ESSENTIAL REFERENCE PAPER K

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 £2.9m 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. CT Collection rate remains stable but dependent on state of local economy. NDR income remains volatile as the amount we collect is dependent on the number of appeals made. 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. 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 = £153k and in other income = £91k.	LOW AT THE MOMENT LOW to MEDIUM HIGH MEDIUM LOW / MEDIUM

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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 delivery of savings built into the MTFP is crucial to the delivery of a balanced overall budget.	MEDIUM
The financial risks inherent in any significant funding partnerships, outsourcing contracts, or major capital developments	East Herts has an increasingly more complicated model of service delivery than was previously the case. More services are procured through contract or through partnership delivery models. This means that the Council could face short term financial risks if a partner/contractor pulls out of the arrangement (even though there would be an exit strategy written into the agreement). In addition, the increasing amount of budget contractually committed means that it has less flexibility in the short term to divert resources towards any 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 2015/16: were £34m. 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 further decrease in the UK bank base rate which is unlikely to fall below 0.25%. 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

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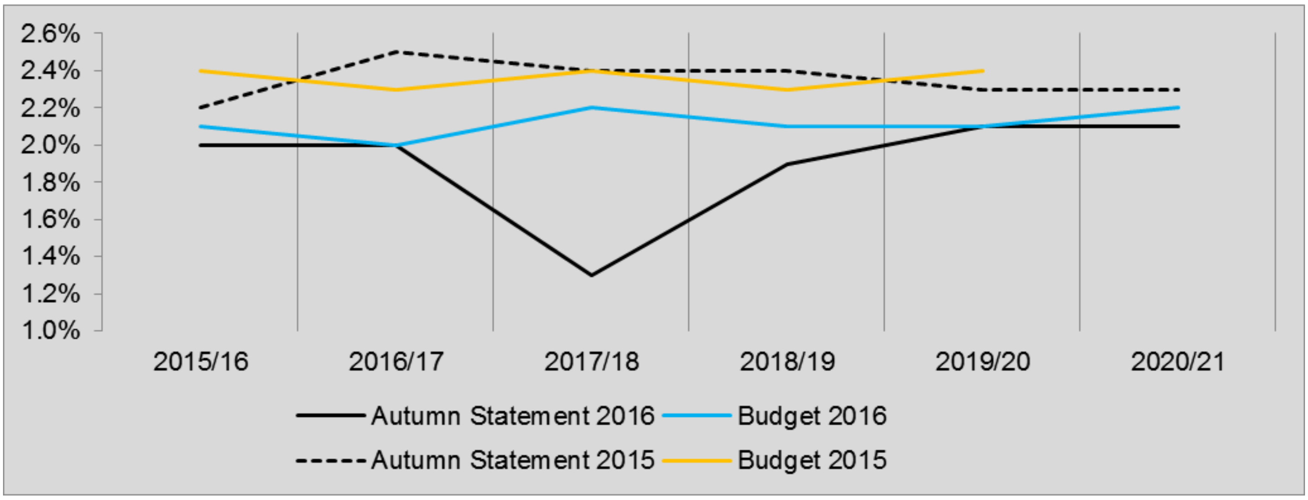
RISK CRITERIA USED IN ASSESSING ADEQUACY OF RESERVES	COMMENTARY ON EAST HERTS POSITION	RISK RATING
The long term solvency of the Pension Fund	The triennial valuation of the Pension Fund was undertaken during 2016 and resulted in the Council increasing annual Pension Fund payments from £600k to £696k from 2017/18 in order to stabilise the Pension Fund deficit and employer contribution rate over a 3/4 year period.	MEDIUM
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 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 £150k contingency in the revenue budget for future financial years.	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 particularly the external financial climate which the Council is subject to and future funding levels expected from government.		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 1.3 % in 2017/18 and 2.0% from 2018/19 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 the referendum vote to leave the EU. There is a great level of uncertainty around the potential impact of the decision to leave the EU and the impact on the UK economy.

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



CPI inflation has begun to increase following several years of consistently low inflation. CPI rose by 1.2% in the year to November 2016. The rate in November was the highest since October 2014, when it was 1.3%. Rises in the prices of clothing, motor fuels and a variety of recreational and cultural goods and services, most notably data processing equipment, were the main contributors to the increase in the rate.