

Committee:	Executive	Agenda Item No.:	12.
Date:	7 th February 2011	Status	Open
Category	3. Part of the Budget and Policy Framework		
Subject:	General Fund Budget Sensitivity Analysis and Risk Assessment 2011/12 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. The Executive have reports on the agenda for this meeting that outline the budgets to be recommended to Council on 16th February 2011. Aspects that support the assessment of that budget have now taken place and this report details:

- Sensitivity Analysis
- Risk Assessment

Sensitivity Analysis

- This detailed sensitivity analysis of the main area of expenditure.
- 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 £140,802	Extra £11,337
+ 0.5%	Extra £70,401	Extra £5,669
- 0.5%	Pressure of £70,401	Pressure of £5,669
- 1.0%	Pressure of £140,802	Pressure of £11,337

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.

- Energy

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 £83,196	Saving of £97,148
-10%	Saving of £41,598	Saving of £48,574
+10%	Pressure of £41,598	Pressure of £48,574
+20%	Pressure of £83,196	Pressure of £97,148

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.

- Pay Award

Within the General Fund and the Housing Revenue Account the budgets have been prepared on the Assumptions that there will not be a pay award. The table below shows the sensitivity analysis for this expenditure.

Variation in Award	General Fund Impact	HRA Impact
Pay Award is 0.5%	Pressure £42,653	Pressure £14,049
Pay Award is 1%	Pressure £85,305	Pressure £28,097
Pay Award is 1.5%	Pressure of £127,957	Pressure £42,145
Pay Award is 2%	Pressure of £170,610	Pressure of £56,196

Variation in Award	General Fund Impact	HRA Impact
Pay Award is 2.5%	Pressure of £213,262	Pressure of £70,241

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% increase in the pay award the impact would be as follows:

- General Fund + £4,308
- Housing Revenue Account + £1,419

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 Superannuation costs would vary also. For each incremental 0.5% increase in the pay award the impact would be as follows:

- General Fund + £5,075
- Housing Revenue Account + £1,672

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. The highest risks relate to the achievement of efficiencies / Savings /additional income. Monitoring during the year is crucial.

IMPLICATONS

Financial: The in year budgets for the General Fund and HRA budgets are carrying high sensitivity to change or significant risk. The transition grant would only be sufficient to cover any risk during its limited 2 years of existence. This would be after all other opportunities had been explored.

Legal: None.

Human Resources: None.

RECOMMENDATIONS

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

REASON FOR DECISION

The budgets approved 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

2011/12 Revenue Budgets Risk Assessment

No	Budget Item	Risk	Impact	Impact	Likelihood	Score	Actions undertaken / required to minimise risk	Impact	Likelihood	Score
1.	Pay Awards	Future settlements exceed the percentage increase provided for in the budget.	Additional cost for the Council.	2	1	3	National predictions are for 0% increase in 2011/12. Transition grant may fund in year settlement whilst further savings found.	1	1	2
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.	4	2	8	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	2	8

No	Budget Item	Risk	Impact	Impact	Likelihood	Score	Actions undertaken / required to minimise risk	Impact	Likelihood	Score
3.	Energy Costs	The increases in gas and electricity exceed the budget provision.	Additional cost for the Council.	2	3	6	New energy contract for 2011/12 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.	2	2	4

No	Budget Item	Risk	Impact	Impact	Likelihood	Score	Actions undertaken / required to minimise risk	Impact	Likelihood	Score
4.	Fuel Costs	The increases in petrol and diesel prices and taxation exceed the budget provision.	Additional cost for the Council.	2	4	8	Budget reflects mid year pressure in 2010/11. 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.	2	4	8

No	Budget Item	Risk	Impact	Impact	Likelihood	Score	Actions undertaken / required to minimise risk	Impact	Likelihood	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	2	3	6	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.	2	3	6

No	Budget Item	Risk	Impact	Impact	Likelihood	Score	Actions undertaken / required to minimise risk	Impact	Likelihood	Score
6.	Income from Fees and Charges	Reduction in the number of users / applications.	Shortfall in the amount of anticipated income	3	4	12	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.	3	3	9
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.	2	3	6	New arrangements from April 2011 will see the Council directly managing this facility and seek to maximise occupancy. Regular monitoring will take place.	2	2	4

No	Budget Item	Risk	Impact	Impact	Likelihood	Score	Actions undertaken / required to minimise risk	Impact	Likelihood	Score
8.	Housing Benefits and Subsidy	An increase in the level of Benefit Overpayments,	Lower than expected levels of Subsidy Grant income.	3	3	9	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	2	6
9.	Council Tax and NNDR Income	Failure to achieve collection rate targets.	Adverse effect on the Council's overall cashflow position and collection fund.	2	3	6	Ongoing monthly monitoring and evaluate the effectiveness of recovery procedures compared with other Council's in Derbyshire.	2	3	6

No	Budget Item	Risk	Impact	Impact	Likelihood	Score	Actions undertaken / required to minimise risk	Impact	Likelihood	Score
10	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.	3	2	6	Ongoing liaison with the Supporting People Team and continue to monitor costs. Charging policy may have to be reviewed.	3	2	6
11	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.	3	3	9	Ongoing regular budget monitoring and review the procedures to manage void properties. Sales are at a historically low level. Void levels monitored by Executive on a quarterly basis with rent collection and arrears details. 2010/11 has expected low level of voids.	3	2	6

No	Budget Item	Risk	Impact	Impact	Likelihood	Score	Actions undertaken / required to minimise risk	Impact	Likelihood	Score
12	Housing Rent Arrears	Little or no improvement in the collection of arrears.	Adverse effect on the Council's overall cashflow position.	3	2	6	Ongoing monitoring 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. Improvement Scrutiny review in 2010/11. Quarterly reporting to Audit Committee.	3	2	6

No	Budget Item	Risk	Impact	Impact	Likelihood	Score	Actions undertaken / required to minimise risk	Impact	Likelihood	Score
13	Efficiency / Saving Targets	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. Missed savings in one year increase target and difficulty in future years.	4	3	12	<p>Savings Strategy monitoring progress on a regular basis.</p> <p>New corporate plan from 2011/12 should reflect current funding levels and saving requirements.</p> <p>If any aspects of the Saving Strategy become unachievable other savings will need to be introduced. Any savings that impact on Council priorities will be approved before action is taken.</p>	3	3	9

No	Budget Item	Risk	Impact	Impact	Likelihood	Score	Actions undertaken / required to minimise risk	Impact	Likelihood	Score
14	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.	3	3	9	<p>Ongoing monitoring progresses 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.</p> <p>Staff turnover levels have dropped below historic levels.</p>	3	3	9
15	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.	4	2	8	We take regular advice from the Council's Treasury management advisors. This is controlled via the counterparty maximum limit to spread investments to secure organisations and look to maximise investments with Government investment schemes and Government backed institutions.	4	1	4

2011/12 Capital Budget Risk Assessment

No.	Budget Item	Risk	Impact	Impact	Likelihood	Score	Actions undertaken / required to minimise risk	Impact	Likelihood	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.	3	1	3	We ensure all external funding is secured before project work commences.	3	1	3
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.	3	2	6	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	2	6

No.	Budget Item	Risk	Impact	Impact	Likelihood	Score	Actions undertaken / required to minimise risk	Impact	Likelihood	Score
3.	Capital expenditure	Contractor failure	Work not completed, delays in finishing, potential for higher cost.	3	3	9	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.	3	3	9
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.	3	3	9	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.	3	2	6

No.	Budget Item	Risk	Impact	Impact	Likelihood	Score	Actions undertaken / required to minimise risk	Impact	Likelihood	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.	2	2	4	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.	2	2	4
6.	Tarrans project (Bolsover)	Funding levels are not delivered.	Options for the size of the project, phasing, work with partners, higher revenue cost for longer.	3	3	9	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.	3	2	6