

Risk and Sensitivity Analysis for 205/16 and Forward Forecast to March 2019

The table below identifies the key financial risks and sensitivities that the Council faces over the period to March 2019. It highlights the assumptions to be made in the budget and forward forecast for the period, areas of possible divergence from these assumptions, the likelihood of an alternative outcome and the financial impact of such outcomes. It concludes by identifying the control mechanisms for each of the risks and sensitivities.

Factor	Directly Controllable by OWBC?	Base Assumption	Key Risks	Likelihood of Different Outcome	Financial Implications	Controls and Mitigation
Pay Inflation	Mainly not	2.2% from January 2015 and 1% thereafter	National settlement at higher level	Difficult to project pay rises past 2015/16	A 1% pay rise would equate to £60,000.	Sufficient balances exist to cover pay increases
Price Inflation	No	A 2.4% or the rate dictated contractually has been added to contracted services only	That price rises are greater than assumed.	The retail and consumer price indices for December 2014 were 0.5% and 1.6% respectively. However, these indices are not generally reflective of local government expenditure.	Greater price inflation would put pressure on the use of balances as funding is fixed.	Budgetary control, virements, Contingency Reserve and service adjustments
National Financial Climate	No	Cautious provision made	Greater demand for services,	Scope and depth of current	Examples included in	Budgetary control,

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			reduced resources	economic climate unknown	reports	virements, Contingency Reserve and service adjustments
New Legislation: Localism Act New Homes Bonus Local Government Finance Act	No	Impacts of the Local Council Tax Support scheme, the local retention of business rates and New Homes Bonus have been included for 2015/16	Increase in costs to ensure compliance	Unknown	Unknown – dependent on the impact of the changes	Constant monitoring, Contingency and other reserves, service adjustment
Changed Council Priorities	Yes	Budget strategy is linked to draft corporate plan	Changes after budgets are set	If budget strategy and corporate plan are aligned, low	Cost of new priorities unknown at this stage	Published plan
Level of Government Funding	No	Overall reduction in Formula Grant included in budget for 2015/16. A further reduction of is expected in 2016/17	Lower grant level than expected	Funding levels beyond 2016/17 are unknown at present.	Front loading of reductions in Government funding and uncertainties of levels of funding for future years.	Representation to Government, Increase in Council Tax, budget reduction and efficiency savings
Local Development Framework	Partly	Budget provision has been made using Housing and Planning	Potential for variation in cost of individual schemes or	Uncertain	Currently funded as previously stated	Budgetary control

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		Delivery Grant	changes in regulations			
VAT Partial Exemption	Partly	No immediate impact on budget	Exceed 5% threshold and incur costs in irrecoverable VAT	Low	Additional cost dependent on extent to which the limit is exceeded	Use of consultants for VAT advice, revise plans for delivery of scheme, use of reserves
Capital/ Borrowing	Yes	Effect of Prudential Borrowing on revenue positions	Impact on revenue. Political risk/Member aspirations. Balance of investment and sustainability	Low	Unknown	CFO reporting to Council under statutory duty, Prudential Indicators
Interest Rates	No	Base rates of 0.5% have been used in 2015/16	Higher rates would impact on both the General Fund and HRA borrowing (adversely) and on investments (favourably)	High, given the uncertainties in the market especially because of the continuing global economic and fiscal difficulties	In the medium term the impact of a rise would be minimal as the majority of the Council's PWLB borrowing is fixed rate.	Adjust Treasury Management Strategy, budgetary controls, CIPFA controls in place
Investment Practice	Mostly	Counterparty list per approved annual Investment Strategy criteria	Counterparty default	Low	Potential loss of full amount invested and reduced investment income	Investment Strategy, credit rating watch, use of consultants.
Pension Contributions	No	Known increases in employers	Market conditions and	High	Unknown but could be	Forecast/forward strategy, liaison

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		contribution and actuarial strain payments included	demand on the Pension Fund including those resulting from the new automatic enrolment and workplace pension reform		significant	with Leicestershire County Council, monitoring interim evaluation results, agree stepped profile arrangements, policy on early retirement.
Changes in Consumer Expectations/Demand	No	Budgets based on existing approved service levels.	Potential loss of income or increase in expenditure to meet demand	Medium, but risk potentially increased due to recession	Directly dependent on increases or reductions in demand	Consumer consultation and performance monitoring.
Demographic Population Growth	No	Census report from July 2012. The effect of a 5% reduction in population on grant funding has been included.	Additional demand, insufficient resources	Low	Unknown but could have significant effect	Knowledge of trends in local demography, housing/planning delivery strategy, budget adjustment, Council Tax income
Interaction with Leicestershire County Council and other Partners	Yes	Financial support from Leicestershire County Council, Central Government and other organisations	Adequacy of control/admin of partners, residual costs falling on Council as accountable body. Future budget	Medium	Unknown but could be significant	Financial Regulations, regular support services involvement

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		and partners	cuts proposed by the County Council from 2015/16 onwards.			
Council Tax Level	Yes	Council Tax Freeze Grant to be taken for 2014/15 and a 0% increase in Council Tax level to be set	A high Council Tax could result in triggering a referendum. A lower Council Tax leads to pressure on funding existing services and on future Council Tax levels	Medium. A high Council Tax increase would lead to greater consumer resistance in this economic climate	1% movement in Council Tax equates to £37,000 in net expenditure	Advice of Section 151 Officer, liaison with Members, balance between use of reserves and targeted efficiency savings
Savings and Efficiencies Targets	Yes	Savings and efficiencies have been included within the budget. For future years this will be managed through the transformation agenda	That savings and efficiencies are not delivered or are reduced by budget pressures	Medium	The extent to which targets are not met	Early identification of specific areas where savings will be made. Lean systems reviews, adjust budgets, ongoing monitoring of delivery of savings, use of reserves
Failure in Budgetary Control	Yes	Income and expenditure will be within budget	Higher expenditure and lower income. External events	Low, given budget monitoring processes.	A 1% variance in net General Fund budget is equivalent to	Budgetary Control, Virements, contingency

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			outside Council control	Impact of any significant unforeseen events unknown	1.8% on the Council Tax	provision, reserves, service adjustments