

## **BUDGET RISK ASSESSMENT**

### **Background**

1. This document sets out the risk assessment that has been undertaken in relation to the budget for 2010/11 and the revised budget for 2009/10, including the capital programme.
2. Members have a responsibility to ensure, in considering the budget, that:
  - It is realistic and achievable and that appropriate arrangements have been adopted in formulating it.
  - The budget is based on clearly understood and sound assumptions
  - It links to the delivery of the Council's Strategic Plan and priorities
  - It includes an appropriate statement on the use of reserves and the adequacy of these
3. The risk assessment this year is particularly important in view of the significant level of savings, efficiencies and additional income that has been incorporated into the 2010/11 Budget.. In addition, there are still uncertainties on the economic position and the extent to which the downturn could impact further on budget assumptions during 2010/11.

### **Overall Approach**

4. The following key aspects of the Council's approach to preparing the Budget provide an assurance on the formulation of the budget for 2010/11 and the revised budget for 2009/10:-
  - A strategic and integrated approach to service and financial planning, based on the Strategic Plan and Medium-Term Plans, providing a robust framework that ensures that the budget reflects the council's priorities
  - The Member Strategic Financial Planning (SFP) Task Group has carefully considered and scrutinised potential areas for savings, efficiencies and income generation opportunities. They have also adopted a 'star chamber' approach to discussions with Management Team and Heads of Service in examining areas for cost reduction, with careful regard to the impact on service provision and particular residents or groups (through Equality Impact Assessments)
  - The Chief Executive, other members of Management Team and Heads of Service have provided a strategic overview and Managers have been very closely involved in formulating and agreeing budgets for their service areas, which have been thoroughly reviewed by Corporate Finance staff

- Key Assumptions have been made and continuously updated during the budget process to reflect the changing economic position and latest information. Risks and uncertainties have been identified and carefully considered. Further details are provided later
- On the capital programme, the timing of projects and anticipated funding sources has been assessed and review with regard to capacity and the involvement of external partners and funding. The continuing impact of the economic situation with regards to asset sales has been taken into account in forecasting future capital receipts.

### **Revised Revenue Budget 2009/10**

5. In relation to the 2009/10 revised budget, the following key issues are highlighted:

- The continuing impact of the economic downturn on income levels has been allowed for. Revised assumptions have been made on expenditure in key risk areas such as concessionary fares
- Total savings, efficiencies and additional income of around £1.3m (in accordance with the original budget), including significant savings on staffing budgets, have been reflected in the revised budget. This is based on actual savings that have been realised and a robust assessment of expected outcomes on all budgets
- There is, therefore, a very low risk that actual net expenditure for the year will exceed that forecast. Savings compared to the revised budget are possible and, where appropriate, these will be carried forward (with Member approval) or the Council will determine whether that money should be kept in reserves
- Rigorous budget monitoring will continue for the remainder of the financial year to address any significant variances that are identified

6. Based on the above and unless any exceptional costs or income reductions arise, net expenditure and income for the year should be in line with the revised budget.

### **Revenue Budget 2010/11**

7. Insofar as the 2010/11 Budget is concerned, similar issues as set out above apply, specifically in relation to the scale of savings, efficiencies and additional income of around £1.6m that have been incorporated into the 2010/11 Budget and there is the continuing impact of the economic downturn on income.

8. Key assumptions have been made as detailed below:
- Savings, efficiencies and additional income – All areas identified have been the subject of scrutiny by the SFP Task Group, Strategy Committee, a joint meeting of the two Overview and Scrutiny Committees, as well as full Council. Officers have categorised these between minimal and medium risk (with the latter being incorporated in the Budget based on 70% of the amount assessed by Heads of Service) in terms of deliverability as well as low, significant and very high impact in terms of service provision and delivery of the Council's strategic priorities
  - Clearly, risks exist in relation to a number of these, some of which are dependent on either efficiency reviews, implementation of new charging regimes or discussions and agreements being reached with partners or other organisations
  - Interest rates – these are based on advice from the Council's Treasury advisors and are considered realistic based on current market expectations. These will affect both capital financing/borrowing costs and also investment income. Both will be dependent on the actual rates that apply next financial year and these will be carefully monitored
  - Inflation and other cost pressures – the budget allows for a 1% cap on the 2010 pay award, which has been agreed with staff and Unison. Other allowances for inflation have been made on some budgets including contracts. Where appropriate, higher inflation allowances have been allowed for major contracts where multi-cost index mechanisms apply that reflect energy, fuel and other costs
  - Economic Downturn – assumptions have been made on the likely impact on income from reduced planning and land search activity as well as the potential impact on material recycling income. The position has, however, stabilised compared to previous years and risks are considered to be less significant than when the 2009/10 Budget was set.
9. In addition to the above, there are also risks associated with the following key areas:
- LGR/shared Services – a provision has been made to meet potential up front costs that are likely to arise, depending on whether LGR proceeds, which is still extremely uncertain. It is recognised, however, that there is a high risk that actual costs will exceed this provision and these would then have to be met from either general reserves or by finding additional savings from other budgets

## APPENDIX A

- Salary savings from staff vacancies and other savings – there is an allowance in the budget of £200,000. The allowance for vacancy savings from normal staff turnover has been reduced from £250,000 to £125,000 and there is an allowance of £75,000 for other savings that will have to be delivered during the year
  - These will be achieved through the ongoing rigorous challenge of the need to fill vacant posts and identifying areas where additional efficiency savings and rationalisation are possible, for example, through the agreed aim of integrating management and service delivery with the Council's preferred partner, Mid Suffolk District Council
  - Housing Benefits – Budgets are based on experience in previous years but actual costs and income is dependent on recovery of overpayments and subsidy claims are subject to audit and potential adjustment/variation
  - Land charge searches - Deregulation and current uncertainties in relation to the ability to charge for certain information could continue to impact on fee income. An allowance has been made for this in the Budget but, again, the actual position could vary from that
  - Concessionary Fares Scheme – variations in take-up or usage could impact on the budget
  - Planning inquiries and legal appeals – Costs are expected on a number of cases and there is an allowance in the budget for potential cases through an earmarked reserve of £150,000, but there is uncertainty as to what actual expenditure will be incurred in the coming year
  - Uninsured losses and other claims that exceed historic levels or arise unexpectedly would not be covered by the budget
  - Grants towards certain activities, such as LABGI, Housing & Planning delivery grant and the Crime & Disorder Partnership are not yet known or finalised. Assumptions have been made in relation to the potential level of grants that could be received but these are not certain
10. Overall, the 2010/11 Budget has a number of uncertainties and risks associated with it but the Council has established clear arrangements for managing these, both through its Risk Management strategy and the Performance Management Framework. Key issues are continuously monitored and reported to Members on a quarterly basis. As a result, the risks are considered to be manageable.

11. Should additional expenditure or income reductions arise, either additional savings will have to be found or more reserves used. General reserves, over and above those earmarked for specific purposes, are considered to be sufficient to cover unforeseen increases, and estimated general reserves of nearly £1.4m are anticipated at the 31 March 2011, which is £0.2m higher than the minimum approved level. Any additional use of reserves will, however, be seen as a last resort.

### **Capital Programme**

12. Capital spending plans are dependent on assumptions in relation to sources of capital finance, including two significant capital receipts totaling an estimated £1.5m that have been assumed for future years, but the actual amounts and their timing is uncertain.

### **Reserves**

13. The Budget includes a clear statement and strategy on the use of reserves. These are sufficiently adequate to meet a degree of unforeseen expenditure or additional lost income, although the aim would be to meet these by finding additional savings, efficiencies or other budget savings. Major unexpected events or emergencies could result in reserves falling below the minimum approved level of £1.2m but this is seen as unlikely.
14. It is considered that the level of reserves is appropriate taking into account the various risks associated with the Council's activities in the medium-term. The minimum level of reserves is also considered to be adequate in terms of any successor authority taking over Babergh's functions under LGR.

### **Monitoring and control**

15. There is a clear framework for managing and monitoring the budget with regular reports to the Overview & Scrutiny Committees, various Panels and Boards and senior management. These reports will continue to focus on identified risk areas.

### **Conclusions**

16. Based on the various elements of this risk assessment, it is believed that the 2010/11 Budget (and the 2009/10 revised budget) is robust and based on sound assumptions. In the event of variations arising, action will need to be taken under the Council's established Performance and Financial Management arrangements.

17. Should unforeseen increases in expenditure or shortfalls in income arise that cannot be avoided, steps will be taken to ensure any impact on the Council's financial position is minimised by identifying additional savings in other areas of the overall budget. Following that process, the possibility of using reserves would need consideration although unplanned use of reserves should only be considered in exceptional circumstances and as a last resort, as set out in the Medium-Term Financial Strategy.

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