

APPENDIX A - Financial Risk Register 2017/18

Ref. No.	Risk	Consequences	Controls & Contingencies	Residual Risk		Estimated value of reserve needed £m	
				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 2017/18 budgets for pay awards.	1.5	1	0.150
2	Price Increases	Inflation for general price increases is 1.0% more than allowed in budget.	leading to increased costs	There is a 0.0% provision in 2017/18 budgets for price increases.	3.9	3	2.925
3	Income	Increase is 1.0% less than provided for in budget.	leading to reduced income	There is a 0.0% provision in 2017/18 for income increases.	1.2	2	0.420
4	Interest rates	Longer term interest rates are 1.0% higher than assumed in the budget.	leading to increased costs on long term borrowing	The budget assumes longer term rates at 4.0% for 2017/18	1.2	1	0.120
Other Budget Assumptions							
5	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, a bad winter could lead to significant additional winter road maintenance or social care.	10.0	2	3.500
6	Estimated savings	Target savings not achieved fully in 2017/18.	leading to increased costs	Achieving fully the high level of savings required within the year will be very challenging. The Council's 2017/18 budget includes an estimated savings target of £33.5m. Monthly budget monitoring arrangements should highlight any potential budget pressures to allow corrective actions to be taken.	33.5	2	11.720
7	Income budgets	Income from charges is 10% less than estimated.	leading to reduced income	Budgets are set on past experience and future expectations.	6.2	2	2.170

Ref. No.	Risk		Consequences	Controls & Contingencies	Residual Risk		Estimated value of reserve needed £m
					Impact - Annual Cost £m	Likelihood	
8	Costs of change	A provision has been made within the Council's budget for redundancy costs. Other costs transformation are included within service budgets. Provision for redundancy costs and service transformation is insufficient by say £2m.	leading to increased costs	The current budget savings required for the 2017/18 budget may lead to costs associated with redundancies and service transformation. If costs are in excess of the current budget the additional costs could be funded from the Council's Contingency Budget, Financial Volatility Reserve or from the use of Capital Receipts, which from 2016/17 can be used to fund the cost of service transformation.	2.0	3	1.500
9	Capital Programme	The programme exceeds by (say) £5m the funding available, leading to use of additional revenue funding.	leading to increased costs	It is normal for the Capital Programme to be underspent, not overspent. An overspend would be funded by taking additional borrowing.	5.0	1	0.500
Financial Management Arrangements							
10	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, however, as savings targets increase overspending may be more likely to occur.	8.0	2	2.800
11	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.	4.7	1	0.470
Potential Losses							
12	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, the balance of this stood at £6.395m at 31 March 2016.	5.0	2	1.750
13	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.	1.1	1	0.110

Ref. No.	Risk	Consequences	Controls & Contingencies	Residual Risk		Estimated value of reserve needed £m	
				Impact - Annual Cost £m	Likelihood		
14	Treasury management	Default on loans from the Council	Reduction in the Council's cash balances	Authorised lending list restricted to lowest risk institutions with individual limits. The Council's lending policy is low risk.	25.0	1	2.500
15	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. However, there is no automatic entitlement to financial assistance and where it is given it will not normally cover all the costs incurred.	5.0	1	0.500
							31.135
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 £3.0m p.a.	-3.0	4	-3.000
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.		At the end of 2016/17 it is estimated that the balance in the reserve will stand at £45.600m it is currently budgeted that the Council will use £30.600m from the reserve to balance the 2017/18 budget. This will leave £15.000m in the reserve.	-15.0	4	-15.000
P3	Revenue Funding of Capital	Borrowing in place of revenue funding would allow approximately £0.6m, net of debt charges, to be made available for revenue spending.		This would require the Council to alter its policy on capital funding.	-0.6	3	-0.450
P4	Business Rates Pooling	The Council will continue to pool business rates with six of the Lincolnshire District Council's. Due to significant volatility in this income in previous years no income has been budgeted for. However, the Council could benefit from up to £1.253m additional		Any income generate could be used to offset financial risks or reduce the need to use earmarked reserves to balance the 2017/18 budget.	-1.2	2	-0.420
							-18.870
Net Total							12.265

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%

APPENDIX B - Financial Risk Register 2015/16 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 2015/16 budgets for pay awards.	1.5	1	0.150	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 covering the period 2104 to 2016. This was covered by the budget provided in 2014/15 and 2015/16.
2	Price Increases	Inflation for general price increases is 1.0% more than allowed in budget.	leading to increased costs	There is a 0.0% provision in 2015/16 budgets for price increases.	3.9	4	3.900	Inflation for 2015/16 saw a rise of 0.3% (CPI), this was above the budgeted rate of 0%. This will have been managed by budget holders within individual budget areas.
3	Income	Increase is 1.0% less than provided for in budget.	leading to reduced income	There is a 0.0% provision in 2015/16 for income increases.	1.2	2	0.420	The Council's budget for 2015/16 included other income (from fees and charges) of £55.202m, actual income received was in excess of this budget at £63.200m.
4	Interest rates	Longer term interest rates are 1.0% higher than assumed in the budget.	leading to increased costs on long term borrowing	The budget assumes longer term rates at 5.0% for 2015/16	0.6	1	0.065	The actual cost of long term borrowing for 2015/16 was 4.077%, which was below the assumed rate of 5.0%. The cost of borrowing was less than anticipated.
Other Budget Assumptions								
5	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.	10.0	2	3.500	The Council overall service budgets underspent by £11.252m.
6	Income budgets	Income from charges is 10% less than estimated.	leading to reduced income	Budgets are set on past experience and future expectations.	6.1	2	2.135	See point 3 above.
7	Estimated savings	Target savings not achieved fully in 2015/16.	leading to increased costs	Achieving fully the high level of savings required within the year will be very challenging. The Council's 2015/16 budget includes an estimated savings target of £44.6m, of which £25.4m may be more difficult to achieve or need to be funded from reserves. Monthly budget monitoring arrangements should highlight any potential budget pressures to allow corrective actions to be taken.	25.4	3	19.050	Overall service budgets underspent in 2015/16 by £11.252m. In 2016/17 savings are being closely monitored to ensure these are delivered.

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					Impact - Annual Cost £m	Likelihood		
8	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 2015.	4.6	1	0.460	Council Tax income received was £0.308m more than was budgeted for, due to late notification of the accumulated surplus from previous years by City of Lincoln Council. In addition the seven Lincolnshire District Council's declared a total surplus on the Council Tax element of their collection funds in January 2016 of £5.609m. This was built into the Council's 2016/17 budget.
9	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 2015.	0.4	1	0.040	Income from business rates was £2.136m less than originally budgeted for. Under achievement against the budget included: late notification from City of Lincoln Council of previous years deficit on business rates (£0.647m) and income from business rates pooling being £1.585m less than budgeted for. From 2016/17 the Council have not budgeted for income from business rates pooling to the uncertainty around it receipt. In addition the seven Lincolnshire District Council's declared a total deficit on the Business Rates element of their collection funds in January 2016 of £1.804m. This is being forecast in the Council's 2016/17 budget.
10	Financial Climate - Local Government Funding (Revenue Support Grant)	There remains a level of uncertainty about local government funding in the medium term due to national elections and the continuing state of the economy. Funding is 2% less than assumed in the budget.	leading to reduced income	The budget will be based on the government settlement information in December 2014.	1.8	2	0.630	Income from Revenue Support Grant was as budgeted for in 2015/16.
11	Costs of change - Major Outsourcing	The Council is entering into a major contract with SERCO for the provision of support services. Provision for the contract and the change is insufficient by say £2m.	leading to increased costs	Robust contract management arrangements have been designed to safeguard the Council's position. Also at the end of 2013/14 the Council set aside £4.0m for costs associated with the future delivery of support services and the cost of change.	2.0	2	0.700	The Council's new Support Service Contract went live on 1 April 2015. During 2015/16 £0.922m was used from the earmarked reserves to manage the costs of the Support Service Contract Renegotiation. At the end of 2015/16 £1.710m remained within the specific reserve.
12	Costs of change	Provision for redundancy costs is insufficient by say £4m.	leading to increased costs	The up coming round of budget savings required for the 2015/16 budget may lead to costs associated with redundancies. If costs are in excess of the current budget the additional costs can be funded from the Council's Financial Volatility Reserve (see P2 below).	4.0	3	3.000	There was a small underspend of £0.387m on the budget of £4.500m in 2015/16.

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13	Capital Receipts	Capital Receipts are less than target by (say) £1m.	revenue funds needed to fund capital programme	Targets for 2015/16 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 £2.768m were received in 2015/16. The year end budget was £2.000m, which was the original budget for the year. All £2.768m of capital receipts were applied to fund the capital programme in 2015/16 reducing the Council's need to borrow to fund the programme.
14	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 2015/16 was reduced by £3.101m during the year due to rephasing into future years. At year end the revised capital programme was underspent by £52.042m.

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Financial Management Arrangements								
15	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.	8.7	2	3.045	Overall service revenue spending, excluding schools, was underspent by £11.252m or 2.62%.
16	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.	4.9	1	0.490	Schools budgets were underspent by £16.801m or 6.75% of the schools budget.
Potential Losses								
17	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, the balance of this stood at £5.086m.	5.0	3	3.750	In 2015/16 there was an underspend on insurances of £0.175m due to a reduction in claims payments and very few risk management bids, plus the contract retender delivering significant savings. This underspend was transferred into the insurance reserve at year end to keep the balance at a prudent level. At 31 March 2016 the balance in the insurance reserve stood at £6.395m.
18	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.	0.8	1	0.080	Due to problems with Agresso during 2015/16 no debts were written off during the financial year. This may result in more debts being written off in 2016/17.
19	Treasury management	Default on loans from the Council	Reduction in the Council's cash balances	Authorised lending list restricted to lowest risk institutions with individual limits. The Council's lending policy is low risk.	25.0	1	2.500	No problems were experienced with loans made by the Council in 2015/16.
20	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. However, there is no automatic entitlement to financial assistance and where it is given it will not normally cover all the costs incurred.	5.0	1	0.500	No major emergencies were experienced in 2015/16.
							45.265	

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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 £4.0m p.a.	-4.0	4	-4.000
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.	At the end of 2013/14 the balance in the reserve stood at £43.0m, say £25.4m for 2015/16 and £17.6m 2016/17.	-25.4	4	-25.400
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
						-29.775
Net Total						15.490

Comments:
The contingency budget for 2015/16 was set at £4.000m. During the year £1.462m of this was utilised.
The Council used £21.871m from the Financial Volatility Reserve to balance the budget in 2015/16. As at 31 March 2016 the Council had set aside £20.165m to balance the 2016/17 budget and £24.644m available for future uncertainties in 2017/18 and beyond.
The Council took £30m of external borrowing during 2015/16 to finance the Capital Programme. The Council continued in 2015/16 to use a mixed approach of using internal balances and external borrowing to finance the Capital Programme.

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%