considered to be appropriate, being consistent with known trends and reasonable forecasts.
- The income aspects of the overall budget are calculated based on previous and current trends, known influences and identified risks.
- There are appropriate bad debt provisions in place.
- Other known trends and potential overspends (e.g. demographic changes, new legislation, etc.) have been evaluated, subjected to various peer reviews and professional challenge and adequately provided for.
- The organisational and financial frameworks and processes required in order to operate within the proposed budget are practical and adequately planned.
- Capital receipts used in the funding of the capital programme have been based on professional estimates both of timing and value with a specific risk assessment applied to determine likelihood of receipt.

Current Financial Position

General Fund Revenue
Current monitoring indicates that the forecast General Fund outturn for 2019/20 will show an overspend of **£6.628m** prior to management action, the overspends are largely within Children's Services. Management action is in place to address the overspend as outlined in Annex 1 and the Council is committed to delivering an on budget outturn for 2019/20 and the 2020/21 MTFP is predicated on this assumption.

HRA Revenue
The City Council is required to periodically review the HRA to ensure that it does not move into deficit. In order to allow for unforeseen expenditure or loss of income, a working balance is needed. The 2018/19 budget increased the working balance from **£4.000m** in 2017/18 to **£7.727m.** This will provide additional support to mitigate potential

financial impact of Universal Credit on the HRA and provide additional one-off funding to cover the early years impact on the new build and acquisition programme.

3. Capital Programme Risk Management & Governance

Capital programme schemes often span a number of years, so it is essential that a longer term view is taken on programming and resourcing.

Capital Programme – Current Position

- General Fund - The forecast spend, including schemes in development, is **£430.151m** and is balanced. The resources to fund the capital programme includes **£26.133m** of capital receipts, of which **£21.137m** are unsecured. A full review of surplus assets is currently being undertaken as part of the disposal and reinvestment strategy and an asset rationalisation board has been established with a focus on realising capital receipts going forward.
- Public Sector Housing - The forecast spend to 2024/25 is **£275.626m**

Capital Programme Risk

The proposed five-year programme is ambitious and will require the Council to use a high proportion of available resources. Substantial investment of this nature will result in the Council being exposed to additional risks as follows:

- a significant increase in the authority's borrowing over the next five years;
- the impact of Brexit on construction costs;
- the ability to generate capital receipts to fund the programme;
- major schemes have a long pay-back period, which will require the use of reserves in the early years to fund short term deficits in business plans;
- the cost of feasibility studies are all undertaken at risk;
- schemes may not cover their costs or make the desired return.

In order to manage these risks the following key principles will be adopted in managing the capital programme:

- Where new projects are added to the programme that will not cover their costs, an existing project will be removed or amended;
- all projects must have a robust and viable business case, which considers and includes whole life costing and revenue implications (including rate of return);
- all schemes will be subject to robust and deliverable business plans and models which demonstrate the necessary return on investment required;
- all future schemes will need to address the consequences of cash flow shortfalls in the early years, and available funding must be identified and approved prior to the commencement of projects;
- the decision to progress schemes will be dependent on securing the stated level of external funding or grant as appropriate;
- new projects will be considered where the Council can make a return on investment;
- where new sources of external funding/grants become available, the programme will be revisited;
- all schemes will be subject to an independent internal 'Gateway Review Process'.

The Medium-Term Financial Strategy includes the following requirements for consideration of the funding of the capital programme:

- The Council will endeavour to maximise grant funding for schemes which will assist in the delivery of the corporate priorities, part/full grant funded bids will be subject to the same prioritisation process
- Prudential or Unsupported Borrowing can be used where it can be demonstrated that it is affordable and sustainable in the medium term. Borrowing must be within approved limits and in accordance with the prevailing guidance in the Treasury Management Strategy and compliant with the Prudential Code
- Capital Receipts generated from the sale of land, buildings and other assets will be a non-earmarked, council–wide resource, to be allocated according to Council priorities only after a thorough and objective options appraisal and consideration of opportunity costs, and not earmarked to a particular project, scheme, service, directorate and/or geographical area.

The City Council recognises the importance of individual and collective accountability and requires managers to formally acknowledge their responsibilities. Financial management is an integral aspect of effective leadership and good management, relevant councillors and managers are required to participate fully in all aspects of capital investment plans.

Corporate Directors will be accountable for the success and deliverability of all capital projects within their remit; including:

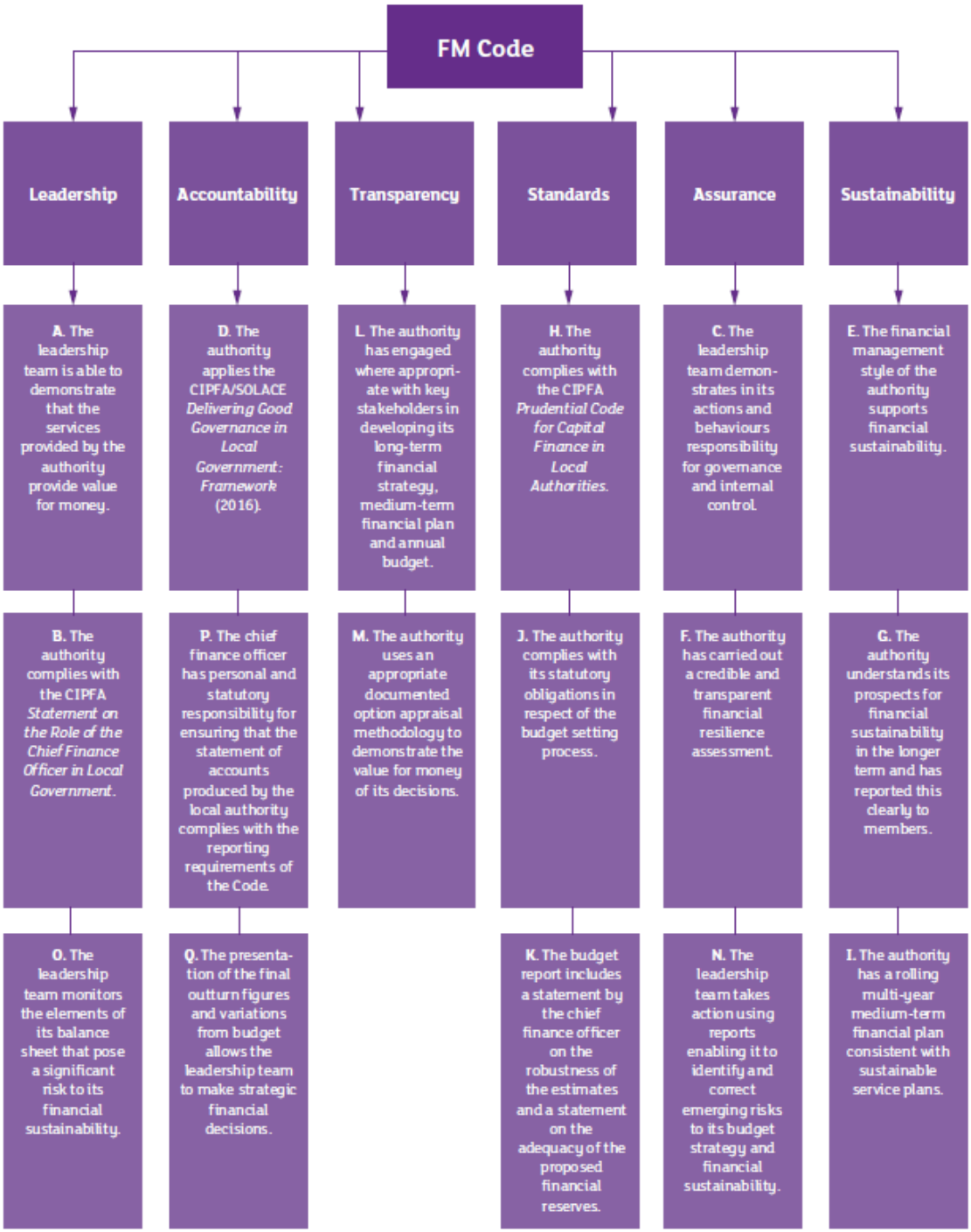
- Ownership of business cases and any subsequent changes to them.
- Ensuring that capital projects are delivered in line with agreed targets and resources.
- The successful outcome and benefits realisation of capital projects.

CIPFA Financial Management Code

The Chartered Institute of Public Finance and Accountancy (CIPFA) published a Financial Management Code in October 2019. This code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The Code has been introduced because the exceptional financial circumstances faced by local authorities have revealed concerns about fundamental weaknesses in financial management, particularly in relation to organisations that may be unable to maintain services in the future.

The Code applies a principle-based approach and these principles together with the CIPFA Financial Management Standards are illustrated in **Diagram 1** below

Diagram 1: CIPFA Financial Management Code Principles and Financial Management Standards



Throughout the Code there are several references that demonstrating compliance is the collective responsibility of elected members, the chief finance officer (CFO) and their professional colleagues in the leadership team.

Local authorities are required to apply the requirements of the Code with effect from 1 April 2020 and CIPFA considers that the implementation date of April 2020 should indicate the commencement of a shadow year and that by 31 March 2021, local authorities should be able to demonstrate that they are working towards full implementation of the code. The first full year of compliance will therefore be 2021/22. The council will continue to assess its compliance with the new Code at each stage in

the 2020/21 financial cycle using the diagram above as a reference point and take the necessary steps to demonstrate sustainability and resilience and ensure its readiness for full compliance in all areas from 2021/22.

4. Adequacy of Reserves and Risk Assessment

National decisions regarding public funding and expenditure have been taken by Central Government to support their stated intention to reduce the national deficit. 2019/20 was the last year of a four-year settlement which confirmed continued reduction in funding in the medium term. This has again resulted in a significant reduction in the level of funding available to the City Council. Although this has been met with a robust and detailed approach to the identification and delivery of the savings required consequently, this level of cost reduction attracts a heightened degree of risk associated with its delivery. The final settlement for 2020/21 has confirmed funding for one year only and the introduction of the Fair Funding Review has been delayed. Funding for 2021/22+ is therefore uncertain.

Whilst the current proposed budget fairly represents sufficient resourcing for current planned activity, this risk cannot be ignored, and the levels of contingency included within the budget reflect these risks.

The assessment of reserves is even more important in the context of the sustained cuts in funding. It is important to acknowledge that reserves are ‘one off’ funds and are therefore suitable for funding ‘one off’ or unexpected costs. The use of reserves to fund ongoing expenditure is not advised, except in emergencies and/or to enable transition to new ways of working.

Taken together, reserves, contingencies and the processes within the financial framework provide capacity to deal with the changes arising form external forces. This will include, for example: increased demand for services from citizens, changes in legislation and guidance from central government, economic changes, interest rate changes and employee relations. This list is indicative rather than exhaustive. The localisation of both Business Rates and Council Tax Support increases the significance of Council reserve levels as these are significant variables on both income and expenditure.

In recommending an adequate level of reserves, the CFO considers and monitors the opportunity costs of maintaining particular levels of reserves. This opportunity cost may be the lost opportunity of investing those funds in service improvement and/or spending on alternative activities. There is a balance to be struck between setting prudent levels of contingencies and reserves considered to be an adequate ‘safety net’ to ensure the Council can operate successfully in a very challenging environment and ensuring sufficient funds are in place for service provision and other Council activities. The levels recommended here are considered to have achieved that balance.

Table 1 shows the estimated Net Revenue Expenditure (NRE) and Unallocated Reserves for Nottingham compared with other Core Cities. The data is taken from the most recent CIPFA financial resilience index and derives from 2018/19 RO returns, demonstrating Nottingham's reserve position is lower relative to similar councils.

TABLE 1 : COMPARISION OF RESERVES WITH CORE CITIES			
Authority	**Net Revenue Expenditure £m**	**Estimated unallocated financial reserves level at 31 March £m**	**Estimated Unallocated Reserves as % of NRE**
Birmingham	848.785	144.050	16.97%
Bristol	347.068	23.258	6.70%
Leeds	517.471	27.991	5.41%
Manchester	453.377	22.045	4.86%
Newcastle	230.056	10.135	4.29%
Liverpool	455.292	16.311	3.58%
Nottingham	**240.887**	**7.962 ***	**3.31%**
Sheffield	370.752	8.130	2.19%

*£7.962m as reported within the RO returns and represents the opening general fund balance of £9.643m less the 2018/19 overspend of £1.681m

This decision is supported by a comprehensive risk assessment to ensure that the level of reserves represents an appropriately robust financial safety net for the organisation. In assessing these risks the CFO has consulted with relevant colleagues and stakeholders to ensure all risks have been identified. The importance of this work, its depth and accuracy, is further enhanced as a number of the proposals included within the budget plans involve significant changes to ways of working, systems and processes, they involve higher levels of risk than those which broadly maintain current arrangements. At the most practical level those risks begin with the possibility of slippage and disruption in the transition from old to new arrangements. The CFO has sought to ensure that issues of this type and their potential budgetary implications are appreciated by relevant colleagues and Portfolio Holders.

Given the level of savings included in this MTFP the CFO has undertaken an assessment of their deliverability and set out clearly the implications and contingency plans which apply where savings are not delivered as planned. Robust and timely monitoring of savings delivery plans with ongoing contingency planning will be critically important throughout the year.

General Fund

The MTFS requires the opening balance on the general fund to be between 2% and 4% of the total net general fund revenue budget. Following a sustained period of using one off measures to reduce the overspends and to balance the budget the range as defined within the MTFS of between 2% and 4% in deemed inadequate due to the reduced level of budget flexibility, in 2020/21 a review is required to update the MTFS with what the future range for the general fund balance.

The general fund balance has been informed by the detailed risk assessment undertaken as part of the budget process. These are shown in **Appendix A.** This requirement will be reviewed during 2020/21 and adjusted accordingly based on any

significant change to the risk profile. The proposed opening general fund balance for 2020/21 is **£11.643m**, this represents a **£1.000m** increase from 2019/20 in light of the additional risks as detailed in **Appendix A**. This is predicated a balanced outturn for 2019/20, the 2018/19 overspend funded by a review of ear-marked reserves, and an increase of **£1.000m** pa for the duration of the MTFP. The assumed **£11.643m** is **4%** of the general fund budget this together with contingency balance is deemed appropriate.

Appendix A details individual risks and the level of un-earmarked reserves is expected to be sufficient. However there are the most unusual and serious combination of possible events which if occurred would exceed the un-earmarked reserves and require further action.

The MTFS provides for a central contingency value of between 0.4% and 0.9% of the previous years net revenue budget (NRB). The proposed level is **£1.475m** (i.e. **0.6%)** and takes account of the significant savings package and challenging future financial outlook. In light of the financial operating context the central contingency value will be reviewed during the next financial year and may be reduced, in order to increase the general fund balance.

Earmarked Reserves

Earmarked Reserves are funds set aside to provide for specific future expenditure plans. The Council held balances of **£153.749m** in earmarked reserves at 31 March 2019 which includes schools budget balances of **£15.863m**. A review of these earmarked balances has been performed to establish the purpose of the reserves and the likely timescale that these reserves will be utilised.

The main categories of earmarked reserves that the Council holds:

- Sums set aside for major schemes, including Private Finance Initiatives, capital developments, or to fund transition and transformation
- Potential Liabilities
- School Balances
- Insurance and risk management
- Traded surpluses

The draft MTFP assumes a net use of earmarked reserves totalling **£5.448m** in 2020/21.

Housing Revenue Account (HRA)

The MTFS requires the City Council to establish opening HRA reserves of between 2% and 3% of the gross HRA spend (capital and revenue) the precise level within this range being informed by the risk assessment with no opening working balance ever being set below the 2% threshold in an individual year. The working balance for 2020/21 will remain at the same level as 2019/20 at **£7.727m**. The full risk assessment is detailed in **Appendix B**.

Conclusions

The environment in which the Council operates continues to see unprecedented financial challenges both in terms of funding together with increased demand and uncertainty in the funding beyond 2020/21. There is a growing pattern of Public Sector organisations experiencing financial stress and the latest CIPFA Financial Resilience Index highlights areas of risk for Nottingham. The challenge in setting a balanced budget increases each year, however through extensive consultation with Senior Colleagues, Finance Colleagues and Executive Councillors the Council is presenting a balanced budget for

2020/21. The budget for 2020/21 contains significant risks as detailed in **Appendix A**. However, with contingencies and reserves at the level set out here and in the overall budget report, the CFO considers that the proposed budget for 2020/21 is robust and that the level of reserves is adequate.

It should be noted that there remains significant budget gaps for years 2021/22 and 2022/23 and therefore a series of recommendations and actions are required during 2021/22 in order to address these include:

- Updating the State of the Nation paper in April 2020 to assist the development of a budget strategy with a stronger focus on transformation and financials sustainability as we move towards the full implementation of the requirements of the CIPFA financial Management Code. This should include creating headroom within subsequent budgets to cover potential overspending and non-delivery of savings.
- Conduct a fundamental review of reserves, balances and provisions to create a resilience reserve. The reserve is to be sufficient to cover risks highlighted within the report and to give authority to review and amend the reserve in year based on any new or emerging risks.
- Update the MTFS with respect to the General fund opening balance range which is currently defined as being within the range **2%** to **4%**. The review is to take into account the Council's reduced budget flexibility as a result of the continued use of one off measures to reduce overspends and present a balanced budget
- Review and update the current MTFP practices and amend as necessary to align with CIPFA Financial Management Code
- Produce an early detailed 3-year MTFP to address the budget gaps in years 2 and 3 which will require a thorough transformation plan and strategy in order to balance the medium-term financial position

Given the significant levels of overspending we have seen over the last few years and the one-off use of resources to support the budget overspends, it is also recommended that the state of the nation paper be refreshed at the end of quarter 1 i.e. June 2020. Depending on the outcome of this activity, it may be necessary to undertake a full budget refresh which will include the need to identify further savings and realign budgets.

This statement has been prepared in good faith and having made best endeavours to consider all known prevailing relevant issues.

Laura Pattman
Strategic Director of Finance
Chief Finance Officer
Nottingham City Council

February 2020

GENERAL FUND- RISK ASSESSMENT **APPENDIX A**

DEPARTMENT/ POTENTIAL RISK	WORST CASE £m	ASSESSEMENT OF RISK £m	ESTIMATED EXPOSURE £m
CORPORATE RISK			
Cost overrun on Capital Schemes The Council has an ambitious investment strategy, 5% cost overrun on Capital Programme in 2020/21	7.985	Medium	3.993
Companies Risk that companies do not meet the planned trading position and require one-off investments	2.500	High	2.250
Treasury Management Additional borrowing due to accelerated use of reserves and changes in interest rates on variable loans	3.000	Medium	1.500
TOTAL CORPORATE RISK			**7.743**

DEPARTMENT/ POTENTIAL RISK	WORST	ASSESSMENT	ESTIMATED

	CASE £m	OF RISK	EXPOSURE £m
CHILDREN AND ADULTS RISK			
Adults - Transforming Care Discharged citizens from specialised commissioning or hospital placements	0.524	Medium	0.262
Adults – External funding Impact of a reduction in health funding principles of care packages.	3.086	Medium	1.543
Children's – Changes to demand Changes to the demand for Children's services and the impact this may have on the delivery of the MTFP savings	5.476	Medium	2.738
TOTAL CHILDREN AND ADULTS RISK			**4.543**
COMMERCIAL AND OPERATIONS RISK			
Traded Activities A range of trading activities have trading surplus target; a consequence of under achievement of the target could be an increase to the net charge to the general fund	3.526	Low	0.882
Incinerator closedown Diversion of waste disposal if the incinerator is closed for more than 4 weeks	0.950	Medium	0.475
Contractual Increases Contractual increases at risk from market factors	0.613	Low	0.153
TOTAL COMMERCIAL AND OPERATIONS RISK			**1.510**

DEPARTMENT/ POTENTIAL RISK	WORST CASE	ASSESSMENT OF RISK	ESTIMATED EXPOSURE

DEVELOPMENT & GROWTH RISK			
Economic conditions on the property trading account Impact on target income	1.000	Medium	0.500
Increase in volume & cost of homelessness Risk that despite interventions in place, numbers continue to grow (national issue)	0.700	Medium	0.350
Income to department from Capital schemes Risk of reduced income to revenue budgets due to any delays / changes to the capital programme	0.850	Medium	0.425
TOTAL DEVELOPMENT AND GROWTH RISKS			**1.275**
TOTAL POTENTIAL RISK			**15.071**

APPENDIX B

HRA – RISK ASSESMENT			
POTENTIAL RISK	**WORST CASE £m**	**ASSESSMENT OF RISK £m**	**ESTIMATED EXPOSURE £m**
HRA Risk			
Universal Credit Increase in bad debt levels due to payment of rent direct to tenant	2.000	High	1.800
Capital programme funding Shortfall in external funding or capital receipts creating pressure for additional funding from the HRA	2.000	Medium	1.000
Capital programme costs increase			
Costs of new build projects exceed budgets	2.500	Medium	1.250
Impact of Grenfell Inquiry & Hackitt Review – fire safety legislation	3.000	Medium	1.500
Revenue impact of new build schemes Increased principal and interest payments to HRA resulting in early years cash flow deficits	1.500	High	1.350
More Right to Buy sales Reduced rental income to cover fixed costs of managing and maintaining the council's housing stock	1.000	Medium	0.500
TOTAL - HRA			**7.400**