Risk Management: Budget Strategy 2014/15 Onwards – Financial Risks **APPENDIX J**

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 2014/15 this is expected to be £2.3m which is 12% 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 already been depleted. At this time balances in excess of the minimum are expected to be in the region of £1m during 2014/15. This value excludes mitigation measures for some risks already consider by cabinet in developing the budget strategy. b. In the past the Council's external auditor has considered acceptable a policy of holding minimum balances at 10% of net revenue expenditure. This equates to £1.9m for 2014/15. 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.

Risk Management: Budget Strategy 2014/15 Onwards – Financial Risks **APPENDIX J**

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?)
2.	Inflation rate prediction	Inflation allowances are set for: • Energy costs • Contracts • Business Rates • Employee Costs Inflationary increases create a growth pressure of £0.45m in 2014/15	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.
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	The country has remained in recession longer than the originally planned period and the Chancellor of the Exchequer has indicated that public sector reductions would continue through the next parliament at a similar level to the period since 2010. The provisional finance settlement figures indicate a reduction in central government funding of £1m. The strategy assumes that Government funding will be zero by 2019/20.
4.	Limitation of council tax increases	The current arrangement announced by central government for a council tax freeze includes a two year grant equivalent to a 1% increase in council tax. This is coupled with the requirement for a public referendum on "excessive" increases in council	a) Should the grant be accepted by the council, provision must be made in 2015/16 to finance £0.16m without possibility of a tax increase to mitigate the loss in future years. In addition immediate savings of £0.16m	A 1% freeze for 2014/15 equates to £140,000 The Council would forego £191,000 per annum if the freeze grant was accepted in preference to a 2% increase in council tax. After the five

Risk Management: Budget Strategy 2014/15 Onwards – Financial Risks **APPENDIX J**

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?)
		tax above 2%.	must be found as the strategy has been developed on the basis of a 2% increase. b) Should the referendum limit be reduced below 2% a review of the budget strategy will be required prior to Council on 5th March 2014.	years of the strategy the differential between the two options would be at least £0.25m Acceptance of this grant creates an immediate additional budget pressure in 2014/15 and again in 2015/16 for which savings have not been identified. The referendum limit could still be reduced causing a £95,000 immediate budget pressure for each 1% reduction in the referendum limit.
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.	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 £7.7m. 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.

Risk Management: Budget Strategy 2014/15 Onwards – Financial Risks **APPENDIX J**

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?)
6.	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. The Government has announced a review of the new homes bonus system to commence in 2014/15.	At a 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 and these options will have an effect on the cost or the delivery plans of the programme.
7.	Prudential Borrowing	The Treasury Management Strategy identifies prudential borrowing of £6m. This funding is to resource the acquisition of commercial assets that will make a return to the Council equal to or greater than the cost of borrowing. The principal and interest due annually on £6m would exceed £0.45m per annum over a 25 year period.	a) These commercial ventures may not return sufficient surplus to finance debt repayment.	The Council is required to provision for repayment of debt in its revenue account through the minimum revenue provision. The budget strategy assumes this will be financed from the surplus generated by commercial activities. If these activities do not produce the surplus the assets may need to be sold to provide the receipt necessary to repay outstanding debt. Cabinet has set aside from balances a resource of £0.5m which may be utilised to temporarily repay debt in such circumstances but the cost would eventually become a burden on the tax payer if the asset does not generate the required receipt.
			b) The approved prudential borrowing is used to mitigate the consequence of risk 6 above.	Failure to deliver on the commercialisation strategy set out in the budget creating a cost of debt and a budget pressure from the failure to generate income from acquired assets.

Risk Management: Budget Strategy 2014/15 Onwards – Financial Risks **APPENDIX J**

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?)
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. 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.	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.
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.	Some of the savings proposed for 2014/15 are considered to be high risk. These total £0.2m. Failure to deliver on any saving proposal places an additional pressure on services levels and / or balances.

Risk Management: Budget Strategy 2014/15 Onwards – Financial Risks **APPENDIX J**

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?)
10.	Collection Fund	Collection rates. 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 £56m per annum. b) The localisation of support for council tax means that some element of the tax due will become due from 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 £79m per annum with the cost of local support exceeding £10m per annum	The Council currently collects in excess of 97% of business rates due in year. This level of collection will mean a shortfall in locally retained resources. For tax payers on benefit and of working age there will be 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.	In both cases the consequence will be a reduced level of key resources to ensure a balanced budget. This will means further cuts in other budgets or the cost of financing outgoing cash flow to other agencies in relation to taxes not yet collected.
11.	Business Rates Pool	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%.	a) Major changes may occur in the rateable value of properties following appeal. b) Collection rates may not be maintained c) Increased levels of exemptions may be claimed	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.

Risk Management: Budget Strategy 2014/15 Onwards – Financial Risks **APPENDIX J**

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?)
12.	Medium term	The medium term financial strategy must be the link between the strategic priorities of the council and its financial resilience. In 2014/15 the Council will develop a new strategic plan for the period 2015/16 to 2020/21. The medium term financial strategy will also undergo a complete review to ensure it remains in accord with the Council's strategic objectives.	These are all significant changes for local government and require careful assessment of the possible consequences at each stage of the implementation. 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.

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				
C		4b	8; 12	
D		1b; 2b; 4a	3; 5; 6; 9; 11	
E		2a; 10	1a; 7	
F				
	IV	III	II	I

Impact