

## Financial Challenges and Mitigations

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 uncertain financial position in respect of Welsh Government (WG) resources in the medium term in the context of ongoing demand led pressures.				<ul style="list-style-type: none"> <li>• Strategic discussions with WG in respect of longer term funding certainty, flexibility and adequacy.</li> <li>• Robust financial planning over the medium term.</li> <li>• The existence of the FRM to manage variations in anticipated funding without impact on day to day service delivery.</li> </ul>
	The level and certainty of capital funding from Welsh Government towards meeting strategic ambitions				<ul style="list-style-type: none"> <li>• Strategic discussions with WG and other funding partners in respect of longer term funding certainty and funding flexibility.</li> </ul>
	The ongoing review of the Major Repair Allowance (MRA) grant for Public Housing as part of the outcomes of the Affordable Housing Supply review by Welsh Government.				<ul style="list-style-type: none"> <li>• Review of and reprioritisation of the Capital programme allowing for committed spend but realigning future spend plans. Ongoing discussions with Welsh Local Government Association (WLGA) and Welsh Government.</li> </ul>
	The level of additional borrowing and its impact on capital financing in future years.				<ul style="list-style-type: none"> <li>• Continue to monitor local affordability indicators. Regular review of the Capital Strategy, Housing Revenue Account Business Plan and the Council's MTFP.</li> </ul>
	Securing proposed capital receipts to fund expenditure commitments.				<ul style="list-style-type: none"> <li>• Annual monitoring as part of corporate land and property Asset Management Plan.</li> <li>• Cease or defer schemes in the capital programme.</li> </ul>
	National controls over borrowing and expenditure for which borrowing could be used.				<ul style="list-style-type: none"> <li>• Consider review of Capital Strategy and non-committed expenditure .</li> </ul>
	Managing the condition of assets at acceptable levels in light of reducing revenue resources and scarce capital resources.				<ul style="list-style-type: none"> <li>• Asset Management Plans informed by condition surveys.</li> <li>• Disposal Strategy to divest of surplus assets.</li> <li>• Agreed approaches to managing risk of declining condition of assets.</li> </ul>
	Capital schemes undertaken by additional borrowing on the basis of future income or savings.				<ul style="list-style-type: none"> <li>• Consideration of robust business cases and seeking external advice to challenge and review where appropriate.</li> <li>• Continued post-project appraisal.</li> <li>• Setting and compliance with a viability threshold for new build</li> </ul>
	New WG Social Housing Rent Policy allowing for CPI +1% maximum uplift for next 5 financial years. However, uncertainty re CPI and policy beyond that period remains a risk to long term investment currently being undertaken.				<ul style="list-style-type: none"> <li>• Monitoring and review of planned capital and revenue expenditure in line with available resources.</li> <li>• Implement operational savings and efficiencies and revise and/or reduce new build programme if required to correspond with affordability.</li> </ul>
	The potential impact on funding if there are any negative redistributive impacts of specific grants transferred into the Revenue Support Grant (RSG).				<ul style="list-style-type: none"> <li>• Early involvement in discussions with Distribution Sub-Group, including WLGA.</li> </ul>

Appendix 9 (b)

	Description	Capital Strategy	Council MTFP	HRA MTFP	Mitigations
	Financial impact of unforeseen liabilities such as purportedly under declared landfill tax.				<ul style="list-style-type: none"> <li>Proactive engagement with HMRC and PWC environmental tax experts.</li> <li>Payment on account made in 2018/19 (recoverable in the event of no liability.)</li> <li>Provide updates in future finance reports.</li> <li>Maintain a prudent level of general and earmarked reserves</li> </ul>
	The impact of increasing volatility and uncertainty in respect of hypothecated grants and their use in relation to integral functions of the authority.				<ul style="list-style-type: none"> <li>Continued representations to WG with WLGA for funding flexibility, i.e. transferring grants to RSG where possible.</li> </ul>
Capital Project Risk	Supplier availability and capacity resulting in slippage / cost increases to the capital programme				<ul style="list-style-type: none"> <li>Pool of suppliers to undertake works.</li> <li>Encouraging training and development.</li> </ul>
	Supplier financial stability				<ul style="list-style-type: none"> <li>Use of approved procurement frameworks and financial standing assurance</li> </ul>
	Abortive costs of capital projects which would be required to be charged to a revenue budget				<ul style="list-style-type: none"> <li>Due diligence at the outset of projects.</li> <li>Clear identification of scope and undertake feasibility studies where required.</li> <li>Ensure capitalisation principles followed. Financial and external audit review.</li> <li>Treasury Management Reserve is an additional tool to help manage risk in this area</li> </ul>
	Costs, capacity and skills to deliver capital projects				<ul style="list-style-type: none"> <li>Workforce planning, securing external advice and services where required</li> </ul>
	Approach to ensuring effective business cases to ensure members can make informed decisions				<ul style="list-style-type: none"> <li>Use of HMT five case or other proportionate assessment tool.</li> <li>Review the linkages and role of Boards in the approval of effective business cases.</li> </ul>
	Risk that initial estimated project costs are inaccurate and the actual costs of projects are higher than anticipated				<ul style="list-style-type: none"> <li>Robust business case and due diligence via officer boards.</li> <li>Clear project scope from the outset.</li> </ul>
	The proximity in recent years of the Council's partial exemption calculation (VAT) to the 5% threshold.				<ul style="list-style-type: none"> <li>Early consideration of VAT issues, particularly in respect to land acquisition and when working with other public and charitable organisations.</li> </ul>
Economic	Treasury Management risks such as interest rate risk, credit risk, fraud risk.				<ul style="list-style-type: none"> <li>Treasury Management Practices, Treasury Strategy and use of Treasury Management Advisors.</li> <li>Borrowing at fixed rates.</li> <li>Review options to strengthen Treasury Management function.</li> <li>Review of approach to pooling of debt</li> </ul>
	Economic / Commercial risks – e.g. property values, willingness of private sector to invest.				<ul style="list-style-type: none"> <li>Demonstrating the long term benefits of investment in the city.</li> </ul>
	Inflation and construction price risk impact on cost of projects.				<ul style="list-style-type: none"> <li>Minimise time frame of projects.</li> <li>Contingencies as part of contracts.</li> <li>Fixed price contracts.</li> </ul>

Appendix 9 (b)

	Description	Capital Strategy	Council MTFP	HRA MTFP	Mitigations
External / Economic	Inflation increases over the MTFP period with potential impact on pricing. Salary increases in respect of both the Council's workforce and externally commissioned services.				<ul style="list-style-type: none"> <li>• Close monitoring of OBR forecasts and relevant indices.</li> </ul>
	Changes in law and policies impacting on service delivery and construction costs e.g. decarbonisation				<ul style="list-style-type: none"> <li>• Awareness of pipeline of legislative change.</li> <li>• Contingencies.</li> <li>• Piloting renewable technology in new housing</li> </ul>
	Investments and liabilities fail to perform as expected				<ul style="list-style-type: none"> <li>• Post project appraisal.</li> <li>• Periodic monitoring including annual review as part of Statement of Accounts.</li> <li>• New accounting requirements for reporting valuations of investments</li> </ul>
	The impact of the UK leaving the European Union				<ul style="list-style-type: none"> <li>• Impact, particularly in respect of construction costs and property values will continue to be monitored on an ongoing basis.</li> <li>• Monitoring of risks in line with the Council's corporate risk register.</li> </ul>
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.				<ul style="list-style-type: none"> <li>• Early intervention and information and advice to support residents.</li> <li>• Review of debt recovery policies and bad debt provision.</li> <li>• Maximisation of funding for promotion of specific support e.g. the Hardship Fund and Discretionary Housing Payments.</li> </ul>
	Continuing demographic demand for social care services – reflecting both volume and complexity of need				<ul style="list-style-type: none"> <li>• Early intervention, prevention and reablement measures.</li> <li>• A budgeted contingency for Looked After Children</li> </ul>
	Pressures on supported additional learning needs due to both continuing pupil number growth and complexity of need				<ul style="list-style-type: none"> <li>• Pupil number modelling on an ongoing basis, with particular reference being paid to the impact of the LDP.</li> <li>• Also, implementation of proposals contained in the ALN Strategy and consideration of the upcoming change in ALN legislation.</li> </ul>
	Additional pressures on the homelessness service.				<ul style="list-style-type: none"> <li>• Continued review of available resources, including maximisation of available grant schemes.</li> <li>• Opportunities taken to replenish reserve</li> </ul>
	The risk of WG levying fines if the Council fails to meet recycling or landfill diversion rates				<ul style="list-style-type: none"> <li>• Education of residents and continued investment in recycling initiatives.</li> </ul>
	Demand for affordable housing and the different types of housing suitable to meet the needs of older people and young families				<ul style="list-style-type: none"> <li>• Older persons housing strategy, new council house build and acquisition programme and partnerships with Registered Social Landlords.</li> </ul>
	Reducing demand for services where the Council has historically charged for the activity, creating an income shortfall				<ul style="list-style-type: none"> <li>• Encouraging directorates to take a strategic view of income generation and to consider the impact of fee-setting on demand for services.</li> </ul>

Appendix 9 (b)

	Description	Capital Strategy	Council MTFP	HRA MTFP	Mitigations
Savings	The ongoing need to deliver significant levels of savings following a prolonged period of financial austerity, particularly given the impact delays to delivery of the proposal have on the budget monitoring position.				<ul style="list-style-type: none"> <li>• Existence of a general contingency which can be reviewed over time in line with an established record for savings delivery.</li> <li>• Embed a proactive and ongoing approach to identifying and implementing savings, which moves beyond an annual process and takes opportunities as they arise</li> <li>• Continue to accelerate detailed planning and preparatory work to improve the deliverability of savings.</li> <li>• Seek opportunities for external benchmarking and self-assessment within the HRA</li> </ul>
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 control environment.				<ul style="list-style-type: none"> <li>• Workforce planning. Training and development. Internal Audit of processes.</li> </ul>
	The impact for functions delivered as part of a collaborative arrangement if the planned benefits are not realised.				<ul style="list-style-type: none"> <li>• Robust governance and contract management arrangements.</li> </ul>
	The capacity to deliver organisational change in conjunction with increasing demands on business as usual activities.				<ul style="list-style-type: none"> <li>• Workforce planning. Training and development. Working with partners.</li> </ul>