Risk Management: Budget Strategy 2012/13 Onwards – Financial Risks **APPENDIX G**

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?)
1.	Level of Balances	Effectiveness of agreed minimum level of working balances. For 2012/13 this is expected to be £2.3m which is 11.5% of net revenue expenditure	a. Minimum balance is insufficient to cover unexpected events. b. Minimum balance is in excess of real need	a. This would require a large single event or multiple unexpected events greater than £2.3m and would require the additional balances above the minimum level to have been depleted. At this time balances in excess of the minimum are expected to be in the region of £1.9m. b. In the past the Audit Commission has approved a policy of holding minimum balances at 10% of net revenue expenditure. This equates to £1.9m for 2012/13. However it is considered prudent to maintain the minimum level of balances at the maximum level it has previously been (£2.3m) due to the current economic climate.
2.	Inflation rate prediction	Inflation allowances are set for: • Energy costs – 16% • contractual costs – 4.2% • business rates – 5.2% • general expenditure – 0% Inflationary increases create a growth pressure of £0.4m over 2012/13	a. Actual level is above prediction b. Actual levels are below predictions	a. A failure to resource expenditure levels accurately will create an unexpected drain upon resources and the Council may not achieve its objectives without calling upon balances. b. The services may have over provisioned through savings that were unnecessary resulting in an increase in balances or unused resources that could be used to achieve strategic priorities.

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3.	National Strategy	Effectiveness of central government strategy as outlined in the spending review 2010 and more recent budget announcements	A failure of the national strategy to reduce the structural deficit as planned	This may mean amendments to the resource levels announced in the spending review. To date the strategy has not been as successful as initially predicted. However the government has maintained the predicted level of resources for 2012/13 and has suggested an extended period of time over which the recovery will occur.
4.	Grants & Contributions	Funding received through grants and contributions from other public sector bodies may reduce. Although this sum varies annually it is in the region of £2.5m	A reduction in funding from sources within the public sector could occur as a cascade effect from the consequences of the government's strategy on that body	The consequence of this risk is service specific and where services rely upon external resources or partnership arrangements the service may become at risk of termination if funding cannot be maintained or otherwise resourced.
5.	Limitation of council tax increases	The second arrangement announced by central government for a council tax freeze includes a single year grant equivalent to a 2.5% increase in council tax. This, coupled with the requirement for a public referendum on "excessive" increases in council tax.	Should the grant be accepted by the council, provision must be made in 2013/14 to finance £0.34m without possibility of a tax increase to mitigate the loss in future years.	A 2.5% increase for 2012/13 equates to £339,000 Over the period to 2021/22 the council will have foregone £3.4m in income based upon an annual uplift in council tax of 2.5% Acceptance of this grant creates an additional budget pressure in 2013/14 for which savings will not have been identified

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6.	Fees & Charges	Fees & charges and other service based income sources could fail to deliver expected income levels	Service are being effected by falling demand due to the economy. A number of fees & charges have been identified for increases that average 2% of all income from such charges.	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 £10m.
7.	Capital financing	Availability of funding for the capital programme	The budget strategy includes proposals for the use of new homes bonus that mitigate the majority of the risk from funding of the capital programme. Subject to approval of this approach by Council the risk will be limited to £0.3m if proposed asset sales do not occur.	At the lower level of risk a number of options exist to finance the programme including the options to use prudential borrowing permissions or to create slippage in the programme from 2014/15 into 2015/16.
8.	Horizon scanning	Appropriate risks and opportunities must be recognised in advance	Horizon scanning requires input from all service managers and the financial consequences of future issues may not be clearly identified.	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. In general these events bring consequences to other agencies and external relationships are important to ensure no such consequences are missed.

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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.	Failure to deliver savings and / or failure to monitor and react to non-delivery.	Five of the savings proposed for 2012/13 are considered to be high risk. These total £0.25m. Failure to deliver on any saving proposal places an additional pressure on services levels and / or balances.
10.	Pensions	Pension fund changes	The proposed changes to the pension fund are expected to have limited consequence for employers in the scheme. However the proposals remain fluid at this time and significant debate still surrounds the future of the scheme that could lead to changes in the proposals.	The objective of the changes proposed by central government is to make the pension scheme more affordable. The risk to the council is considered to be low. Involvement with the fund managers at Kent County Council ensures this council is aware of any proposals and their consequences.
11.	Medium term	The medium term financial strategy includes a number of significant future changes to the environment that are being monitored closely: • retention of business rates • council tax benefit changes • work on the core strategy and the local development framework • electoral registration changes • universal credit transition	These are all significant changes for local government and require careful assessment of the possible consequences at each stage of the implementation. These issues are all identified in the medium term financial strategy at a level currently considered adequate to cover the likely consequences to this authority. The total is currently estimated at £0.8m over the period 2013/14 to 2014/15.	The financial consequences based upon current knowledge are outlined in the strategic revenue projection. Should the provision be insufficient to cover the financial consequences to the council this will increase the pressure on the budget in the medium term.

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

Likelihood	IV	III	II	I
A				
B		9	5;	
C		4; 8	6; 11	
D		2a; 2b; 10	1a; 1b; 3	
E			7	
F				

Impact