East Lothian Council

REPORT TO: East Lothian Council

MEETING DATE: 10 February 2015

BY: Depute Chief Executive (Resources and People Services)

SUBJECT: Council Financial Strategy 2015/16 to 2017/18

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1 PURPOSE

1.1 To outline the Financial Strategy of the Council, this provides the financial context for Councillors in preparing their budgets for the period 2015-18.

2 RECOMMENDATIONS

2.1 The Council is recommended to approve the attached Financial Strategy.

2.2 The Council is asked to approve the 2014/15 budget adjustments as detailed in Section 3.7.

2.3 As part of presenting their budget proposals, each Group of Councillors is recommended to:

- Develop a sustainable General Services budget avoiding the use of reserves in Year 3 (2017/18).
- Develop General Services Capital Plans, which when adjusted, are within the maximum Capital Expenditure Limits outlined at Section 3.6.
- Adopt the recommended levels for earmarked reserves as detailed in the Financial Strategy.
- Transfer any additional reserves at the end of 2014/15 to either the General Services Capital Fund or the Cost Reduction Fund. Any balance on the Capital Fund to be used in future years to directly fund capital expenditure or defray capital charges.
- Prepare balanced budget proposals for General Services taking into account a freeze in the level of Council Tax and the related estimates of Scottish Government Grant.

- Retain within the HRA at least £1.0 million of reserves as protection against unexpected costs or loss of income.

- Maintain the ratio of debt charges to income within the HRA to below 40%.

- Propose an appropriate rent increase to support the HRA revenue and capital budget proposals.

3 BACKGROUND

Constructing the Budget Proposals

3.1 Appended to this report is the Financial Strategy for 2015-2018, which outlines the main opportunities, risks and constraints that face the Council over the next 3 years. The strategy forms the basis of the Council's stewardship of taxpayer's funds over an unprecedented and prolonged period of austerity that will continue through until 2019/20.

3.2 The establishment of a solid budgetary platform is the cornerstone of delivering the Financial Strategy. As in previous years, the budget allocates a "bottom-line" budget to each Business Group, and the Corporate Management Team in conjunction with relevant Service Managers have the task of managing any cost increases within that budget. Managers are expected to achieve any specified efficiency savings and identify how they will meet any savings targets included in the budget allocated to them. Although fully recognising the critical importance of effective leadership, it is the responsibility of every Council Officer to help deliver the Financial Strategy.

3.3 In preparing the 2015/18 budgets, provision to meet all known contractual commitments has been made, but once again, no general inflationary increase in budgets has been incorporated. Essentially, services are expected to absorb general inflationary pressures through the efficient management of the resources they have been allocated. This 'cost containment' is an important element of the financial strategy.

3.4 The budget includes provision for capital financing (debt) costs that are generated by spending at the designated Capital Expenditure Limit for each of the three years and also the related revenue running costs of projects that are sufficiently well advanced for these costs to be estimated with a reasonable degree of accuracy.

3.5 In accordance with statutory regulations, the Council has to set annual limits on "the maximum amount which it can afford to allocate to capital expenditure". In the current financial circumstances, I am of the view that the Council should continue to set Capital Expenditure Limits for General Services that seek to minimise any increase in the General Services Loans Fund balance.

3.6 The link between capital expenditure and the final level of borrowing is not direct and is affected by a combination of factors such as the rate paid on borrowings, the type and purpose of the capital asset created and the level of capital income receivable. However, based upon current known factors, I would recommend the maximum Capital Expenditure Limits as follows:

Year	**Capital Expenditure Limits** **(£m)**
2014/15	21.000
2015/16	21.000
2016/17	21.000
2017/18	18.000
2018/19	18.000
2019/20	18.000
Totals	**117.00**

These Capital Expenditure limits will need to be applied flexibly to take into account any additional capital income received by the Council and also recognise the potential for inter-year transfers deemed necessary to manage the delivery of large scale capital projects.

2014/15 Base Budget Adjustments

3.7 In constructing the 2015-18 Budgets, a number of significant budget adjustments have been made to the 2014-15 base budget. These adjustments had not been reflected within the Q2 Financial Review and include the following:

- An additional £1.009m of funding has been reflected in the Revenue Support Grant provided by the Scottish Government during the year which has been allocated to the following service areas:
    - An additional £434,000 provided to the Primary Schools budget, which is required to deliver; Free School Meals to all P1-P3 children from January 2015; second Languages to Primary school pupils, and Teachers Pay.

  - An additional £56,000 within Pre-school Education to enable the workforce to deliver the requirements of the Children and Young People's Act.

  - An additional £145,000 to support Discretionary Housing Payments.

  - Additional funding of £371,000 to support existing budget pressures within Children's Wellbeing service.

  - An additional £3,000 within Revenues relating to Single Fraud Investigation.

- A number of inter service budget transfers resulting from approved Service Review changes.

Financial Prospects

3.8 As the Financial Strategy makes clear, the Council continues to face substantial financial challenges. Over the next three years, the amount of funding available for council services is at best forecast to remain static in cash terms – with the genuine prospect of a real terms reduction in our Scottish Government Grant. We are due to enter a new Comprehensive Spending Review period and over the next 2 years or so, face back to back UK, Scottish Government and then Local Government Elections. During this same period, there are therefore a wide range of 'unknowns' and almost certainly, additional cost and service pressures to manage. Furthermore a national Commission is in the process of being established to consider alternatives to Council Tax, the findings of which is expected to report in autumn 2015 and will be subject to parliamentary scrutiny. Nevertheless any change to the current Council Tax system will need to be considered carefully within the Council's financial strategy.

3.9 The Council has already made significant changes to how it is organised that will enable it to deliver the services across East Lothian within times of reduced resources. During the past two financial years 2013/15 the Council agreed and implemented a Voluntary Early Release Scheme (VERS). Implementation of this scheme has led to further service based reviews making structural changes to the way in which services are managed and delivered. The Council continues to explore relevant partnering arrangements where these might provide more efficient and effective service delivery.

3.10 In conjunction with NHS Lothian, the Council has made significant progress towards implementation of the new Integrated Health and Social Care Partnership with effective shadow arrangements now in place and the statutory Integration Scheme close to being finalised. The more formal Integrated Joint Boards are due to be established by 1st April 2016. This will provide both challenge and opportunity in future years and it will be necessary to monitor and review any impact upon the financial strategy of the Council.

3.11 In accordance with the Financial Strategy, the Council has also taken steps to reduce the reliance on reserves and move to a more sustainable long-term budget. However, the job remains only partially complete, with latest UK wide financial forecasts indicating a likely requirement to make ongoing annual savings in public expenditure over the years up to and including 2019/20.

3.12 Independent financial commentators have suggested that in the short to medium term, there are particular reasons that will create significantly increased uncertainty about the extent and nature of changes that will be required of both the Council and Scottish Local Government more generally - the political group budget proposals will to varying extents reflect this. In accordance with our established practice, Groups have been advised to be as precise as they can be about the scale, timing and nature of the change that is needed. However, it is inevitable that some changes may not be capable of being specified in detail, which means that the further into the forward planning period you go, the greater the uncertainty about what will actually be required to deliver it. In general, the greater the value of any non-specific changes included in the budget, the greater the extent of change is being planned. These changes can be either cost reductions or income increases.

Managing the budget 2015/16

3.13 The Council's external operating environment is subject to constant change and therefore budget review and development cannot simply be a once-a-year process. Performance compared to approved budget will be kept under constant review with regular quarterly reports made to Cabinet and a year-end report presented to the full Council following submission of the draft accounts for audit.

3.14 As part of our normal financial management support service, monthly and quarterly performance reports are issued to managers with budget responsibility and in addition to that, the overall finances of the Council are subject to detailed annual independent audit review.

3.15 It is vitally important that through the Council Management Team (CMT), the Council maintains a disciplined approach to the implementation of its change programme and delivers the financial efficiencies planned in accordance with that programme and the supporting budgets. During the course of the past two financial years 2013-15, significant progress has been made in delivering planned changes including the VERS scheme mentioned earlier, continued implementation of the Customer Excellence Programme, improved procurement practices and efficiencies under the Procurement Improvement Panel, Partnership Working with Midlothian Council and a number of significant service reviews including Children's Wellbeing, Customer Services and a best value review of Adult Wellbeing.

3.16 During 2014, the Chief Executive established a Budget Review Group which meets on a regular basis to scrutinise spending across all areas of the Council – identifying potential areas of budget variance and ensuring that maximum use is being made of resources.

3.17 Heads of Service will be required to manage within the budgets approved at this meeting. If at any time spending pressures are not containable within the Business Group, the relevant Service Manager should report this to their Head of Service and Depute Chief Executive. In consultation with their Cabinet Spokesperson, the relevant Depute Chief Executive has the flexibility to move budgets between business groups. Should this not resolve the spending issue, it is the Depute Chief Executives' responsibility to formally report this to the Head of Council Resources. In this situation the matter may be reported to Cabinet and the Council may be asked to reconsider the policies applying within that Group with a view to reducing services and costs or increasing charges and income. If this cannot be achieved, then the Council may be asked to approve policy changes elsewhere that will yield the necessary savings through service reductions or increased charges.

Council Tax

3.18 Since 2007/08, the Council has operated within a national settlement framework that has seen Council Tax levels frozen. In overall terms however, the funding received directly from the tax will increase over the coming year as a result of house building and an increase in the number of taxable properties. The estimated 2015/16 Band D equivalent tax base in East Lothian is 43,763 properties (last year 42,925) after adjusting for single taxpayers and exemptions. Further increases are also anticipated in each of the two subsequent years.

3.19 It is anticipated that tax collection will continue to be adversely affected by the ongoing difficult economic conditions. This situation is being kept under review. However, every effort is being made to maximise tax collection and it is recommended that bad debt provision remain at 2% for 2015/16.

4 POLICY IMPLICATIONS

4.1 The Council has a range of plans and strategies that contribute to commitments made in both the Single Outcome Agreement and the Council Plan - this budget is an important part of putting these into effect.

5 EQUALITIES IMPACT ASSESSMENT

5.1 Equalities – the Financial Strategy and subsequent budget proposals will have significant impact on the future delivery of services by East Lothian Council and therefore a potential impact on the wellbeing of equality groups. The EQIA on the Council Financial Strategy recommends that EQIA is considered as an ongoing process as part of the development and delivery of Council budgets.

6 RESOURCE IMPLICATIONS

6.1 Financial – the respective group proposals will provide an overview of the finances of the Council reflecting the constraints outlined in this report. The approved budget will be the 3 year summary and the explanation of the changes in each of the three years provided by each group.

6.2 Personnel - none directly from this report although there will be implications arising from subsequent service reviews, efficiency measures and any new initiatives.

6.3 Other – none.

7 BACKGROUND PAPERS

7.1 Council 11 February 2014 – “Council Financial Strategy 2014/15 to 2016/17”

7.2 Cabinet 21 October 2014 – Financial Review 2014-15 Quarter 1

7.3 Cabinet 11 November 2014 – Financial Review 2014-15 Quarter 2

AUTHOR’S NAME	Jim Lamond
DESIGNATION	Head of Council Resources
CONTACT INFO	jlamond@eastlothian.gov.uk
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Financial Strategy Statement

2015/16 to 2017/18

FINANCIAL STRATEGY STATEMENT 2015/16

Objective and Principles

A key financial objective for the Council is the provision of services that the Councillors believe are appropriate for the lowest Council Tax or service charge possible.

Underpinning this objective are two key principles of public finance that the Council must observe – that there should be no taxation in advance of need and that there should be fairness in the tax burden between generations of taxpayers.

In practice, the principle of taxing only when necessary is closely related to the question of how much reserves the Council should hold. In setting a budget a balance has to be struck between holding funds in reserve for specified reasons, with any excess of reserves being used for the benefit of or returned directly to the taxpayers. This amounts to a decision on how much should be taken from reserves when setting the budget and this is explained further below.

Inter-generational fairness is most readily apparent in the financing of capital investment projects. Many capital investments have a relatively long-life and will provide benefit to future generations. The use of debt finance helps ensure that the costs of the capital investment are spread over the life of the asset and paid for through taxes and charges over that life. Similar issues are involved in making provision now for the future cost of pensions. Ultimately these costs will be incurred by future generations even though the pensions have been earned in providing services now unless adequate provision for the full future cost is made from current tax receipts.

Medium Term Financial Position – Housing Revenue Account

It has been nearly ten years since the achievement of a zero net HRA debt position in 2004/05 – mostly as a result of council house sale receipts in the property boom. Since then, there has been a significant increase in HRA capital spend as both the modernisation and affordable house building programmes have been expanded.

The medium term position for the Housing Revenue Account (HRA) budget will be set out as part of the budget approved by the Council. As almost all of the income for this service is locally raised the Council can plan, with a relative degree of certainty, that it can self-manage the main financial risks. The overall HRA budget is a balancing act between the income raised through rent, the revenue expenditure such as staffing & repairs and the capital spending which is undertaken on modernisation and provision of affordable homes.

For the HRA, the financial strategy will continue to focus upon the following;

- Ensuring that the HRA can sustainably support the capital programme associated with building new Council Houses and modernising existing homes.

- Moving towards a position, by the end of the next 10 year period, whereby the HRA is self-financing a larger proportion of its capital expenditure – typically by direct funding rather than borrowing.
- Continuing to meet the requirements of the Scottish Housing Quality Standards.
- Ensuring that the properties and neighbourhoods continue to be attractive to existing and prospective tenants.
- Responding to the challenges arising from recent and proposed UK benefit reforms;
- Delivering the efficiencies required across the housing management and repairs service;
- Reducing rent arrears;
- Ensuring that the Council stays within the recommended upper limit for the ratio of debt charges to income of 40%. It is my view that this limit maintains an appropriate long term balance between the various elements of the HRA budget.
- Ensuring that the reserve or balance left on the HRA should not fall below £1.0million. This will allow the Council to maintain a cushion against any unexpected increase in costs or loss of income, and to protect against the risks inherent in the UK welfare reform proposals. Given the uncertainty that exists over the timing and scale of capital investment in new affordable housing, there is no upper limit on reserves.

Medium Term Financial Position – General Services

For the General Services revenue budget, the Council continues to plan for the medium-term through its three-year planning processes. For the second year running the Scottish Government has provided grant figures for only a single year and the next 3 year Comprehensive Spending Review will not take place until later this year at the earliest. The key financial assumption being made for Year 2 and Year 3 is that net grant will remain at the Year 1 level however; the prospect of this remains challenging. If any changes are made to the anticipated grant figures, the Medium Term Financial Position will need to be reviewed.

In the medium term it is clear that the Council faces some very difficult financial decisions as a result of the following;

- Real terms reductions in the income it will receive from Scottish Government;
- Meeting our obligations from new legislative requirements e.g. Children and Young Persons Act and provision of Free School Meals;
- Responding to the challenges arising from recent and proposed UK benefit reforms;

- Increasing population and other demographic changes e.g. increased numbers of young and old, early years care/school rolls/elderly care;

- General price/inflationary pressures;

- Upward pressure on staff costs – particularly after a significant period of pay restraint and uncertain future pay settlements, but also arising from the likelihood of unfunded national insurance and superannuation cost increases;

- New statutory arrangements relating to the provision of Integrated Health and Social Care services;

- Political change/uncertainty – there are three back to back electoral events with Westminster, Holyrood and Local Government Elections due to take place between now and May 2017.

The latest cash terms estimate of funding available to support council services i.e. after all corporate commitments, new burdens and other presentational changes are taken into account, is forecast to be a broadly flat-lined position across all three years within the financial planning period. This funding is required to deliver a wide range of new legislative burdens including Free School Meals and Children's and Young People's Act, as well as provide for contractual commitments including pay and pension contributions. Taking these inescapable commitments into account, in overall terms we have a real terms reduction in the resources being made available to deliver Council services.

It is therefore clear that the Council is financially challenged such that it must reduce expenditure commitments or increase income, or some combination of both. Based upon the UK Chancellor's most recent Autumn Statement, this scenario is likely to continue up to and including 2019/20 and the Council will need to plan in anticipation of further reductions in funding.

Despite these very challenging economic conditions, the Council has an ambitious 5 year Council Plan approved in 2012 but reviewed and updated in October 2014 and, in conjunction with Community Planning Partners, has committed to a new Single Outcome Agreement (SOA) in 2013.

Following on from a recent national Audit Scotland report, a benchmarking exercise was undertaken that helped inform a new Fees and Charges Policy that was approved by Council in December 2014. In future, it may be possible to introduce additional sources of income that would partially mitigate against expected funding shortfalls.

Notwithstanding this, a significant share of any funding shortfall is likely to have to be met through continued application of cost containment and cost avoidance measures. As far as possible, the Council is seeking to contain costs by becoming more efficient, which would help minimise the effect on services provided. However, the extent of the medium-term challenge we face suggests that more significant changes in how services are managed and delivered will be required whilst maintaining and where possible improving services in accordance with the Council Plan and SOA. This includes the Council paying due regard to the statutory obligations of the Equality Act 2010. Understanding the impact of financial decisions on all those within the community will help to ensure that decisions about future provision of services meet the needs of the community effectively.

Pensions

All employees working for the Council have access to defined benefit pensions, which means that the Council as employer has substantial unknown future financial liabilities that only materialise when the pensions are actually paid. For teachers, this liability is not established specifically for East Lothian as these costs are part of a national scheme administered by the Scottish Government. For non-teaching staff, there is a statutory requirement that these costs are independently assessed as part of an actuarial valuation of each local pension fund every three years.

<u>Public Sector Pension Reform</u>

All public sector pension schemes in the UK, including those in Scotland have been subject to recent reforms. The reforms has seen all public sector pension schemes including Teachers and Local Government, change from a Final Salary to Career Average Pension Scheme, with new schemes being implemented from April 2015.

<u>Local Government Pension Scheme</u>

The actuary for the Lothian Pension Fund (LPF), of which the Council is part, makes a triennial assessment of the financial position of the East Lothian share of the local government pension fund and his requirements for employer contributions. The most recent actuarial valuation was carried out as at 31 March 2014. The results showed that East Lothian share of Lothian Pension Fund had increased from £30 million in deficit (as at 31 March 2011) to £56 million in deficit. The Council previously agreed to participate in a formal Contribution Stability Mechanism which will allow the Fund to move towards 100% funding while at the same time remain affordable for employers. Despite the increase in liabilities, Lothian Pension Fund, supported by the opinion of the Fund Actuary, has advised that the Contribution Stability Mechanism can remain in place. This will see overall the Council's total employer's contribution rate frozen at existing levels over the financial planning period, however the balance between the percentage payable as a past service deficit lump sum payment and employer contribution rates has changed.

The implementation of the new scheme from April 2015 will however require more elements of pay to be classified as pensionable, which will place an additional burden on LGPS employers pensions contributions.

<u>Teachers Pensions</u>

The Scottish Teachers Pension Scheme is an unfunded scheme which means that contributions are used to meet the cost of current pensioners. Similar to the LGPS the Teachers Pension scheme is subject to actuarial valuations every 4 years, however recent actuarial valuations had been put on hold by the UK

Government due to impending pension reforms, with the last full valuation of the scheme undertaken in March 2005. The valuation of the new scheme has only recently been undertaken and has resulted in an increase in employer pension contributions of 2.4%. Despite the new scheme being implemented from April 2015, the new contribution rate will be phased in from September 2015 placing a significant increase cost to the Council both for the part year in 2015/16 and the full year from 2016/17 onwards.

Auto-Enrolment

The Pension Act 2011 has placed a number of new obligations upon the Council with changes to eligibility criteria effectively widening access to a greater number of Council employees. The Council has also decided to defer the new auto-enrolment provisions until 2017 although it is still anticipated that there is likely to be an increase in scheme membership as a result of both of these issues.

Risk Assessment

In setting a budget, the Council must take into account the risks that may impact upon successfully delivering the strategy. A summary of the main risks to the budget are listed in the annex including the action the Council should take to manage those risks both in setting the budget and managing its finances over the coming years.

The success of the Financial Strategy depends on how successful we are in mitigating the risks through management action and the extent to which the risks we seek to manage actually materialise.

Scottish Government Grant Funding

Central to delivering the Financial Strategy is the level of grant funding received from the Scottish Government. In the General Services budget, nearly 80% of the Council's funding is received as Scottish Government Grant.

Similar to recent years, in 2015/16 the Scottish Government has offered to provide a specified amount of grant funding to the Council if it chooses to freeze the Council Tax and certain national policy objectives are supported by the Council when they set their budget. A much lower funding offer has been promised if these national objectives are not shown to be supported in the Council budget. The effect of this lower grant award would require a compensating Council Tax increase of just over 3%.

There continues to be uncertainty surrounding the future of UK public sector finances and there is a significant risk that the grant figures planned for the next three years may be revised. However, the Council must not let this uncertainty undermine their planning for local services in the medium-term. The best way to deal with that uncertainty is to plan ahead as best we can enabling us to minimise any potential adverse impact of unforeseen change

Reserves

Holding an adequate reserve to meet unexpected costs is a key management tool for delivering the Financial Strategy, but this must be balanced against the need to avoid taxation in advance of need as explained earlier in the strategy.

To strike this balance the Council must take a view on what the reserves are likely to be at the start of the 2015/16 financial year, any plans that have already been made to use reserves and how much should be held to meet any risks that materialise over the next three years. Any reserves that do not need to be held as part of this strategy should be used for the benefit of or directly returned to tax or rent payers as part of this budget.

Council has been already advised through the various quarterly finance reports that the General Services reserves (excluding HRA reserves) available going into 2014/15 was £10.743 million. The split of these is detailed below;

	Current Position 31 March 2014
General Services Reserves	**£'000**
Required to support future budgets	44
Civil Emergency	2,000
Property Renewals	0
Cost Reduction Fund	3,578
Earmarked Reserves	
• DSM (Devolved School Management)	489
• MELDAP/DAAT	192
Insurance Fund	1,520
Capital Receipts Reserve	0
Gen Services Capital Fund	2,920
Sub-total General Services Reserves	**10,743**

This analysis includes the Insurance Fund and a range of earmarked funds such as those held for MELDAP and the DSM legislation. My advice going forward is that these should be retained and used for specific purposes already agreed by Council. This means that these are not then available for any alternative use.

I am also advising that the Council should hold a financial reserve within the Civil Emergency Fund as a cushion against the costs of any emergency, such as the severe weather experienced in various seasons over recent years. This should be retained at the £2 million level.

Meeting future financial challenges is likely to mean significant changes in the way in which the Council delivers services. To help make these changes the Council previously established a Cost Reduction Fund. The balance on this Fund currently stands at £3.578 million and, over the last two years, has been used primarily to meet the costs of employee contract severance payments. There is likely to be significant further use of this during 2014/15, and beyond, as the Council manages down its staff numbers to match its reduced financial resources. Given the scale of the changes facing the Council and the costs associated with making these changes I am recommending that the Cost Reduction Fund should be retained.

In accordance with the intended direction set out in recent financial strategies, less reliance has been placed upon the level of reserves required to balance both the existing and future 2015-18 budgets. Taking into account budgetary performance during the current year, we estimate that an additional £1m in reserves will be available going into 2015/16. The various political Groups have been informed of this and have used these funds in planning their 2015-18 budgets. Should any further reserves become available at the end of the 2014/15 financial year, I am recommending that these are transferred to either the existing Cost Reduction Fund or to the Capital Fund.

The regulations that surround the use of prudential borrowing powers require that the Council demonstrate that its capital investment plans are affordable and financially sustainable.

Affordability is demonstrated by the incorporation of all the costs associated with the investments within a balanced three-year budget.

Financial sustainability is demonstrated by having the final year of the budget showing balanced income and expenditure without the use of reserves. Borrowing is usually repaid over a longer period than three years, and the best indicator of whether the future repayments are sustainable is a 2017/18 budget that does not rely on temporary sources of funding such as reserves. In other words, to sustain the capital investment plan the Council needs to demonstrate that there is no structural deficit in its budget by 2017/18.

Summary

The Council continues to face much uncertainty, a wide range of risks and an increasingly difficult financial environment. For General Services, in the short and medium term expenditure is outstripping income. In the longer-term, pension liabilities are increasing and should be funded now rather than passed on as a burden for future taxpayers.

However, I remain confident that by continuing to follow the direction set in this strategy, and by collectively delivering the planned service changes, this challenge can be managed and that, by the end of the budgetary period we will be delivering our priority outcomes for the people of East Lothian within a sustainable and balanced budget.

FINANCIAL STRATEGY STATEMENT 2015/16

To achieve this, over the next three years, the Council's financial strategy will continue to focus upon;

- Delivering a Change Programme that will achieve significant efficiency savings across all areas and all inputs such as staffing and supplies;
- Constraining cost growth – through effective demand management, good financial control by managers and by effective negotiation with suppliers;
- Generating additional income and ensuring that, where the Council has decided, there is full cost recovery;
- Progressing partnership working where there are proven efficiency and or service gains;
- Continuing to manage down the General Services Loans Fund balance across the three years of the Strategy.

Jim Lamond
Head of Council Resources
05/02/2015

ANNEX: FINANCIAL STRATEGY RISKS

Risk	Action	Mitigation Method
Efficiency savings are not achieved	Mitigate	1) Identify required savings in the budget as part of a comprehensive change programme and report progress on achievement to Cabinet on a regular basis. 2) Participate in national efficiency initiatives 3) Compare efficiency with comparable organisations 4) Test the competitiveness of in-house services against similar services available in the market and vice versa.
Budget is not effectively managed	Mitigate	1) Subdivide the budget to allow clear allocation of responsibility to managers and link those budgets to operational responsibility 2) Report on the budget position to managers on a monthly basis and Cabinet on a quarterly basis 3) Provide training in financial management to all responsible officers
Loss of key suppliers leads to additional costs	Mitigate	1) Maintain active relationships with key suppliers to assist in early identification of problems 2) Hold a financial reserve to provide funding to meet costs arising should a supplier be lost (do we do this?)
Events occur that were not fully anticipated in the budget	Mitigate	1) Encourage wide participation in budget setting to capture as much service information as possible 2) Hold a financial reserve to provide funding to meet costs arising from such an event (do we do this?)

ANNEX: FINANCIAL STRATEGY RISKS

Risk	Action	Mitigation Method
Wider changes in the economy impact on our costs (e.g. energy prices, interest rates) and income	Mitigate	1) Identify volatile costs/income within the budget and adopt management processes to limit exposure 2) Hold a financial reserve to provide funding to meet costs/income loss arising
The Council does not carry through its plans	Mitigate	1) Regularly monitor progress against the Council Plan 2) Regularly monitor the financial position compared to budget
A service fails to meet statutory requirements resulting in the cost of emergency corrective action	Mitigate	1) Regularly monitor progress against the Council Plan 2) Hold a financial reserve to provide funding to meet costs arising from corrective action
Failure of key financial and other systems	Mitigate	1) Ensure business continuity measures are effective 2) Hold a financial reserve to provide funding to meet costs arising should a system fail
UK welfare reform leads to a loss of income and increased demand for council services	Mitigate	1) Monitor the development of welfare reforms and seek to influence wherever possible 2) Hold a financial reserve to cover increased costs or income loss
The Council has to meet a major unanticipated insurance or compensation claim	Mitigate	1) Ensure insurance arrangements are adequate for the risks anticipated and that provision is made for claims 2) Hold a financial reserve to provide funding to meet costs arising should a claim arise