

BUDGET RISK ASSESSMENT

Background

1. This document sets out a risk assessment relating to the budget for 2009/10 and the revised budget for 2008/09.
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 uncertainties on the economic position and the extent to which the downturn could impact further on budget assumptions during 2009/10.

Overall Approach

4. The following key points are, therefore, drawn to Members' attention in order to provide an assurance on the formulation of the budget for 2009/10 and the overall approach:-
 - An 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 Group has carefully considered and scrutinised growth proposals and commitments, as well as the potential savings, efficiencies and additional income that are required to achieve a Council Tax increase of 2.9% for next year
 - Directors, Heads of Service and Managers have been involved in formulating and agreeing budgets for their service areas and these 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. Further details are provided later
 - Risks and uncertainties have been identified. Further details are provided later

Revenue Budget 2008/09 (revised)

5. In relation to the 2008/09 revised budget, the following key issues are highlighted:
- The 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.
 - Overall savings of £400,000 have been incorporated so that these are available on a one-off basis in 2009/10 to support spending plans and priorities - and mitigate to some extent against the impact of the economic downturn on the 2009/10 budget
 - There is a risk, however, that actual net expenditure for the year could vary from that forecast as income levels could continue to fall as a result of the economic downturn
 - This would affect the position at the end of the year and rigorous budget monitoring will be required for the remainder of the financial year to address any significant variances that are identified
 - If a lower level of net expenditure arises, the Council will determine whether that money should be kept in reserves, used to support corporate priorities or whether it is needed for any other commitments/cost pressures
 - It is also recognised that the timing of some expenditure could fall after the 31 March. The Council has clear arrangements for considering and approving any budget carry forwards.
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 2009/10

7. Insofar as the 2009/10 Budget is concerned, similar issues as set out above apply, specifically in relation to the impact of the economic downturn on income.
8. Key assumptions have been made as detailed below but there is greater uncertainty on these as a result of the economic downturn than in previous years:
- Interest rates – these affect both borrowing costs and investment income. Both will be dependent on the Treasury Management Strategy and actual rates that apply in this and next financial year
 - Efficiency and other savings/additional income - a higher and more significant level of these has been built into the budget than has

been the case in previous years. Many of these are based on anticipated savings from efficiency reviews, some of which are dependent on further consideration. Others are dependent on identifying and delivering further efficiencies - targets to deliver these have been included in the budget (see further below)

- Inflation and other cost pressures – the budget allows for a 3% pay award and a general allowance for inflation on some budgets with other budgets being cash-limited. Where appropriate, higher inflation allowances have been allowed for eg 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. Overall, and including lower investment income due to falling interest rates, the total assumed impact on the budget is around £750,000, which is very significant. There are risks that the impact could be higher and this will require frequent monitoring.

8. In addition to the above, there are also risks associated with particular areas, which include:

- LGR – should this proceed, any costs will have to be met from the earmarked reserve or, if necessary, general reserves
- Housing Benefits – recovery of overpayments and subsidy claims are subject to audit and potential adjustment/variation
- Deregulation of land charge searches could continue to impact on fee income
- Concessionary Fares Scheme – variations in take-up or usage could impact on the budget
- Unexpected costs, such as on planning inquiries or other legal cases can arise. There is an allowance in the budget for potential cases, 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
- Salary savings from staff vacancies and efficiency savings – there is a significant allowance in the budget of £375,000. Achieving these will require the ongoing rigorous challenge of the need to fill vacant posts and identifying areas where additional efficiency savings will be delivered
- 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

9. Overall, the 2009/10 Budget has more uncertainties and risks associated with it than in previous years and formulating the budget has resulted in a 'tighter' set of budget assumptions. Despite that, these risks are considered to be manageable and rigorous budget monitoring by officers and the Overview and Scrutiny (Stewardship) Committee will focus on key risk areas.
10. 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 £1.4m are anticipated at the 31 March 2010, which is £0.2m higher than the minimum approved level. Any additional use of reserves should, however, be seen as a last resort.

Capital Programme

11. Capital spending plans are dependent on assumptions in relation to sources of capital finance, including two significant capital receipts totaling an estimated £2m that have been assumed for 2009/10, but the actual amounts and their timing is uncertain.
12. A framework for managing non-committed schemes and reducing expenditure on certain projects and programmes will be put in place to effectively manage the position in terms of the £2m being only partially received or not received at all during 2009/10.

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 latter should be met by finding additional efficiencies or other budget savings. Major unexpected events or emergencies could result in reserves falling below the minimum approved level of £1.2m.
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

13. 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 need to concentrate on identified risk areas.

Conclusions

14. Based on the various elements of this risk assessment, it is believed that the 2009/10 Budget (and the 2008/09 revised budget) is robust and sufficient to meet estimated income and expenditure forecasts. In the event of variations arising, action will need to be taken under the council's established financial management arrangements, which will require appropriate strengthening (as indicated earlier in this risk assessment).
15. 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.

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