Committee:	Executive	Agenda Item No.:	10.
Date:	1st February 2010	Status	Open
Category	Part of the Budget and Policy Framework		
Subject:	General Fund Budget Sensitivity Analysis and Risk Assessment 2010/11 onwards		
Report by:	Director of Resources		
Other Officers Involved	Head of Finance		
Director	Director Of Resources		
Relevant Portfolio Holder	Councillor E. Watts, Leader of the Council		

RELEVANT CORPORATE AIMS

STRATEGIC ORGANISATIONAL DEVELOPMENT – to continually improve the efficiency and effectiveness of all Council Services by maximising the potential use of Council resources.

TARGETS

The development of Policy Led Budgeting will help to inform future spending plans and assist in the delivery of annual efficiency gain targets.

VALUE FOR MONEY

The Budget Process challenges existing spending levels and new spending proposals to ensure that resources are effectively used and directed towards the delivery of the Corporate Aims.

1. Executive on 4th January 2010 approved the main elements of the General Fund budget. Aspects that support the assessment of that budget have now taken place and this report details:

   - Sensitivity Analysis
   - Risk Assessment

<u>Sensitivity Analysis</u>

2. This detailed sensitivity analysis of the main area of expenditure.

3. Treasury Management

This budget has seen significant reductions from the levels previously achieved. The values associated with potential changes in interest rates are shown below:

% change in interest rates	General Fund Impact	HRA Impact £
+ 1.0%	Extra £117,808	Extra £8,084
+ 0.5%	Extra £58,904	Extra £4,042
- 0.5%	Pressure of £58,904	Pressure of £4,042
- 1.0%	Pressure of £117,808	Pressure of £8,084

Reserves could be used to address the pressures for one year but the Council would need to use that time to address the longer term impact to seek to prevent further use of reserves.

4. Energy

The base budget has not been increased after the significant increase in 2009/10. The table below shows the sensitivity analysis for this expenditure, the level of change would also be reflected in income levels for recharged energy in the General Fund but not in the Housing Revenue Account.

% change in energy prices	General Fund Impact	HRA Impact
-20%	Saving of £93,240	Saving of £88,964
-10%	Saving of £46,620	Saving of £44,482
+10%	Pressure of £46,620	Pressure of £44,482
+20%	Pressure of £93,240	Pressure of £88,964

For increased tariffs the reserves could address this in the short term but the need for energy reduction schemes would be increased otherwise services would be impacted upon.

5. Pay Award

Within the General Fund the detail budgets have been prepared on as per the Assumptions report to Executive in December at 2%. The saving list indicates a 1% reduction, therefore the overall budget reflects a net 1% increase. The Housing Revenue Account budget has been prepared at 2% with no reduction due to the low level of the Working Balance. The table below shows the sensitivity analysis for this expenditure.

Variation in Award	General Fund Impact	HRA Impact
Pay Award is 0.5%	Saves £44,633	Saves £40,143
Pay Award is 1%	No change	Saves £26,762
Pay Award is 1.5%	Pressure of £44,633	Saves £13,381
Pay Award is 2%	Pressure of £89,266	No change

Variation in Award	**General Fund Impact**	**HRA Impact**
Pay Award is 2.5%	Pressure of £133,899	Pressure of £13,381

These changes can be absorbed by the Reserves.

6. National Insurance

This is directly related to payments to staff. If the pay award was to vary then the national insurance costs would vary also. For each incremental 0.5% reduction or increase in the pay award the impact would be as follows:

- General Fund -/+ £4,062
- Housing Revenue Account -/+ £1,218

These changes can be absorbed by the Reserves.

7. Superannuation

This again is directly related to payments to staff. If the pay award was to vary then the national insurance costs would vary also. For each incremental 0.5% reduction or increase in the pay award the impact would be as follows:

- General Fund -/+ £9,016
- Housing Revenue Account -/+ £2,703

These changes can be absorbed by the Reserves.

8. Certain elements of the budget are fixed and will not vary during the year and are:

- Debt charges
- Government's Formula Grant

9. Overall, the sensitivity analysis does not indicate that the Council is setting a budget that is likely to be distorted by external factors. If more than one external factor was to have an adverse impact on the budget then changes would need to be considered during the year to minimise the impact on the reserves.

Risk Assessment

10. The attached Appendix shows as assessment of both the revenue and capital aspects of the budget.

11. The risks have been reviewed and the work done to minimise the risks expanded to reflect current work in practices.

12. An assessment of the risks is also shown that indicates for 2010/11 which has the greatest potential impact on the budget, within a range of 1 to 10 where 10 indicates the highest risk, relative to all the risks detailed.

13. No risks are showing significant potential impact after measures have been put in place to minimise the risk. Monitoring during the year is crucial.

IMPLICATONS

Financial: The in year budgets for the General Fund and HRA budgets are not carrying high sensitivity to change or significant risk.

Legal: None.

Human Resources: None.

RECOMMENDATION(S)

1. **That the sensitivity analysis for the General Fund and Housing Revenue Account are approved and reported to Scrutiny.**

2. **That the risk assessment for revenue budgets (the General Fund and Housing Revenue Account) and the capital budget are approved and reported to Scrutiny.**

REASON FOR DECISION

The budgets approved at January's meeting of the Executive need to be proven to be robust to ensure the Council's objectives can be resourced.

ATTACHMENTS: **Y**
FILE REFERENCE: None
SOURCE DOCUMENT: Background papers held in Financial Services

2010/11 Revenue Budgets Risk Assessment

No.	Budget Item	Risk	Impact	Actions undertaken / required to minimise risk	Risk score
1.	Pay Awards	Future settlements exceed the percentage increase provided for in the budget.	Additional cost for the Council.	Prudent budget estimates and regular budget monitoring to determine overall financial position. HRA has higher estimate as Working balance is lower. National predictions are for low increases during the life of this Medium Term Financial Plan.	3
2.	Pay and Grading	The costs associated with equal pay audit and equal pay claims cannot be met from within existing resources.	Additional cost for the Council.	Ensure the financial implications on reports reflect all options to contain costs within acceptable budget limits and the settlement of Equal Pay Claims will be fully considered and monitored. Options will be presented to adjust services or seek partners to minimise the impact of higher costs.	4
3.	Energy Costs	The increases in gas and electricity exceed the budget provision.	Additional cost for the Council.	New energy contract starts in 2010/11 which should seek to minimise cost increases. Regular budget monitoring is taking place and maintenance of adequate reserves and working balance levels to deal with any major fluctuations. In addition we are seeking to progress energy reduction schemes linked to climate change.	3
4.	Fuel Costs	The increases in petrol and diesel exceed the budget provision.	Additional cost for the Council.	Procurement arrangements seek to ensure prices are always competitive. It is expected that developments from mobile working and the fleet review will seek to reduce the Council's exposure to this risk. Excessive increases would need to be assessed against the charges made of services, review the frequency of transport related services and enhance work with partners.	5

No.	Budget Item	Risk	Impact	Actions undertaken / required to minimise risk	Risk score
5.	Investment Income	Available cashflow surpluses are lower than anticipated and/or lower than expected interest rates.	Reduction in the level of income earned on investments	We monitor and report quarterly the average rate of interest received and changes to levels of balances. Liaison with Treasury Management Consultants takes place to ensure the maximum potential is being realised from investment activities. A future aspiration is to adjust future budgets to ensure core services are not funded by investment interest.	4
6.	Income from Fees and Charges	Reduction in the number of users/applications.	Shortfall in the amount of anticipated income	Regular budget monitoring, which must identify any primary reasons for reductions. Options to adjust service costs to match new levels of income will need to be considered. Reducing demand for services will be adjusted to levels of provision and options considered for services generating higher income levels. Delegations exist to ensure pricing can be adjusted to conditions in the market place.	7
7.	Pleasley Vale Mills	Loss of key tenants and/or rise in repairs and maintenance costs.	Either of these factors will have an adverse effect on the Council's budget.	Regular monitoring and liaison with the Management Company. Also need to progress options for sale of the Mills.	2
8.	Concessionary Fares	The financial implications of an appeal lodged by major bus operators are higher than anticipated.	The costs of the national scheme exceed the budget provision.	Monitor the outcome of the appeal and continue to liaise with the Department for Transport and the Local Government Association regarding the cost to the Council. This risk is due to be transferred to Derbyshire County Council from 2011/12.	3
9.	Concessionary Fares	Government funding is reduced	This will have an adverse impact on the budget.	Any reduction in funding, currently subject to review, will be resisted through national bodies. The case will be made relative to the historic high costs incurrent when compared to existing costs. This risk is due to be transferred to Derbyshire County Council from 2011/12.	6

No.	Budget Item	Risk	Impact	Actions undertaken / required to minimise risk	Risk score
10.	Housing Benefits and Subsidy	An increase in the level of Benefit Overpayments,	Lower than expected levels of Subsidy Grant income.	Full Subsidy is only payable on correctly paid benefits; therefore there is a need to monitor the levels and recovery of benefit overpayments. Additional temporary resources would be considered for the work.	3
11.	Council Tax and NNDR Income	Failure to achieve collection rate targets.	Adverse effect on the Council's overall cashflow position and collection fund.	Monitor monthly and evaluate the effectiveness of recovery procedures compared with other Council's in Derbyshire shows we are achieving excellent performance levels.	1
12.	Supporting People	The Council may receive a lower than expected contribution from the central fund, administered by Derbyshire County Council.	Any shortfall between the actual costs incurred in the Supporting People scheme and the contribution received will have to be met by the Council.	Liaise closely with the Supporting People Team and continue to monitor costs. Charging policy may have to be reviewed.	2
13.	HRA Rent Income	Higher than anticipated void property levels or right to buy sales.	Either of these options will reduce the levels of Rent Income.	Regular budget monitoring and review the procedures to manage void properties. Sales are at a historically low level. Void levels will be monitored by Executive on a quarterly basis with rent collection and arrears details.	3
14.	Housing Rent Arrears	Little or no improvement in the collection of arrears.	Adverse effect on the Council's overall cashflow position.	Monitor monthly and evaluate the effectiveness of recovery procedures. Quarterly reporting to Executive for collection performance, current arrears and former tenant arrears. Additional resources approved for 2 years in 2009/10 to reduce former tenant arrears.	4

No.	Budget Item	Risk	Impact	Actions undertaken / required to minimise risk	Risk score
15.	Efficiency Gains	Efficiency targets cannot be met.	If the efficiency targets are not achieved, this will require a reduction in the current working balance levels in order to maintain a balanced budget. Consistent failure to meet targets could lead to Government intervention.	Developing a Savings Strategy against which progress will be regularly reported.	7
16.	Vacancy Factor	Vacancy Factor cannot be met.	If the Vacancy Factor is not achieved, this will require a reduction in the current working balance levels in order to maintain a balanced budget.	Monitor progress against target on a regular basis. If this is underachieving options will include increasing the recruitment drag, introduce a moratorium on filling vacancies and review service levels. The target in the first year of this (2009/10) was exceeded.	8
17.	Investment risk	Investments not repaid on maturity due to current economic climate.	Investment and associated interest not repaid. Future year costs to account for the loss in value of the asset.	We take regular advice from the Council's Treasury management advisors. The counterparty maximum limit has been reduced, spread investments to secure organisations, look to maximise investments with Government investment schemes and Government backed institutions.	2

No.	Budget Item	Risk	Impact	Actions undertaken / required to minimise risk	Risk score
18.	Savings anticipated	Saving are not achieved	Levels of use of reserves increase	If any aspects of the suggested saving become unachievable other savings will be introduced. Any savings that impact on Council priorities will be approved before action is taken. Any underachievement of General fund savings in 2009/10 could be contained by reserves but would generate the need to achieve additional savings in 2010/11.	10

2010/11 Capital Budget Risk Assessment

No.	Budget Item	Risk	Impact	Actions undertaken / required to minimise risk	Risk score
1.	External Funding	Loss of anticipated external funding to support Capital Projects.	A funding shortfall would occur which may jeopardise the delivery of the project.	We ensure all external funding is secured before project work commences.	2
2.	Capital Expenditure	Increase in the expected level of financial commitment required to deliver the project.	Potentially this could mean additional cost for the Council.	Expenditure and outcomes are monitored by budget managers who report monthly to the Capital Monitoring Group. Major projects have regular project team meetings and report to Senior Management Team on a regular basis. If necessary, we would look to rephrase work, reduce content of projects and explore avenues for additional external funding.	3
3.	Capital expenditure	Contractor failure	Work not completed, delays in finishing, potential for higher cost.	Financial vetting of potential suppliers takes into account the current financial climate. Contract securities appropriate to the contract should be sought. Project start can be delayed until risk is reduced.	2
4.	Capital Receipts	Lower than anticipated Capital Receipts available to finance the Capital Programme.	Anticipated funding would not be available to support certain Capital projects.	Monitoring of income and trends in numbers and values of sales takes place. Investigate potential sources of external funding. Projects not normally approved without funding being in place. The approved capital programme details the priority of schemes to be funded as resources become available.	5

No.	Budget Item	Risk	Impact	Actions undertaken / required to minimise risk	Risk score
5.	Prudential Borrowing	Borrowing costs will cause pressure on the Revenue Budgets.	Revenue Budget developments may be compromised as a result of financing borrowing costs associated with Capital projects.	We monitor the relationship between debt charges and investment income and ensure Prudential Indicators are monitored and that the financial implications of any project are fully evaluated. Only proven ongoing savings would be used to fund the revenue costs of prudential borrowing.	1
6.	Tarrans project	Capital receipts to repay borrowing are not generated at expected levels.	Options for the size of the project, phasing, work with partners, higher revenue cost for longer.	Project group meeting regularly and report to Senior Management Team when significant stages planned to be reached. Control via delegation at key stages will ensure risks are regularly re-evaluated.	9