

Agenda Item 8



Policy and Scrutiny

Open Report on behalf of Andrew Crookham, Executive Director - Resources

Report to:	Overview and Scrutiny Management Board
Date:	24 October 2019
Subject:	Review of Financial Risk Assessment

Summary:

We last reviewed our financial risks in October 2018 and this report updates that review. It considers the outcomes from the financial risk assessment for 2018/19 and updates the risk assessment to help determine an appropriate target level for the Council's general reserves for 2020/21.

Actions Required:

The Overview & Scrutiny Management Board is invited to review the risk assessment and the implications for general reserves, and pass any comments to the Executive, for their consideration in making budget proposals for consultation at their meeting on 17 December 2019.

1. Background

- 1.1 Our 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 next financial year and it also quantifies these risks in terms of potential financial cost. It should be noted that there is a substantial element of judgement in assessing these risks.
- 1.2 The net total value of these risks is £14.011m. This can be interpreted as the total cost to us if all the risks listed materialised in 2020/21 or very soon thereafter. Ideally we should maintain our general reserve at a sum at least equivalent to the net total risk (i.e. £14.011m) 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 increased slightly compared to the last assessment which took place in October 2018 (net total risks were £13.643m).

- 1.4 The updated position includes some changes from the previous year. The main ones are:
- Demands for social care are increasing nationally, both in terms of volume and also complexity of cases. The risk relating to demand-led services has therefore been increased in terms of the risk value and the likelihood.
 - A new risk has been added relating to the government's funding reforms. These were due to be implemented from April 2020 but have been deferred until April 2021 so we are currently no clearer about our future funding levels. The government has recognised the increasing pressures on County Councils so we were optimistic that the reforms would result in increased funding, however there is currently a significant amount of political uncertainty so it would be prudent to treat this as a potential risk. Strictly speaking this risk affects the financial years 2021/22 and beyond but it has been included as the Financial Volatility Reserve would need to be maintained at a level sufficient to manage this risk (see below).
 - The risk of a capital programme overspend has been increased in terms of risk value from £5.000m to £10.000m to reflect the high level of the capital programme this year and next. However the likelihood of an overspend is maintained at "1", which means "very unlikely", and this reflects the fact that historically our capital programme has tended to underspend.
 - The likelihood of a revenue budget overspend next year has been increased from "2" (possible but unlikely) to "3" (possible, for example in view of current higher levels of risk), which recognises the amount of savings planned for in 2020/21 resulting in a tighter budget.
 - The amount in our Financial Volatility Reserve has increased since last year and the Medium Term Financial Plan shows that the likely call on this reserve has significantly reduced over the same period. However, given that government funding reforms have been delayed, it would be prudent to maintain this reserve at a reasonable level beyond 2020/21 (see above).
- 1.5 Our Financial Strategy states that we will maintain our general reserves within a range of 2.5% to 3.5% of our annual budget requirement. Our general reserves at 31 March 2019 stood at £15.850m which was equivalent to 3.5% of our budget requirement at that date.
- 1.6 Maintaining the current 2.5% to 3.5% policy would require general reserves to be within the range of £12.113m to £16.958m for 2020/21.
- 1.7 The updated assessment of financial risks implies a need for a general reserve of £14.011m which is the equivalent to 2.89% of the budget requirement. This is therefore within the current range of the policy set out in our financial strategy. It is proposed, however, that the general reserve balance should be maintained closer to the top end of the existing financial strategy range given the financial uncertainties faced by the Council beyond

April 2020. A general reserve balance of £16.000m for 2020/21 would seem more prudent which would be 3.3% of the 2020/21 budget requirement.

- 1.8 Close monitoring of the risks during the financial year will be undertaken and remedial action taken if risks being to materialise.
- 1.9 For additional information **Appendix B** to this paper sets out the financial risk register for 2018/19 and comments on the actual outcomes for each of the risks in last year's financial risk assessment.

2. Conclusion

- 2.1 The Overview and Scrutiny Management Board is asked to consider the updated Financial Risk Register and other relevant factors and consider any comments they wish to make to the Executive on the target level of general reserves for 2020/21.
- 2.2 The level of general reserve will then be part of the proposed budget put forward for consultation by Executive on the 17 December 2019.

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 2020/21
Appendix B	Financial Risk Register for 2018/19 Outcomes

5. Background Papers

Document title	Where the document can be viewed
The Council's Financial Strategy - 22 February 2019	Executive Director of Resources

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