

## Financial Challenges and Mitigation

The effective monitoring, management and mitigation of challenges is a key part of the managing the Council's financial resilience. Financial challenges are set out below with key mitigations

|                                                                             | Description                                                                                                                                           | Capital Strategy | Council MTFP | HRA MTFP                                                                                      | Mitigations                                                                                                                                                                                                                                                      |
|-----------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|--------------|-----------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Funding /Financial Resilience                                               | The challenging financial position in respect of reducing WG resources and increasing financial pressures against a reducing controllable base budget |                  |              |                                                                                               | Strategic discussions with Welsh Government in respect of longer term funding certainty, flexibility and adequacy. Robust financial planning over the medium term.                                                                                               |
|                                                                             | The level and certainty of capital funding from Welsh Government towards meeting strategic ambitions                                                  |                  |              |                                                                                               | Strategic discussions with Welsh Government and other funding partners in respect of longer term funding certainty and funding flexibility.                                                                                                                      |
|                                                                             | The review of the Major Repair Allowance (MRA) grant for Public Housing as part of the Affordable Housing Supply review by Welsh Government           |                  |              |                                                                                               | Review of capital programme. Early discussion with Welsh Local Government Association (WLGA) and Welsh Government.                                                                                                                                               |
|                                                                             | The level of additional borrowing and its impact on capital financing in future years.                                                                |                  |              |                                                                                               | Continue to monitor local affordability indicators and maintain strong links between capital strategy and MTFP.                                                                                                                                                  |
|                                                                             | Securing proposed capital receipts to fund expenditure commitments.                                                                                   |                  |              |                                                                                               | Detailed delivery plan approved by Cabinet. Annual monitoring as part of corporate land and property Asset Management Plan.                                                                                                                                      |
|                                                                             | National controls over borrowing and expenditure for which borrowing could be used.                                                                   |                  |              |                                                                                               | Consider review of Capital Strategy and non-committed expenditure.                                                                                                                                                                                               |
|                                                                             | The potential financial impact on both capital and revenue of major projects and development initiatives which arise during the year.                 |                  |              |                                                                                               | Setting a financial affordability envelope in respect of projects where financial implications are currently unknown.                                                                                                                                            |
|                                                                             | Managing the condition of assets at acceptable levels in light of reducing revenue resources and scarce capital resources.                            |                  |              |                                                                                               | Asset Management Plans informed by condition surveys. Disposal Strategy to divest of surplus assets. Agreed approaches to managing risk of declining condition of assets.                                                                                        |
|                                                                             | Capital schemes undertaken by additional borrowing on the basis of future income or savings.                                                          |                  |              |                                                                                               | Consideration of robust business cases and seeking external advice to challenge and review where appropriate. Continued post-project appraisal.                                                                                                                  |
|                                                                             | Certainty over rent levels to determine affordability of investment in new affordable housing.                                                        |                  |              |                                                                                               | Engagement with Welsh Government in relation to long term rent setting policy / flexibility. Reduce new build programme or implement operational savings, efficiencies and review of planned spend and initiatives if required to correspond with affordability. |
|                                                                             | Approach to prudent provision for repayment of debt.                                                                                                  |                  |              |                                                                                               | Regular review of asset life, guidance and alternative options. Detailed review to be undertaken in 2019/20.                                                                                                                                                     |
|                                                                             | The potential impact on funding if there are any negative redistributive impacts of specific grants transferred into the Revenue Support Grant (RSG). |                  |              |                                                                                               | Early involvement in discussions with Distribution Sub-Group, including WLGA.                                                                                                                                                                                    |
|                                                                             | The conclusion of the ongoing work with HMRC in respect of purportedly under declared landfill tax.                                                   |                  |              |                                                                                               | Proactive engagement with HMRC and PWC environmental tax experts. Set aside windfall income in 2018/19 as a payment on account should an actual liability materialise. Provide updates in future finance reports.                                                |
|                                                                             | The impact of increasing volatility and uncertainty in respect of hypothecated grants.                                                                |                  |              |                                                                                               | Continued representations to WG with WLGA for funding flexibility, i.e. transferring grants to RSG where possible.                                                                                                                                               |
| The intention of WG to revisit reform of Local Government Finance in Wales. |                                                                                                                                                       |                  |              | Continued monitoring of WG's position and engagement with any consultation at an early stage. |                                                                                                                                                                                                                                                                  |

|                      | Description                                                                                                                                            | Capital Strategy | Council MTFP | HRA MTFP | Mitigations                                                                                                                                                                       |
|----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|--------------|----------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                      | The potential requirement to address significant specific grant reductions at short notice where these are integral to the functions of the authority. |                  |              |          | Review of grant funded activity and consideration of flexibility to fund from other grant streams.                                                                                |
| Capital Project Risk | Supplier availability and capacity                                                                                                                     |                  |              |          | Pool of suppliers to undertake works. Encouraging training and development.                                                                                                       |
|                      | Supplier financial stability                                                                                                                           |                  |              |          | Use of approved procurement frameworks and financial standing assurance                                                                                                           |
|                      | Abortive costs of capital projects which would be required to be charged to a revenue budget                                                           |                  |              |          | Due diligence at the outset of projects. Clear identification of scope and undertake feasibility studies where required.                                                          |
|                      | Costs, capacity and skills to deliver capital projects                                                                                                 |                  |              |          | Workforce planning, securing external advice and services where required                                                                                                          |
|                      | Approach to ensuring effective business cases to ensure members can make informed decisions                                                            |                  |              |          | Use of HMT five case model. Due diligence via officer boards such as IRB to provide assurance. Projects to maintain risk registers                                                |
|                      | Risk that initial estimated project costs are inaccurate and the actual costs of projects are higher than anticipated                                  |                  |              |          | Robust business case and due diligence via officer boards. Clear project scope from the outset.                                                                                   |
|                      | The proximity in recent years of the Council's partial exemption calculation (VAT) to the 5% threshold.                                                |                  |              |          | Early consideration of VAT issues, particularly in respect of land acquisition and when working with other public and charitable organisations.                                   |
|                      | Ineligible costs charged to capital projects, resulting in revenue budget impact                                                                       |                  |              |          | Capitalisation guidance. Financial and External audit review. Need for regular review and evidenced basis charging. Compliance with terms and conditions of external grant awards |
| External / Economic  | Treasury Management risks such as interest rate risk, credit risk, fraud risk.                                                                         |                  |              |          | Treasury Management Practices, Treasury Strategy and use of Treasury Management Advisors. Borrowing at fixed rates.                                                               |
|                      | Economic / Commercial risks – e.g. Property values, willingness of private sector to invest.                                                           |                  |              |          | Demonstrating the long term benefits of investment in the city.                                                                                                                   |
|                      | Inflation and construction price risk impact on cost of projects.                                                                                      |                  |              |          | Minimise time frame of projects. Contingencies as part of contracts. Fixed price contracts.                                                                                       |
|                      | Inflation over the MTFP period with potential impact on pricing                                                                                        |                  |              |          | Close monitoring of OBR forecasts and relevant indices.                                                                                                                           |
|                      | Changes in law and need for compliance with latest laws and regulations in construction                                                                |                  |              |          | Awareness of pipeline of legislative change. Contingencies.                                                                                                                       |
|                      | Investments and liabilities fail to perform as expected                                                                                                |                  |              |          | Post project appraisal. Periodic monitoring including annual review as part of Statement of Accounts. New accounting requirements for reporting valuations of investments         |

|                           | Description                                                                                                                                                                                                                                                                                                                        | Capital Strategy | Council MTFP | HRA MTFP | Mitigations                                                                                                                                                                                                                                     |
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|                           | Brexit                                                                                                                                                                                                                                                                                                                             |                  |              |          | Impact, particularly in respect of construction costs and property values will continue to be monitored on an ongoing basis. Monitoring of risks in line with the Council's corporate risk register.                                            |
| Demand / Service delivery | The impact of Universal Credit, on the ability of individuals to contribute to the cost of services and to meet rent liabilities, resulting in increased bad debt and cost of recovery. This links with the impact of progressive implementation of welfare reforms <u>together with financial risks in respect of the (CTRS).</u> |                  |              |          | Early intervention to support residents - this could be back into work or ensuring that they are claiming all benefits to which they are entitled. Review of debt recovery policies and bad debt <u>provision as part of budget monitoring.</u> |
|                           | Continuing demographic demand for social care services – reflecting both volume and complexity of need                                                                                                                                                                                                                             |                  |              |          | Early intervention, prevention and reablement measures.                                                                                                                                                                                         |
|                           | Pressures on supported additional learning needs due to both continuing pupil number growth and complexity of need                                                                                                                                                                                                                 |                  |              |          | Pupil number modelling on an ongoing basis, with particular reference being paid to the impact of the LDP. Also, implementation of proposals contained in the ALN Strategy and <u>consideration of the upcoming change in ALN legislation.</u>  |
|                           | Additional pressures on the homelessness service.                                                                                                                                                                                                                                                                                  |                  |              |          | Continued review of available resources, including maximisation of <u>available grant schemes.</u>                                                                                                                                              |
|                           | The risk of WG levying fines if the Council fails to meet recycling or landfill diversion rates                                                                                                                                                                                                                                    |                  |              |          | Education of residents and continued investment in recycling initiatives.                                                                                                                                                                       |
|                           | Demand for affordable housing and the different types of housing suitable to meet the needs of older people and young families                                                                                                                                                                                                     |                  |              |          | Older persons housing strategy, new council house build and acquisition programme and partnerships with Registered Social Landlords.                                                                                                            |
|                           | Reducing demand for services where the Council has historically charged for the activity, creating an income shortfall                                                                                                                                                                                                             |                  |              |          | Encouraging directorates to take a strategic view of income generation and to consider the impact of fee-setting on demand for services.                                                                                                        |
| Savings                   | The significant amount of cashable savings predicated on preventative strategies and <u>the difficulty of tracking their impact in terms of financial monitoring.</u>                                                                                                                                                              |                  |              |          | Robust due diligence. Encouraging directorates to undertake detailed planning at an early stage. Monitoring the achievements of savings throughout the year so that, remedial action can be taken in a timely manner if required.               |
|                           | The necessity to deliver budgeted savings from change proposals that are not yet fully defined.                                                                                                                                                                                                                                    |                  |              |          |                                                                                                                                                                                                                                                 |
|                           | The significant level of savings based on income initiatives that are yet to be tested in <u>the market.</u>                                                                                                                                                                                                                       |                  |              |          |                                                                                                                                                                                                                                                 |
|                           | The need to deliver significant levels of savings during a period of prolonged financial austerity, particularly given the impact delays to delivery of the proposal have on the <u>budget monitoring position.</u>                                                                                                                |                  |              |          |                                                                                                                                                                                                                                                 |
|                           | The cumulative impact of achieving savings, in addition to the unachieved 2018/19 savings which remain to be realised.                                                                                                                                                                                                             |                  |              |          |                                                                                                                                                                                                                                                 |
| Organisational Change     | The on-going service impact of the past reduction in headcount that has taken place over an extended period and the potential for a negative impact on the financial <u>control environment.</u>                                                                                                                                   |                  |              |          | Workforce planning. Training and development. Internal Audit of processes.                                                                                                                                                                      |
|                           | The impact for functions delivered as part of a collaborative arrangement if the <u>planned benefits are not realised.</u>                                                                                                                                                                                                         |                  |              |          | Robust governance and contract management arrangements.                                                                                                                                                                                         |
|                           | The capacity to deliver organisational change in conjunction with increasing demands on business as usual activities.                                                                                                                                                                                                              |                  |              |          | Draw on expertise of Capital Ambition Delivery Team                                                                                                                                                                                             |