STRESS TEST: FINANCIAL RISKS FACING THE COUNCIL

RISK CRITERIA USED IN ASSESSING ADEQUACY OF RESERVES	COMMENTARY ON EAST HERTS POSITION	RISK RATING
The treatment of pay and price inflation in the budget	Estimated pay and price inflation is fully provided in service budgets so low risk of services overspending due to inflationary pressures. A 1% increase in pay or price inflation equates to £110k.	LOW
Estimates of the level and timing of capital receipts to fund the capital programme	Capital receipts not yet received are taken into account when financing the capital programme. The anticipated use in 2016/17 is £1.6m which could be funded internally if the capital receipts are not generated.	MEDIUM
The level of demand led pressures and volatile/risky budgets	Council Tax Support scheme: The number of claimants seems to be relatively stable at present. Medium term demand will depend a lot on the national/local economy and as the population ages the cost of the scheme will rise. Each 1% increase in CTS equates to £8k.	LOW AT THE MOMENT
	CT Collection rate remains stable but dependent on state of local economy.	LOW to MEDIUM
	NDR income remains volatile as the amount we collect is dependent on the number of appeals made.	HIGH
	Housing Benefits: we get pound for pound subsidy from government to cover the benefits we pay out. The financial risk is in making overpayments (by mistake or through fraud) and the Council not collecting this back from the claimant. Predicting demand for housing benefits is also very difficult and future demands will partially depend on the type of new housing built in the area.	MEDIUM
	Fees and charges: income budgets are reviewed annually as part of the budget setting and are based on the most up-to-date information available at the time. A 5% shortfall on car park income = £160k and in other income = £85k.	LOW / MEDIUM

RISK CRITERIA USED IN ASSESSING ADEQUACY OF RESERVES	COMMENTARY ON EAST HERTS POSITION	RISK RATING
The robustness and level of planned efficiency savings / productivity gains	The savings yet to be identified in the MTFP from 2017/18 are significant and will require advance planning to achieve in order to set balanced budgets.	MEDIUM
The financial risks inherent in any significant funding partnerships, outsourcing contracts, or major capital developments	East Herts has an increasingly complicated model of service delivery. More services are procured through contract or through partnership delivery models. The Council could face short term financial risks if a partner/contractor pulls out of an arrangement (even though there would be an exist strategy written into the agreement). In addition, the increasing amount of budget contractually committed means there is less flexibility in the short term to divert resources towards a short term budget pressure.	MEDIUM
The overall financial standing of the Council (level of borrowing, debt outstanding, cash balances, exposure to volatility in the financial markets, etc.)	Level of borrowing: The Council has loans totalling £7.7m of which £6.2m falls due in 2020. The likelihood of the Council not having sufficient investments to repay this debt is very low. The Council's cash and investment holdings as at end of 2014/15: were £70m. The Council's Treasury Management Strategy currently favours a risk adverse approach to its investments with a requirement that 50% of investments are in short term UK treasury bills or other short dated bank deposits in order for the Council to have ready access to cash. The biggest risk is a decrease in the UK bank base rate which is unlikely to fall. The move to property investment endorsed in the 2014/15 Treasury Management Strategy will increase the Council's risk exposure. There is a longer term risk that the Council may no longer be able to fund its capital programme from cash reserves/investments in the future. This depends on whether the amount invested in capital expenditure remains at its current level and other demands.	LOW

ESSENTIAL REFERENCE PAPER L

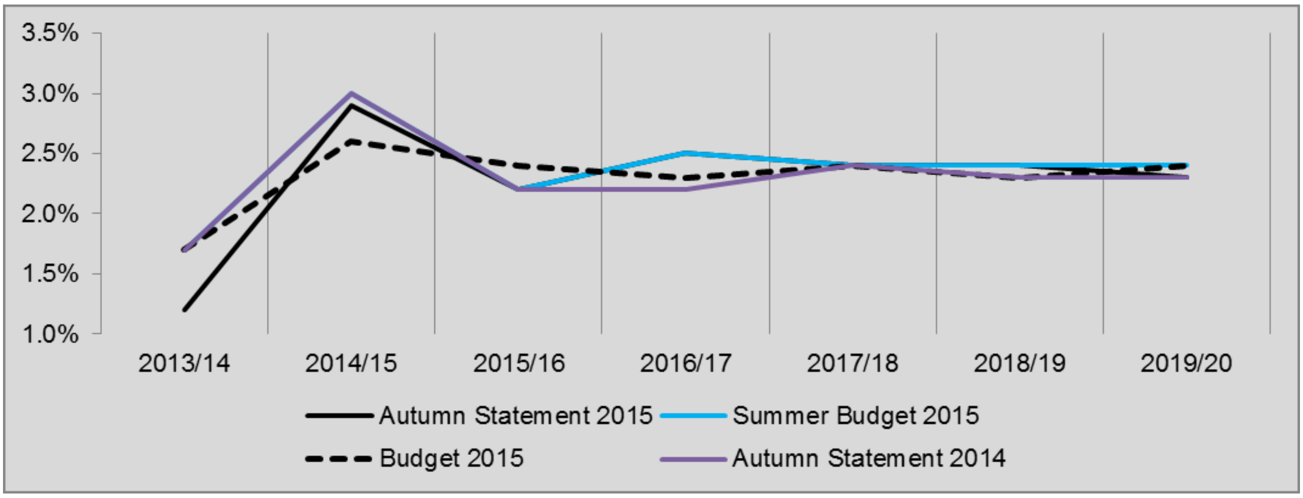
RISK CRITERIA USED IN ASSESSING ADEQUACY OF RESERVES	COMMENTARY ON EAST HERTS POSITION	RISK RATING
The long term solvency of the Pension Fund	The last triennial valuation of the Pension Fund was undertaken in 2013 and resulted in the Council making a lump sum payment from General Reserves to the Pension Fund of £1.008m in order to stabilise the annual Pension Deficit Contribution and employer contribution rate over a 3/4 year period. The next valuation will be in 2016 and the probability is high that the Council may need to consider making a similar payment to the Pension Fund depending on the level of deficit.	LOW up to 2016/17 HIGH from 2016/17
The Council's track record in budget and financial management.	The Council has a long history of under spending its revenue budget. The risk of unplanned overspends occurring that require emergency funding is very low.	LOW
The availability of reserves and contingencies to deal with any emergencies or overspending	As this report sets out, the Council is in a healthy position with regards to the amount of general and earmarked reserves it holds. In addition, the MTFP currently shows some £370k contingency in the revenue budget for this financial year although this reduces to £150k from 2016/17 onwards.	LOW
The adequacy of the Council's insurance arrangements to cover major unforeseen risks.	The Council is fully insured and currently does not self-insure any of its potential risks. The Council also has an Insurance Fund Reserve with a balance in excess of £1m	LOW
External factors including future funding levels expected from central government	New Homes Bonus (NHB): There is a consultation underway to reform NHB in order to increase funding for social care costs. The impact on East Herts could be significant reductions in funding. The MTFP models this income according to government's stated preferred options. NDR: Local Government has been promised 100% retention of NDR from 2020. The details of the new regime have not yet been published so the impact on East Herts remains uncertain.	HIGH HIGH

ECONOMIC UPDATE:

GDP growth has been slightly slower during 2015 than in 2014, and this pattern continued with quarter-on-quarter growth of 0.5% in the third quarter of 2015. Private spending on consumption and investment remained robust, but there was marked weakness in the contribution to growth from net overseas trade. GDP growth is close to the OBR's estimate of potential growth, suggesting that the output gap is narrowing slowly.

UK GDP is expected to grow at an average of around 2.4% from 2015/16 onwards. Consumer spending and business investment will be the main drivers of UK growth in these years. Risks to growth in the short term arise from international risks, particularly in relation to emerging markets. But there are also growth possibilities if the global environment improves and productivity growth rates accelerate in the UK.

The chart below shows the Office for Budget Responsibility (OBR) GDP Growth Forecast:



CPI inflation has been flat at close to zero for most of 2015. This is a step down from the average rate of inflation during 2014 and 2013. Current weakness is driven by falling prices in the goods element of the CPI basket, and while services inflation has remained steadier at around 2.5% during 2015, this too has fallen from rates in earlier years. The Bank of England Inflation Report highlighted that the Monetary Policy Committee (MPC) intends to focus policy on ensuring that growth and employment is sustained in order to meet the 2% inflation target. The MPC are expected to start to raise interest rates gradually during the first half of 2016, with rates forecast to be back to around 3% by 2020. The chart below shows the Office for Budget Responsibility (OBR) CPI Inflation Forecast: