

BUDGET STRATEGY 2011/12 ONWARDS

RISK ASSESSMENT

Risk Management: Risk Scenario

Section:

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?)
1.	Level of Balances	Effectiveness of agreed minimum level of working balances. For 2011/12 this is expected to be £2.3 million or 10% of net revenue spend.	<p>A. Minimum balance is insufficient to cover unexpected events.</p> <p>B. Minimum balance is in excess of real need.</p>	<p>A. 1) Large single event with consequences greater than £2.3 million.</p> <p>2) A series of smaller events over the medium term that deplete balances during a period when the Council is unable to replenish them.</p> <p>B. 1) A failure to resource an opportunity due to resource limitations.</p>
2.	Inflation Rate Predictions	Inflation rates allow for predicted increases in salary, contractual and general expenditure and income from fees and charges. Their accuracy as predictions becomes a greater vulnerability as the period into the future increases.	<p>A) Actual levels are above predictions.</p> <p>B) Actual levels are below predictions.</p>	<p>A general failure to budget effectively for growth over the period of the medium term financial strategy resulting in:</p> <p>A) A failure to resource future expenditure levels resulting in adverse levels of expenditure and an unexpected drain on balances.</p> <p>B) Over provision of savings and/or the failure to provide planned levels of service provision.</p>

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3.	National Strategy	Effectiveness of the strategy outlined by Central Government in the spending review.	Failure of national strategy to reduce structural deficit.	The spending review and grant settlement may require amendment during the four years of the medium term financial strategy. This would mean a revision to the strategy outlined including a requirement to make additional savings.
4.	Grants & Contributions	Funding received through Grants & Contributions from other Public Sector bodies.	A reduction in funding from sources within the public sector could occur as a cascade effect from the consequences of the spending review on that body.	The consequence of this risk is service specific and where services rely upon external resourcing or partnership arrangements the service may become at risk of termination if funding cannot be maintained.
5.	Limitation of Council Tax Increases	The arrangement announced by Central Government to require a public referendum on "excessive" increases in council tax, coupled with the proposed one year freeze on council tax levels.	The council tax freeze is funded by a time limited fixed cash grant that lasts for four years. In year five a significant loss of income will occur that may not be recoverable by a specific increase in council tax, if this is considered excessive.	<p>A 2.5% increase in current council tax levels is valued at £334,000 per annum. This would be the level of fixed grant for the four years of the spending review period.</p> <p>The compounding effect of an annual increase of 2.5% over years 2 – 4 would mean a cash loss of £60,000 to the Council when compared to a situation where a 2.5% increase is applied to the year 1 council tax.</p> <p>The year 5 effect, following the end of the time limited grant, would be a permanent reduction in resources of £377,000 per annum. This would still equate to the need for an "extra" 2.5% increase in council tax and potentially make the 2015/16 increase "excessive".</p>

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6.	Fees & Charges	Fees and charges and other service based income sources could fail to deliver.	Services may be affected by loss of demand due to price. Service demand may be affected further by the recession.	Both will bring a loss of income for service budgets.
7.	Capital Financing	Availability of funding for the capital programme.	A) Assets identified for sale will not achieve their target price or sell at all. B) Borrowing is not confirmed. C) Additional/alternative sources of funding are not identified.	The capital programme cannot be complete until resources are found. Approval of schemes in the programme would occur on a priority basis as resources are identified.
8.	Horizon scanning	Appropriate risks and opportunities must be recognised in advance.	Work on horizon scanning requires input from all service managers. Recognition of finance consequences may be too late.	Where 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. This would most likely place a drain upon balances or reduce service levels.
9.	Efficiency	Level of savings of significant value with a risk of non-delivery considered to be high.	Failure to adequately monitor delivery and/or react to failure to deliver.	Nine savings proposals are identified as having a high risk of non-delivery. These total £0.75 million over three years. Failure to deliver would place an additional drain on other services and/or balances.
10.	Pensions	Pension fund valuation	The triennial review uses assumptions to ensure funding meets the demand of current members. There is a possibility that funding assumptions are incorrect. KCC performance in investing fund	The level to which the scheme is valued is affected by all of the triggers and has a direct effect on the employer contribution to the scheme. The scheme cost to the council could increase significantly in all cases.

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			<p>balances has a direct influence on the current value of the fund.</p> <p>A major reduction in staffing levels.</p> <p>A high level of early retirement from the Council.</p>	
11.	Savings Target	The process to identify savings over the full four year period is not complete for any year.	That sufficient and suitable proposals to save the balance of the pressure on the medium term financial strategy.	Failure to produce a balanced budget in line with the principles of the medium term financial strategy.

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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

