



MEDIUM TERM FINANCIAL STRATEGY 2011/12 TO 2013/14



Key Extracts for Consideration by Cabinet

15 February 2011

1 KEY STRATEGIC AND FINANCIAL RISKS

The following sections set out key financial risks, which could significantly impact on the council's ability to achieve its plans and strategies.

Luneside East

Key risks relate to the final 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: specialist legal support, discussions with and commitment from funders/partners, budget and capital investment strategy provisions)*

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: capital investment strategy provisions, incorporating appraisal of revenue v capital, establishment of new earmarked reserve to cover revenue costs)*

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. As an indication £1M of additional borrowing need could cost £70K per year, depending on various factors. *(Mitigation: capital investment strategy provisions, ongoing review and monitoring, options appraisal through budget process)*

Capital Liabilities

There is a potential liability relating to properties developed jointly with a Housing Association in the West End of Morecambe. If ultimately the value of properties sold is less than the cost of purchase and development then the Council will need to stand losses. The converse also applies if the value is greater, however due to falls in the property market the current situation is potentially negative. *(Mitigation: ongoing review and monitoring of capital programme and market conditions)*

Decision-making

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

Icelandic Investments (and investment losses generally)

The prospects for successful recovery action and affordability risks are influenced by creditor status for two of the investments made. Priority status 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 directive applied, impairment reserve established to cover balance of currently estimated losses, updated investment strategy & future review)*

Government Support (future years)

2011/12 and 2012/13 have seen significant reductions in Government funding levels. There is still uncertainty over 2013/14 and beyond, however the initial two years allocations have been broadly in line with the 4 year Comprehensive Spending Review (CSR) projections. The level of support for 2013/14 assumes a further 2% reduction, in line with the CSR. *(Mitigation: scenario planning, future budget processes and monitoring / review.)*

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 monitoring and future budget processes)*

Council Tax Capping (or replacement measures)

In recent times the Government has demonstrated a firm commitment to capping, however new criteria are due to be announced in conjunction with the new Localism Bill, which will include provision for Council Tax referendums should council tax increases exceed the principles set down by the Secretary of State. *(Mitigation: setting of targets for future years, review any national criteria etc. for 2012/13 and beyond)*

Concessionary Travel

From 2011/12 responsibility for concessionary travel transfers to the County Council and all costs have been removed from future years' budgets. There is still an outstanding issue to be resolved regarding reimbursement rates to bus operators which has not been finalised. *(Mitigation: countywide approach with consultancy support regarding reimbursement rates, earmarked reserves)*

Fair Pay

The financial implications of the current pay and grading structure have been recognised as unsustainable in the medium and longer term. A further review has now been started to establish a more sustainable grading structure. *(Mitigation: supporting HR policies, use of earmarked reserves, commitment to review and amend the grading structure within 2 years of implementation)*

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

The Council has gone through a period of significant change and is still progressing with a number of service restructures. Whilst there are sufficient funds identified to facilitate current plans, further development is still needed in a number of areas. There is the general risk that the Council could have insufficient funds available to enable sufficient invest to save schemes, or such initiatives prove unsuccessful. There are also financial risks attached to the process of change, and maintaining sufficient capacity to ensure sound financial management and planning etc. *(Mitigation: through budget process, earmarked reserves, and change management and appraisal arrangements)*

Shared Services

As an example, the Council has already entered into a Shared Management arrangement with Preston City Council in respect of Revenues and Benefits and will be looking to create a full shared service during 2011/12. The Council has benefited financially from the changes already made without impacting on service delivery, however the new shared service will need to demonstrate that further efficiency savings can be made whilst still maintaining current service standards. *(Mitigation: financial appraisal and project management, development of governance arrangements, communication, involvement of support services)*

HRA review (for General Fund)

The Government has now published the rationale, methodology and financial parameters for the reforms to council housing finance otherwise known as "self-financing" which will be achieved with a form of redistributed housing debt. The current subsidy system will continue for 2011/12 with self-financing due to start in April 2012. Details of the new system were only published at the start of February and officers are currently determining what impact there will be on the General Fund, in particular in relation to Treasury Management and other cost allocations. As an indication, the changes may involve the Council taking on around £30M additional debt, with associated risks involved *(Mitigation: monitoring, review and appraisal of current information)*

Future Savings Potential

Each year the Council continues to make efficiency savings, however some of the larger savings such as those in areas like Revenues and Benefits and Environmental Services have already been taken with the introduction of shared services and co-mingling respectively. The achievement of future savings targets may well prove more difficult. *(Mitigation: robust consideration of risks by Cabinet, financial planning arrangements, Invest to Save options, change management arrangements)*