

Policy and Scrutiny

Open Report on behalf of Pete Moore, Executive Director of Finance and Public Protection

Report to:	Overview and Scrutiny Management Committee
Date:	28 January 2016
Subject:	Review of Financial Risk Assessment

Summary:

The Council last reviewed its financial risks in November 2014. This report updates that review. It considers the outcomes from the financial risk assessment for 2014/15 and updates the risk assessment to help determine an appropriate target level for the Council's general reserves for 2016/17.

The annual review scheduled for November 2015 was delayed in order to factor in the implications of the Comprehensive Spending Review and Local Government provisional Settlement.

Actions Required:

The Committee is asked to consider the risk assessment and any implications for the Council's general reserves.

1. Background

1.1 The Council's Financial Risk Register is appended to this report (**Appendix A**). It itemises each of the risks which could have a direct financial consequence for the Council. It also quantifies these risks in terms of potential financial cost to the Council. The intention is to help understanding of the potential issues and their scale. Members will appreciate that there remains a substantial element of judgement in assessing these risks.

1.2 The net total of the risks is some £30.025m. This can be interpreted as the total cost to the Council if all the items listed occurred in 2016/17. Ideally the Council should maintain its general reserve at a sum at least equivalent to the net total risk (i.e. £30.025m).

1.3 The net total of identified risks is significantly higher than the previous assessment in November 2014 (net total risks were £14.980m). This is due to the continued reductions in funding from central government and the need for the Council to review spending and deliver savings from existing budgets. The Council

also continues to have cost pressures from demand led services. These factors are keeping the financial risks to the organisation high. Past performance in managing the cost side of financial risks has been good and not many of these risks have materialised in previous years.

1.4 In the previous financial year these risks were mitigated by a significant balance set aside by the Council and held in the Financial Volatility Reserve. The balance in the reserve is estimated to be £41.632m at 31 March 2016. This assumes that the Financial Volatility Reserve will increase by £10.000m at year end. This is a realistic estimate based on current projections. It is currently planned that £38.335m will be required to balance the 2016/17 budget, leaving £3.300m for future years or to cover any financial risks which may arise in 2016/17.

1.5 The requirement of the Council's Financial Strategy in relation to general reserves is based on its financial risk assessment. The current requirement is that the Council will maintain its general reserves within a range of 2.5% to 3.5% of its annual budget requirement. For information, the Council's general reserves at 31 March 2015 stood at £15.900m equivalent to 3.5% of its budget requirement at this date.

1.6 Maintaining the current 2.5% to 3.5% policy would require general reserves to be within the range of £10.357m to £14.500m for 2015/16.

1.7 This exercise implies a need for a general reserve of £30.025m from the updated assessment and is equivalent to 8.01% of the budget requirement. This is in excess of the current range of the Council's financial strategy. It is proposed that the general reserve balance should be maintained at the top end of the existing financial strategy range (e.g. at 3.5% of the budget requirement or £14.500m). Although the current assessment is outside the current range set out in the financial strategy close monitoring of the risks during the financial year will be undertaken and remedial action taken if risks begin to materialise. It is simply not possible to increase the general reserve to £30.025m without undertaking further significant reductions to service budgets.

1.8 For additional information **Appendix B** to this report sets out the Financial Risk Register for 2014/15 and comments on the actual outcomes for each of the risks in last year's financial risk assessment.

2. Conclusion

2.1 The Committee is asked to consider the updated Financial Risk Register and other relevant factors with a view to making recommendations on the target level of general reserves to the Executive. In light of recently announced changes to the funding base of the Council, it now faces increased levels of financial risk going forward.

3. Consultation

a) Policy Proofing Actions Required

n/a

4. Appendices

These are listed below and attached at the back of the report	
Appendix A	Financial Risk Register for 2016/17
Appendix B	Financial Risk Register for 2014/15 Outcomes

5. Background Papers

The following background papers as defined in the Local Government Act 1972 were relied upon in the writing of this report.

Document title	Where the document can be viewed
The Council's Financial Strategy - 22 February 2015	Executive Director of Finance and Public Protection

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