

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

Report to:	<b>Overview and Scrutiny Management Committee</b>
Date:	<b>24 November 2016</b>
Subject:	<b>Review of Financial Risk Assessment</b>

#### Summary:

The Council last reviewed its financial risks in January 2016. This report updates that review. It considers the outcomes from the financial risk assessment for 2015/16 and updates the risk assessment to help determine an appropriate target level for the Council's general reserves for 2017/18.

#### Actions Required:

The Committee is asked to consider the risk assessment and any implications for the Council's general reserves and pass comments onto the Executive Councillor responsible for Finance.

## 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 the 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 £12.265m. This can be interpreted as the total cost to the Council if all the items listed occurred in 2017/18. Ideally the Council should maintain its general reserve at a sum at least equivalent to the net total risk (i.e. £12.265m).
- 1.3 The net total of identified risks is significantly reduced from the previous assessment in January 2016 (net total risks were £30.025m). This is due to a lower savings target for 2017/18 than was seen for 2016/17; therefore the risk of not delivering these savings is reduced. The Council's provisions against financial risk have also strengthened from 2016/17. The most significant change here is the estimated balance available in the Financial Volatility Reserve. This balance is increased by the Council's change in policy to repayment of long term debt which has released additional revenues balances

(£9.184m) in 2016/17 and a review of other amounts held in reserve which will release £6.110m into the Financial Volatility Reserve.

- 1.4 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 2016 stood at £15.600m equivalent to 3.5% of its budget requirement at this date.
- 1.5 Maintaining the current 2.5% to 3.5% policy would require general reserves to be within the range of £11.000m to £15.400m for 2017/18.
- 1.6 This exercise implies a need for a general reserve of £12.265m from the updated assessment and is equivalent to 2.78% of the budget requirement. This is within the current range of the Council's financial strategy. It is therefore 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 £15.400m). Close monitoring of the risks during the financial year will be undertaken and remedial action taken if risks begin to materialise.
- 1.7 For additional information **Appendix B** to this paper sets out the financial risk register for 2015/16 and comments on the actual outcomes for each of the risks in last year's financial risk assessment.

## 2. Conclusion

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 Councillor with responsibility for finance.

## 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 2017/18
Appendix B	Financial Risk Register for 2015/16 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 - 19 February 2016	<a href="http://lincolnshire.moderngov.co.uk/ieListDocuments.aspx?Clid=120&amp;Mid=4432&amp;Ver=4">http://lincolnshire.moderngov.co.uk/ieListDocuments.aspx?Clid=120&amp;Mid=4432&amp;Ver=4</a>

This report was written by David Forbes, who can be contacted on 01522 553642 or [david.forbes@lincolnshire.gov.uk](mailto:david.forbes@lincolnshire.gov.uk) .

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