

**2010/11 Budget and Planning
Key Financial Risks
For Consideration by Cabinet 19 January 2010**

This provides an outline of key recognised risks together with points on managing (or mitigating) them. This will be updated as the budget develops.

Luneside East

Keys risks relate to the outcome of the lands tribunal and associated legal costs, and potential clawback of funding should the project not progress to deliver its economic outputs. Should the project progress, however, there is the opportunity to receive a developer contribution on site transfer. *(Mitigation: defence at tribunal, seeking funding to advance project, use of earmarked reserve)*

Other Regeneration (including support etc)

Other regeneration projects have been affected by economic factors. Those still in various stages of development may have financial risks attached to their contractual position to date. As a wider issue, there are affordability risks attached to the Council's regeneration strategy. There are also risks attached to project and programme support, including those associated with abortive works and plans. *(Mitigation: covered through specific project & programme management arrangements regarding feasibility, seeking funding, establishing core staffing support, etc)*

Municipal Buildings

Essential works are being progressed to protect the Council's interests, but this may lead to additional financing costs. Price increases are being experienced on the municipal building works programme and there will be a need to increase the budgets over the coming years to reflect these. At present, the broad assumption is that most works will fall as capital but this has not been fully tested as yet. There is therefore the risk that budgets are inappropriate. *(Mitigation: through future report to Cabinet and budget process; incorporating appraisal of revenue v capital, earmarked reserves)*

Funding of Capital Programme

Should the latest capital receipts schedule not be achievable, this would prevent some capital investment from happening, but ensuring that funding is in place for essential works would add more pressure on revenue and cause affordability and financial sustainability risks. *(Mitigation: ongoing review and monitoring, options appraisal through budget process).*

Decision-making

There is the risk that the Council fails to reach agreement in order to deliver a balanced, robust and deliverable budget for 2010/11 and beyond. *(Mitigation: through budget process, learning from previous years, not being over-ambitious in terms of balancing service provision against Council Tax levels, and delivering change)*

Icelandic Investments (and investment losses generally)

The prospects for successful recovery action and affordability risks are dependent upon maintaining preferential creditor status for two of the investments made. This has been accepted by one Winding Up Board and rejected by the other. Legal advice remains however that investment 'deposits' such as that made by the City Council should be treated as priority and as such the latter decision is being challenged. Risks remain throughout the banking sector generally. *(Mitigation: adverse decisions challenged through Icelandic courts, ongoing work through LGA, capitalisation bid submitted, updated investment strategy & future review)*

Government Support (2010/11 and future years)

Whilst it is still possible that Government could alter the provisional Settlement for 2010/11, there is a much higher risk that the level of support for future years will be reduced. Current projections assume a year on year reduction of 3% after 2010/11. *(Mitigation: through budget process)*

Other Economic Factors and Prospects generally

As well as affecting future levels of government support, economic factors will affect the Council's finances through other funding streams, inflation, interest rates and pay settlements, as well as demand for services. *(Mitigation through budget process)*

Council Tax Capping

In recent times the Government has demonstrated a firm commitment to capping, and whilst the forthcoming General Election makes future arrangements less certain, pressure to keep tax increases low is expected to remain. *(Mitigation: keep any future increases at less than 5%)*

Concessionary Travel

Costs for current scheme are uncertain, as reimbursement rates to bus operators are not yet agreed with bus operators, and usage of scheme can fluctuate. Responsibilities for the scheme from 2011/12 onwards are not yet clear; any transfer away from the Council could create new financial pressures (or could improve position, but this did not feature in modelling undertaken). *(Mitigation: countywide approach with consultancy support regarding reimbursement rates, pooling arrangements in place, countywide liaison and review regarding future arrangements, earmarked reserves)*

Fairpay & Equal pay

The financial implications of the proposed pay and grading structure have been recognised as unsustainable in the medium and longer term. Furthermore, the extent of elements such as market supplements and the outcome of stage 2 appeals is uncertain. *(Mitigation: supporting HR policies, use of earmarked reserves and provision, commitment to review and amend the grading structure within 2 years of implementation)*

Change Management & Investing to Save (e.g. Restructuring Reserves)

There are a number of major restructures currently just implemented or being progressed that will incur one-off termination costs. As these restructures affect senior officer posts these costs will be significant. Whilst there are sufficient funds identified to facilitate current outline plans, further development is needed. There is the general risk that the Council could have insufficient funds available to enable other future change or to invest to save. There are also financial risks attached to the process of change, and maintaining sufficient capacity to ensure sound financial management and planning etc. *(Mitigation: though budget process, reserves, and change management arrangements)*

Pensions Costs

The current triennial review period comes to an end on 31 March 2011; thereafter at present it has been assumed that pension rates will increase by 2%. However, the impact of demographics and the current recession on pension fund investments is unknown at this stage. Also, it is expected that further national proposals regarding the Pension Scheme will come through at some point. *(Mitigation: liaison with Pensions authority, ongoing review through budget process)*

HRA review (for General Fund)

The Government has recently consulted on plans to abolish the housing subsidy mechanism and replace it with a form of redistributed housing debt. Whilst the Housing Revenue Account would still remain, it is unclear how these proposals will impact on the General Fund, in particular in relation to Treasury Management and other cost allocations. The outcome of the consultation process is expected in the new year. *(Mitigation: consultation response, monitoring and review of future developments)*

VAT

The VAT recovery claim (estimated in the region of £400K) is still to be settled by HMRC. In addition, the Council's VAT exempt income is currently being reviewed and initial indications show that the level of exempt supplies is close to the 5% de minimis limit. Should the limit be breached then the council could face repaying £130K of VAT. No assumptions have been made within the current budget projections and the review is on-going. *(Mitigation: monitoring and review)*

Changes in Accounting Requirements

Adoption of International Financial Reporting Standards (IFRS) could give rise to changes in accounting treatment of certain transactions, such as leases, and creates additional workload requirements on some services, which may add pressure to the revenue budget. The extent of risk is dependent on the dispensations applicable to local authorities, influenced by professional bodies and Government etc. *(Mitigation: project management arrangements and monitoring and review, linked to budget process)*

Other Risk Areas

As well as the above points, there are many other issues that may present financial risks or opportunities to the Council, that have been reported to Members and are under further consideration. Where significant these will be highlighted in future budget reports.