

APPENDIX 5

Risk and Sensitivity Analysis for 2016/17 and Forward Forecast to March 2020

The table below identifies the key financial risks and sensitivities that the Council faces over the period to March 2020. 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.	1% per annum.	National settlement at higher level.	Nil for 2016/17; unlikely over the planning period.	A 1% pay rise equates to a £60k in the annual salary bill.	Sufficient balances exist to cover pay increases.
Pay Inflation	No.	Only contractually agreed increases have been included in the 2016/17 budget.	That price rises are greater than assumed.	The retail and consumer price indices for December 2015 were 1.2% and 0.2% respectively. However, these indices are not generally reflective of local government expenditure.	Greater price inflation would put pressure on the use of balances as reserves as funding is fixed.	Budgetary control, virements, contingencies and service level adjustments.

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National Economic Climate	No.	Cautious provision made.	Greater demand for services; reduced resources.	Scope and depth of current economic climate unknown.	Examples included in report and S151 Assurance Statement.	Budgetary control, virements, contingencies, reserves and service level adjustments.
New Legislation	No.	Impacts of the Local Council Tax Support scheme, Universal Credit, local retention of NNDR, New Homes Bonus and reduction in housing rents have been included for 2016/17.	Increase in costs to ensure compliance.	Unknown.	Unknown – dependent on the impact of changes.	Constant monitoring, contingencies, reserves and service level adjustments.
Changed Council Priorities	Yes.	Budget strategy is linked to corporate plan.	Changes after budgets are set.	Low, provided budget strategy and corporate plan are aligned.	Cost of new priorities unknown at this stage.	Published plan.
Level of Government Funding	No.	Overall reduction in Revenue Support Grant	Lower grant level than expected.	The Treasury has set out provisional RSG	Council to be self-financing by 2020.	Increase in Council Tax, budget reductions,

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		included in budget for 2016/17. Further reductions to NIL by 2020 anticipated.		reductions to 2020.		efficiency savings, alternative funding streams.
VAT Partial Exemption	Partly.	No immediate impact on budget.	Exceed 5% <i>de minimis</i> 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 schemes, use of reserves.
Capital/Borrowing	Yes.	Effect of prudential borrowing on revenue positions.	Impact on revenue. Political risk and Member aspirations. Balance of investment and sustainability.	Low.	Unknown.	CFO reporting to Council under statutory duties and the setting of appropriate prudential indicators.
Interest Rates	No.	Base rates of 0.5% have been used in preparing the estimates for 2016/17.	Higher rates would impact on both the General Fund and the HRA borrowing (adversely) and	Medium, given the uncertainties in the market especially because of continuing	In the medium term the impact of a rise would be minimal as the majority of the Council's	Adjust Treasury Management Strategy and other budgetary controls based on CIPFA's best practice guide.

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			on investments (favourably).	global economic and fiscal difficulties.	borrowing is at fixed rates.	
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 external financial advisers.
Pension Contributions	No.	Known increases in employer's contribution and actuarial strain payments included in estimates.	Market conditions and demand on the Pension Fund including those resulting from the new automatic enrolment and workplace pension reform.	Medium.	Unknown but could be significant.	Forecast/forward strategy with Leicestershire County Council; monitoring interim evaluation results.
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 impact of austerity.	Directly dependent on increases or reductions in demand.	Customer/resident consultation and performance monitoring.
Demographic	No.	Service levels	Additional	Low.	Unknown but	Knowledge of

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Population Growth		are based on 2012 Census report and other statistical information.	demand, insufficient resources.		could have significant effect.	trends in local demography, housing/planning delivery strategy, budget adjustment, Council and Business Rate income.
Interaction with Leicestershire County Council and other partners	Yes.	Financial support from LCC, central government other partners and stakeholders.	Adequacy of control and administration of partners; residual costs falling on OWBC as accountable body; budget cuts proposed by LCC for 2016/17 and beyond.	Medium.	Unknown but could have significant effect.	Financial regulations, other codes of governance, due diligence and regular monitoring.
Council Tax Level	Yes, up to a maximum increase of 2% in any year.	Increase of 1.99% in 2016/17.	A high Council Tax increase would result in the triggering of a referendum. A low Council tax	Medium.	1% movement in Council Tax equates to £37,000.	Advice of S151 Officer in liaison with Members; appropriate use of reserves and balances; targeted efficiency

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			leads to pressure on the delivery of existing services.			savings.
Savings and Efficiency Targets	Yes.	Savings and efficiencies have been included in the budget for 2016/17 and support the Council's wider and longer term transformation plans.	Savings and efficiencies are not achieved or are reduced by budget pressures.	Medium.	The extent to which targets are not met.	Budget monitoring to ensure early detection of plans going off target. Use of Equilibrium Reserve.
Failure in Budgetary Control	Yes.	Income and expenditure will be as set out in the budget.	Higher expenditure. Lower income. External events outside the Council's control.	Low, given budget monitoring processes and the Council's track record on financial management.	A 1% variance in net General Fund budget is equivalent to 1.8% on the Council Tax.	Budgetary control, virement, contingency provision, use of reserves, service adjustments.