

Section: FINANCE

Risk No	Risk Name	Vulnerability (Why, what’s happening, what’s the problem)	Trigger/risk (What’s the event/ what could go wrong?)	Consequences (What would occur as a result, how much of a problem would it be, to whom and why?)
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1.	Level of Balances	Effectiveness of agreed minimum level of working balances. For 2015/16 this is expected to be £2.3m which is 12% of net revenue expenditure	<ul style="list-style-type: none"> a. Minimum balance is insufficient to cover unexpected events. This would require a large single event or multiple unexpected events greater than £2.3m. b. Minimum balance is in excess of real need and resources are held without identified purpose with low investment returns. 	<ul style="list-style-type: none"> a. The Council would need to identify additional resources the results of which could be immediate budget reductions or use of earmarked reserves. b. The Council would not gain best value from its resources as Investment returns are low in the current market.
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At this time balances are in excess of the minimum level at £3.6m for 2015/16. This value is over and above mitigation measures for some risks, such as commercial activities, already considered by Cabinet in developing the budget.

The Council’s external auditor has identified the council’s level of general balances is in the lower quartile for its nearest neighbour group. They have however stated that holding significant balances is not necessarily evidence of good financial management and the Council holds other resources, which are earmarked, along with general balances.

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2.	Inflation rate prediction	Inflation allowances are set for: <ul style="list-style-type: none"> • Utilities • Fuel • Contracts • Business rates • Insurance costs • Employee costs Inflationary increases create a growth pressure of £0.47m in 2015/16	a. Actual levels are above prediction b. Actual levels are below predictions	a. A failure to resource expenditure levels accurately will create an unbudgeted drain upon resources and the Council may not achieve its objectives without calling upon balances. b. The services may have supported the budget strategy through savings that were unnecessary, resulting in an increase in balances or unused resources that could be used to achieve strategic priorities.
<p>The allowances for inflation are developed from three key threads:</p> <ol style="list-style-type: none"> 1. The advice and knowledge of professional employees 2. The data available from national projections 3. An assessment of past experience both locally and nationally <p>The inflation allowances produce a growth pressure that is low at approximately 1.4% of gross revenue expenditure. In addition they cover a range of expenditure types, allowing for a reasonable spread of risk.</p> <p style="text-align: right;">C-I</p>				

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3.	National Strategy	Effectiveness of central government strategy as outlined in the spending review 2010 and 2013 along with more recent budget announcements.	A failure of the national strategy to reduce the structural deficit as planned.	The country has remained in recession longer than the originally planned period and the Chancellor of the Exchequer has indicated that public sector reductions will continue through the next parliament at a similar level to the period since 2010. The provisional finance settlement figures for 2015/16 indicate a reduction in central government funding of £1m. The strategy assumes that Government funding will be zero by 2019/20.
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The medium term financial strategy to 2019/20 has been developed to allow for a significant impact on the Council’s resources giving the Council maximum opportunity to identify and manage the changes necessary to ensure the provision of alternative resources and the identification of efficiencies. The Council has focussed on developing other sources of income to ensure it can maximise its resources while dealing with the consequences of government strategy.

D-III

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4.	Limitation of council tax increases	The current arrangement announced by central government for a council tax freeze includes a grant equivalent to a 1% increase in council tax. This is coupled with the requirement for a public referendum on “excessive” increases in council tax above 2%.	Should the grant be accepted by the Council, provision must be made in 2015/16 to finance £0.12m without the possibility of a tax increase to mitigate the loss in future years.	<p>A 1% freeze for 2015/16 would provide freeze grant of £144,000</p> <p>The Council would forego £117,000 in 2015/16 rising to £298,000 by 2018/19 if the freeze grant was accepted in preference to a 2% increase in council tax.</p> <p>Acceptance of this grant would create an immediate additional budget pressure for which savings have not been identified of the £117,000 identified above.</p>
<p>To date planning for the budget 2015/16 has been based upon a 1.99% increase including public consultation and consultation with Strategic Leadership and Corporate Services Overview and Scrutiny Committee. No issues have been raised in relation to the proposed increase through either consultation route. Should a proposal be made to accept the council tax freeze grant the Council could only approve this as part of the approval of a balanced budget so the proposal would also need to include options to identify £0.12m of savings.</p> <p style="text-align: right;">C-III</p>				

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5.	Fees & Charges	Fees & charges and other service based income sources could fail to deliver expected income levels	Fee charging services are being affected by falling demand due to the economy.	<p>A loss of income for service budgets will require restrictions on expenditure levels and delivery of all objectives may not be met. The total value of all income from fees and charges is in excess of £7.8m.</p> <p>Budget monitoring shows that the budgeted income from fees and charges in the current year is being exceeded but only due to the support of two services where demand is resistant to price increases.</p>
<p>For the past two years most services have not achieved their income targets and no additional increases have been proposed for 2015/16. In a small number of areas income has remained in excess of the budgeted level and these services have enabled total fees and charges to match with the budgeted level of income. Evidence exists to show that the economy is improving and low interest rates and low inflation will influence public spending. However low wage growth will also have a negative contributory effect.</p> <p>The increase proposed for 2015/16 is solely in those areas that have shown resilience to the current economic climate and represent only a 1% increase in total income from fees and charges.</p> <p style="text-align: right;">D-III</p>				

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6.	Commercial Activities	The Council is considering a number of commercial opportunities and the medium term financial strategy assumes a contribution from these proposals in 2015/16 of £0.2m.	The commercial opportunities currently under consideration are not approved or do not deliver the expected level of income in 2015/16.	<p>The medium term financial strategy includes a contribution from commercial opportunities of £1m over the five year period of the strategy. Should proposals slip or not be approved a shortfall will occur in 2015/16 of up to £0.2m.</p> <p>If delivery of the additional resources in 2015/16 is delayed it does not mean that future years could slip and a target of up to £0.4m would be required in 2016/17.</p>
<p>The medium term financial strategy includes assumptions for commercial property purchases in 2016/17 that can now be expected to deliver early. This will provide a resource in 2015/16 that would enable a partial deferral of the need to provide resources from the commercial opportunities currently under consideration. The resource that is expected to be available will not allow a complete deferral of the need to provide resources from commercial activities.</p> <p>When developing the initial strategy for commercial activity the Council did set aside a provision of £0.5m against losses from activities that do not deliver. This provision is cash limited but available to cover short term losses.</p>				

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7.	Capital financing	Availability of funding for the capital programme	<p>There are a number of sources of funding for the capital programme all of which may not be available in the medium term:</p> <p>New Homes Bonus – a government review is expected and may lead to a reduction in funding.</p> <p>Revenue support – removed due to need of revenue budget savings</p> <p>Capital grants – The disabled facilities grant now forms part of the Better Care Fund paid to the county council.</p> <p>Capital receipts –reducing due to availability of assets for sale and a greater focus on commercial use of assets for revenue generation</p> <p>Prudential borrowing – approved by Council but limited in use to commercial property acquisitions.</p> <p>Developer contributions – a community infrastructure levy will not be in place until adoption of the local plan</p>	Funding may not be available for future schemes.
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The programme does not identify schemes that would utilise all potential resources and the medium term financial strategy requires resources to be available prior to commencement of any one project. This enables the Council to assess risk on a scheme by scheme basis.

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8.	Horizon scanning	Appropriate risks and opportunities must be recognised in advance.	<p>Horizon scanning requires input from all service managers and the financial consequences of future issues may not be clearly identified.</p> <p>Complexity of financial and other regulations along with increasing delays in providing guidance reduce the ability of the Council to identify risks at a early stage.</p>	<p>On a small number of occasions the financial consequences of future events are likely to be significant. Failure to provide adequate warning would leave the council little time to prepare through the medium term financial strategy.</p> <p>In general these events bring consequences to other agencies and external relationships.</p>
<p>The Council has a number of formal procedures for monitoring new legislation, consultations and policy / guidance documents. In addition our relationship with organisations such as the Council’s external auditor provides access to additional knowledge regarding relevant future events.</p> <p style="text-align: right;">E-II</p>				

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9.	Efficiency	The level of saving required to achieve a balanced budget is significant and non-delivery of these savings will have a major consequence on managing financial viability of the organisation.	Failure to deliver savings and / or failure to monitor and react to non-delivery.	Savings proposals for 2015/16 do not present a high risk. Excluding the target for commercial activity set out separately at risk 6 the medium term financial strategy has no high risk savings proposals for 2015/16.
<p>Savings proposals are separately identified and monitored in the Council’s general ledger. The ability to achieve the targeted savings is reported quarterly to Corporate Leadership Team and to Cabinet. This enables in year actions to be considered at the earliest opportunity.</p> <p style="text-align: right;">E-II</p>				

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10.	Collection Fund	<p>Collection rates.</p> <p>a) The retention of business rates means that collection rates have become of local importance to ensure the retained element of business rates is maximised. Business rates due is in excess of £58m for 2015/16.</p> <p>b) The localisation of support for council tax means that a charge is now made to some benefit claimants with little or no previous experience of handling money or paying for any part of their council tax. This increases the risk of non-collection. Council tax due is in excess of £80mm per annum with the cost of local support exceeding £10m per annum</p>	<p>The Council currently collects in excess of 97% of business rates due in year. This level of collection must be maintained or improved to ensure expected resources are received.</p> <p>For tax payers on benefit and of working age there has been a requirement from 2014/15 to pay additional amounts of tax. Only 87% of the assessed benefit will now be supported by the local scheme and tax payers may find it difficult to identify resources to pay the balance due.</p>	<p>In both cases the consequence will be a reduced level of key resources to ensure a balanced budget. This will mean further cuts in other budgets or the cost of financing outgoing cash flow to other agencies in relation to taxes not yet collected.</p>
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The two schemes commenced on 1st April 2013 and almost two years of experience exists in relation to collection rates. It is clear that collection rates for the business rates are on target and have delivered on target during 2013/14. The collection rates for council tax and particularly the collection of residual charges under the local council tax support scheme were significantly better than estimated in 2013/14 and to date in 2014/15. This is evidenced by the surplus in excess of £1m on the collection fund in the previous year.

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11.	Business Rates Pool	<p>The Council has entered a business rates pool with Kent County Council for 2014/15. This arrangement means that the Council cannot rely on central government safety net funding should the level of business rates fall by more than 7.5%.</p> <p>For 2015/16 the pool will include 10 new members adding to the complexity and potential for vulnerability.</p>	<p>a) Major changes may occur in the rateable value of properties following appeal.</p> <p>b) Other members of the business rates pool may fail to deliver stability or growth, requiring support from this council.</p>	<p>In all cases the result will be a reduction in income from business rates and a potential consequence for the Council. Provisions exist so any loss of income would relate to the excess over the provision already made.</p>
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The Council entered a business rates pool in 2014/15 between the Council and Kent County Council. The predicted additional resources this gained for the Council in the current year is £95,000. The pool has been reconfigured for 2015/16 to include an additional 9 districts and Kent Fire & Rescue. This is evidence of its potential benefits and the predicted gain for this Council in 2015/16 is £200,000. The pool is monitored quarterly Kent wide and this Council is the Pool administrator. The pool contains a provision for poor performing districts and the Council can exit the pool on 1st April in any year by giving notice by the previous September.

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12.	Medium term	The medium term financial strategy must be the link between the strategic priorities of the council and its financial resilience. The Council will consider for approval a new strategic plan for the period 2015/16 to 2020/21. It is essential that resources exist to deliver the priorities set out in the strategic plan finally approved.	These issues must all be identified in the medium term financial strategy at a level considered adequate to cover the likely consequences to this authority.	In reviewing the strategy the consequences of some of the Council’s plans could be misinterpreted and the strategy could fail to take full account of the risks. Developing the strategy alongside the strategic plan will ensure that some of this risk is mitigated.
<p>The Cabinet Member for Corporate Services has requested that the budget be reported through its links to the strategic priorities as a method of reporting the level of funding and expenditure on each priority. This would improve awareness of the links between the Strategic Plan and the medium term financial strategy.</p> <p style="text-align: right;">E-III</p>				

APPENDIX C

Risk Management: Risk Profile

The risks have been mapped against a typical appetite to risk. The risk assessment has been prepared in the context of key service objectives. The risks at this stage have not been 'mitigated'.

The **vertical axis** shows **Likelihood**:

A = very high; B = high; C = significant; D = low; E = very low; F = almost impossible

The **horizontal axis** shows **Impact**:

1 = catastrophic; 2 = critical; 3 = marginal; 4 = negligible

A risk matrix with Likelihood on the vertical axis (A to F) and Impact on the horizontal axis (IV to I). The matrix is divided into four quadrants: IV (left), III (middle-left), II (middle-right), and I (right). The cells contain risk numbers 1 through 12, with some cells shaded grey.

A				
B	2	4		
C		3, 5, 7, 12	6, 10, 11	
D		1	8, 9	
E				
F				
	IV	III	II	I