

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

Report to:	<b>Overview and Scrutiny Management Board</b>
Date:	<b>25 October 2018</b>
Subject:	<b>Review of Financial Risk Assessment</b>

**Summary:**

The Council last reviewed its financial risks in October 2017. The report updates that review. It considers the outcomes from the financial risk assessment for 2017/18 and updates the risk assessment to help determine an appropriate target level for the Council's general reserves for 2019/20.

**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 with responsibility 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 in the forthcoming financial year. 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 valued at £13.643m. This can be interpreted as the total cost to the Council if all the items listed occurred in 2019/20. Ideally the Council should maintain its general reserve at a sum at least equivalent to the net total risk (i.e. £13.643m) although it is recognised that it is unlikely that every risk would materialise over the course of one year.

1.3 The net total of identified risks has decreased compared to the previous assessment in October 2017 (net total risks were £15.210m). The main changes are: the addition of a new risk, which is the potential of default on loans made by the Council to other bodies; a reduction in the risk value associated with the achievement of budgeted income targets as these targets have reduced; an increase in the provisions estimate for use of the Financial Volatility Reserve, as the amount available to help mitigate risks has increased.

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 2018 stood at £15.200m 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 £10.900m to £15.200m for 2019/20.

1.6 This exercise implies a need for a general reserve of £13.643m from the updated assessment and is equivalent to 3.14% of the budget requirement. This is therefore within the current range of the Council's financial strategy. It is proposed, however, that the general reserve balance should be maintained at the top end of the existing financial strategy range i.e. at 3.5% of the budget requirement or £15.200m given the financial uncertainties faced by the Council beyond April 2020. Close monitoring of the risks during the financial year will be undertaken and remedial action taken if risks being to materialise.

1.7 For additional information **Appendix B** to this paper sets out the financial risk register for 2017/18 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 a recommendation on the target level of general reserves for 2019/20 to the Executive Councillor with responsibility for finance.

## **3. Consultation**

### **a) Have Risks and Impact Analysis been carried out?**

No

### **b) Risks and Impact Analysis**

N/A

## **4. Appendices**

These are listed below and attached at the back of the report	
Appendix A	Financial Risk Register 2019/20
Appendix B	Financial Risk Register for 2017/18 Outcomes

## 5. Background Papers

Document title	Where the document can be viewed
The Council's Financial Strategy - 17 February 2018	Executive Director of Finance and Public Protection

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