

APPENDIX B - Financial Risk Register 2014/15 Outcomes

Ref. No.	Risk	Consequences	Controls & Contingencies	Residual Risk		Estimated value of reserve needed £m	Comments:	
				Impact - Annual Cost £m	Likelihood			
Inflation								
1	Pay	Pay awards are 1.0% higher than assumed in the budget.	leading to increased costs	There is a 1.0% provision in 2014/15 budgets for pay awards.	1.5	2	0.525	A non consolidated one off payment has been made to all grades, as well as an average pay increase of 2.2% for staff from 1 January 2015. This was covered by the budget provided.
2	Price Increases	Inflation for general price increases is 1.0% more than allowed in budget.	leading to increased costs	There is a 2.0% provision in 2014/15 budgets for price increases.	3.9	2	1.365	Inflation for 2014/15 saw a fall of -0.1% (CPI), this was below the budgeted rate of 2.0%.
3	Income	Increase is 1.0% less than provided for in budget.	leading to reduced income	There is a 2.0% provision in 2014/15 for income increases.	1.1	2	0.385	The Council's budget for 2014/15 included other income (from fees and charges) of £61.229m, actual income received was £59.700m, 2.50% short of the target budget. This will have been managed by budget holders within individual budget areas.
4	Interest rates	Longer term interest rates are 1% higher than assumed in the budget.	leading to increased costs on long term borrowing	The budget assumes longer term rates at 5.0% for 2014/15	0.6	1	0.065	The actual cost of long term borrowing for 2014/15 was 4.147%, which was below the assumed rate of 5.0%.
Other Budget Assumptions								
5	Capital Receipts	Capital Receipts are less than target by (say) £1m.	revenue funds needed to fund capital programme	Targets for 2014/15 reflect estimated receipts. A shortfall in capital receipts in any particular year can be replaced by borrowing.	1.0	2	0.350	Capital receipts of £5.426m were received in 2014/15. The year end budget was £5.316m, increased from an original budget of £2.000m. All £5.426m of capital receipts was applied to fund the capital programme in 2014/15 reducing the Council's need to borrow to fund the programme.
6	Localisation of Support for Council Tax Schemes	Local council tax support schemes were introduced by all council tax billing authorities (i.e. Districts Council's) from April 2013. It is at the discretion of the billing authorities to set the schemes. Funding received is 2% less than assumed in the budget.	leading to reduced income	Budget will be based on notification from District Council in January 2014.	4.6	1	0.460	Council Tax income was received as budgeted for. In addition the seven Lincolnshire District Council's declared a total surplus on the Council Tax element of their collection funds in January 2015 of £3.947m. This was built into the Council's 2015/16 budget.
7	Local Government Funding - Business Rates Retention Scheme	The business rates retention scheme was launched from April 2013 as part of the changes to the local government funding regime. Under this new regime part of the business rates collected locally remain in Lincolnshire. The level of funding will reduce if a major business leaves the county. Funding received is 2% less than assumed in the budget.	leading to reduced income	Budget will be based on notification from District Council in January 2014.	0.4	1	0.040	Income from business rates was £0.158m less than originally budgeted for. In addition the seven Lincolnshire District Council's declared a total deficit on the Business Rates element of their collection funds in January 2015 of £0.647m. This is being forecast in the Council's 2015/16 budget.

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8	Estimated savings	Target savings not achieved fully in 2014/15.	leading to increased costs	Achieving fully the high level of savings required within the year will be very challenging. The Council's 2014/15 budget includes £38.9m of savings, of which £11.3m may be more difficult to achieve. There is corporate tracking of savings targets to track progress.	11.3	3	8.475	Overall service budgets underspent in 2014/15 by £8.126m. In 2015/16 savings are being closely monitored to ensure these are delivered.
9	Demand-led Services	Demand for social care, waste disposal, home to school transport, property repairs and maintenance, highways winter maintenance, fire and rescue, coroners increase in total cost terms by (say) £10m more than budget.	leading to increased costs	Budget prepared on latest projections but, for example, bad winter could lead to significant additional winter road maintenance or social care. There is a recent history of significant overspending on adult social care.	10.0	2	3.500	The Council overall service budgets underspent by £8.126m.
10	Income budgets	Income from charges is 10% less than estimated.	leading to reduced income	Budgets are set on past experience and future expectations	5.6	2	1.960	See point 3 above.
11	Capital Programme	The programme exceeds by (say) £5m the funding available, leading to use of additional revenue funding.	leading to increased costs	Note that it is normal for the Capital Programme to be underspent, not overspent. Further, the amount of revenue funding of the capital programme can be reduced by use of additional borrowing.	5.0	1	0.500	The net capital programme for 2014/15 was reduced by £45.515m during the year due to rephasing into future years. At year end the revised capital programme was underspent by £21.305m.
12	Costs of change	Provision for the future delivery of support services is insufficient by say £2m.	leading to increased costs	At the end of 2012/13 the Council set aside £4.2m for costs associated with the future delivery of support services and the cost of change.	2.0	2	0.700	The Council has created an earmarked reserve to manage the costs of the Support Service Contract Renegotiation. At the end of 2014/15 the reserve balance was £2.632m for future year costs.
13	Costs of change	Provision for redundancy costs is insufficient by say £2m.	leading to increased costs	The majority of reviews associated with Core Offer are concluded.	2.0	1	0.200	There was an overspend of £3.001m on redundancy costs in 2014/15. The most significant costs were generated by the Senior Management Review, Lincolnshire Adults Re-ablement and redundancy payments to Lincolnshire Partnership Finance Trust (LPFT). This was funded from within overall service underspend.
Financial Management Arrangements								
14	Current financial management arrangements	Overspend of 2% in Budget Requirement.	leading to increased costs	There are clear, written financial management procedures, regular staff training, good financial systems including monitoring information, and regular reporting to budget-holders, directorate management teams and the Executive. There have not been substantial overspendings in recent years other than on demand led services.	9.2	2	3.220	Overall service revenue spending, excluding schools, was underspent by £8.126m or 1.9%.
15	Schools Expenditure	Overspend of 1% in Schools budget expenditure.	leading to increased costs	Schools expenditure covered by Dedicated Schools Grant. The County Council could be required to provide financial support if there were a major problem.	2.6	1	0.260	Schools budgets were underspent by £17.658m or 6.3% of the schools budget.

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Potential Losses							
16	General Claims against the Council	Claims total £5m more than provided for in budget.	leading to increased costs	Extent of loss is limited by insurance arrangements. There is also an Insurance Reserve.	5.0	3	3.750
17	Bad Debts	Write -off of debts of 1%	leading to reduced income	The Council has an excellent record of income collection with a very low level of debt write-offs	0.7	1	0.070
18	Treasury management	Default on loans from the Council	Reduction in the Council's cash balances	Authorised lending list restricted to low risk institutions by setting individual, sector and sovereign limits. The Council's lending policy is low risk and focuses on security of capital and liquidity of investments over return.	25.0	1	2.500
19	Major emergencies or disasters	Such an event with a cost of (say) £5m	leading to increased costs	The government provides financial support under the Bellwin scheme for major emergencies or disasters where the Council is expected to fund the first £1.5m (0.2% of its budget requirement before Dedicated Schools Grant) in any one year beyond which the Bellwin Scheme provides for 85%.	2.0	1	0.200
							28.525

Comments:
In 2014/15 there was an underspend on insurances (£2.267m) due to claims and premiums being lower than expected, high insurance recharges to enable the fund reserves to be increased, and fewer risk management fund bids. Half of this underspend (£1.134m) was transferred into the insurance reserve at year end to keep the balance at a prudent level. At 31 March 2015 the balance in the insurance reserve stood at £6.221m.
The Council wrote off £0.412m or 0.17% of debt raised in 2014/15.
No problems were experienced with loans made by the Council in 2014/15.
No major emergencies were experienced in 2014/15.

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Provisions Against Financial Risk							
P1	Contingency Provision		The contingency provision may offset some of the increased costs noted above e.g. price increases above that allowed in budgets.	Budgets include a contingency provision of £3.6m p.a.	-3.6	4	-3.600
P2	Financial Volatility Reserve		At the end of 2011/12 the Council established a financial volatility reserve to help the Council deal with the future uncertainties around local government funding.		-13.0	4	-13.000
P3	Revenue Funding of Capital		Borrowing in place of revenue funding would allow approximately £0.5m, net of debt charges, to be made available for revenue spending.	This would require the Council to alter its policy on capital funding.	-0.5	3	-0.375
							-16.975
Net Total							11.550

Comments:
The contingency budget for 2014/15 was set at £3.633m. During the year £1.953m of this was utilised.
The Council used £6.780m from the Financial Volatility Reserve to balance the budget in 2014/15. As at 31 March 2015 the Council had set aside £21.871m to balance the 2015/16 budget and £31.632m available for future uncertainties in 2016/17 and beyond.
The Council took £20m of external borrowing during 2014/15 to finance the Capital Programme. The Council continued in 2014/15 to use a mixed approach of using internal balances and external borrowing to finance the Capital Programme.

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Key To Likelihood Scores:

1	Very unlikely	10% of impact
2	Possible but unlikely	35%
3	Possible for example in view of current higher levels of risk	75%
4	Very probable or certain	100%