

Risk and Sensitivity Analysis for 2013/14 and Forward Forecast to March 2018

The table below identifies the key financial risks and sensitivities that the Council faces over the period to March 2018. 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% in April 2014 and thereafter	National settlement at higher level	Possibility of greater rise in pay inflation for 2014/15	A 1% pay rise would equate to £49,000.	Sufficient balances exist to cover pay increases
Price Inflation	No	3.2% or the rate dictated contractually has been added to contracted services only. A rate of 2.8% was used for forward projections into 2015/16 and 2016/17	That price rises are greater than assumed.	The retail and consumer price indices for January 2014 were 2.8% and 1.9% 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

Factor	Directly Controllable by OWBC?	Base Assumption	Key Risks	Likelihood of Different Outcome	Financial Implications	Controls and Mitigation
National Financial Climate	No	Cautious provision made	Greater demand for services, reduced resources	Scope and depth of current economic climate unknown	Examples included in reports	Budgetary control, 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 2014/15	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 updated 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 of 3% in Formula Grant included in budget for 2014/15. A further reduction of 16% is expected in 2015/16	Lower grant level than expected	Funding levels beyond 2015/16 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

Factor	Directly Controllable by OWBC?	Base Assumption	Key Risks	Likelihood of Different Outcome	Financial Implications	Controls and Mitigation
Local Development Framework	Partly	Budget provision has been made using Housing and Planning Delivery Grant	Potential for variation in cost of individual schemes or changes in regulations	Uncertain	Currently funded as previously stated	Budgetary control
VAT Partial Exemption	Partly	No immediate impact on budget with no capital build	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 2014/15	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

Factor	Directly Controllable by OWBC?	Base Assumption	Key Risks	Likelihood of Different Outcome	Financial Implications	Controls and Mitigation
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 contribution and actuarial strain payments included	Market conditions and demand on the Pension Fund including those resulting from the new automatic enrolment and workplace pension reform	High	Unknown but could be significant	Forecast/forward strategy, liaison 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

Factor	Directly Controllable by OWBC?	Base Assumption	Key Risks	Likelihood of Different Outcome	Financial Implications	Controls and Mitigation
Interaction with Leicestershire County Council and other Partners	Yes	Financial support from Leicestershire County Council, Central Government and other organisations and partners	Adequacy of control/admin of partners, residual costs falling on Council as accountable body	Medium	Unknown but could be significant	Financial Regulations, regular support services involvement
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
	No	Council Tax frozen in 2014/15 and 2015/16. Later years' MTFS assumes 1% increase p.a.	Government further freezes Council Tax levels without compensation or with one-off saving	Medium		Council Tax freeze would require compensating reductions in planned spending within services. A grant to freeze Council Tax would also require further savings

Factor	Directly Controllable by OWBC?	Base Assumption	Key Risks	Likelihood of Different Outcome	Financial Implications	Controls and Mitigation
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 outside Council control	Low, given budget monitoring processes. Impact of any significant unforeseen events unknown	A 1% variance in net General Fund budget is equivalent to 2% on the Council Tax	Budgetary Control, Virements, contingency provision, reserves, service adjustments
Localisation of Business Rates	No	No reduction in Tax Base	A major employer leaves the Borough and impacts on the business sale due to the Council	Medium	5% cap on max Business Rate losses	Early identification of specific areas where savings will be made. Lean systems reviews, adjust budgets, ongoing monitoring of delivery of savings, use of reserves

Factor	Directly Controllable by OWBC?	Base Assumption	Key Risks	Likelihood of Different Outcome	Financial Implications	Controls and Mitigation
Impact of the Universal Credit	No	Increase in provision for bad debts from 2% up to 4%	The Grant given to the Council is reduced before the Council can reduce costs	Medium	1% loss of housing rent is £50,460; 1% loss of Council Tax is equal to £37,000	A reduction in the amount of grant will require compensating reductions in planned spending within services
Recession	No	Reduction in Government Grant	Income significantly affected by recession	Medium	1% loss of income is £28,000	Mitigation by planned use of reserves. Regular updating and monitoring undertaken
All MTFS not adequately identified	Yes	Main risks identified	Risk not accurately identified. Risk further increased by number of Government consultation papers	Medium	Variable depending on risks identified	Council risk management framework ensures operational and strategic risks are identified