

## Revenue Budget 2012-2015 – Risks and Reserves

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### Policy and Strategy Committee

24 January 2012

#### 1 Purpose of report

- 1.1 This report advises members on the risks inherent in the budget process and provides an update on the projected reserves for the period 2012-2015.

#### 2 Summary

- 2.1 Risks are inherent in any budget process. This report aims to advise members of significant risks identified in the budget process. These have been quantified where possible.
- 2.2 Reserves are held against the risk of unanticipated expenditure or reduced income arising in any particular year. In addition, under accounting rules, some reserves are set aside to manage timing differences between the receipt of income and expenditure being incurred.
- 2.3 The reserves held by the Council are reviewed annually as part of the revenue budget process. The review considers the level of balances, the risks inherent in the budget process and the arrangements in place to manage these risks.

#### 3 Main report

##### Risks

- 3.1 There are always risks inherent in the budget process. Risks have been categorised into one of two groups: risks associated with delivery of savings options and severance costs; and on-going risks. The most significant of these are summarised below. A Summary of the risks is shown at Appendix 1.

##### **Risks associated with delivery of savings options and severance costs**

##### Procurement and other efficiency savings and service reductions

- 3.2 The budget process makes assumptions on the level of savings that can be achieved, including those from internal improvement plans. There are a number of risks that fall within this area:

- The ability of Directors to deliver procurement and other efficiency savings that form part of the approved budget within the timescales stated;
  - Service reductions and associated workforce reductions may not be achieved without the need for staff severance costs, which may not be fully budgeted;
  - The ability to deliver the full amount of expected savings within the first year.
- 3.3 Members have already approved a number of budget savings as part of the 2011-2014 budget process and a further set of officer proposals has been presented to Members for consideration as part of the budget process.
- 3.4 The full list of savings agreed for the 2012/13 budget will not be known until February 2012 and therefore the risks may vary, dependant upon the political choices made on savings proposals.

### **On-going risks**

#### Equal pay settlements

- 3.5 The risk relates to the provision and earmarked balance that has been set aside not being sufficient to meet the potential costs of pay protection and the liability that may arise from successful APT&C and other claims.
- 3.6 The Council had previously sought permission to undertake borrowing from the Scottish Government, should the need arise. To date, the Council has not required to undertake any borrowing, however, this ability expires on 31 March 2012 and will not be able to be carried forward to future years. The Council would therefore need to identify revenue funding for any additional costs should these arise.

#### Loss of income for trading services and other services that rely on fee income

- 3.7 Assumptions on the level of income that will be generated for services are made in the budget process. The risks relate to (i) a decrease in the demand for services for which the Council charges a fee and (ii) the ability to collect all income due.
- 3.8 Whilst these risks cannot be quantified, there are measures the Council can take to mitigate the risk. Such measures include using service level agreements (or similar) for the provision of services to external users. These have been used for a number of services within the Council.

#### Demographic changes leading to rising service demand for vulnerable children, elderly, people with a learning disability and people entitled to claim Council Tax or housing benefits

- 3.9 The risk relates to increased demand for such services and the ability to provide these within the level of available resources.

- 3.10 The Long-Term Financial Plan (LTFP) identifies £7.197m in 2012-13, with an additional £9.022m and £8.096m in 2013-14 and 2014-15 respectively, for the effects of demographic changes.

Council Tax collection targets are not met because of the impact the economic downturn is having on individuals

- 3.11 The risk relates to the ability to collect all income due and potential increases in the number of homes entitled to discounts. Members will be aware from previous monitoring reports that there can be significant movements in the number of properties entitled to exemptions and discounts, particularly in the latter months of the financial year.

Infrastructure

- 3.12 The risk relates to there not being sufficient resources to adequately maintain the Council's existing and planned infrastructure, resulting in reduced service provision and / or increased costs in the future.

Large scale emergencies

- 3.13 The risk relates to the Council requiring to meet the first £2.036m (2011-12 threshold) of any costs for large scale emergencies for which claims are made under the Bellwin scheme and the ability to manage this within the overall level of resources available to the Council.

Energy Costs

- 3.14 Energy costs present a risk as costs continue to be subject to significant fluctuations in price. The existing contracts will require to be renewed within the cycle of the three year budget. Additional provision of £3.19m has been made within the LTFP.

Failure to meet recycling and landfill diversion targets leading to waste management penalties

- 3.15 The risk relates to exposure to financial penalties for not meeting the increasing waste diversion targets. Financing to assist with waste diversion has been provided by the Scottish Government through the Zero Waste Fund.

Contract increases linked to inflation

- 3.16 The risk relates to contract increases linked to inflation exceeding the estimates in the financial model and the ability to manage this within the overall level of available resources. The LTFP provides for inflation at 3.5% / 3% / 2.5% (adjusted for the PPP Contracts as necessary).

Interest Rates

- 3.17 The risk relates to loan charges exceeding the budget provision as a result of interest rate rises. Exposure to the risk of rising interest rates is partially managed through the use of fixed term loans and long maturity profiles.

### Universal Credit

- 3.18 The risk relates to the impact on departmental and the Housing Benefits budget from the introduction of the Universal Credit. The LTFP provides for £3.5m of additional funding for Housing Benefits in 2013/14.

### Property Conservation

- 3.19 The risk relates to the costs arising from the review of property conservation exceeding the provision made in the 2010/11 Financial Statements.

### Major Projects

- 3.20 The risk relates to the requirement to meet additional loan charges if the costs of major capital projects exceed approved budget levels.

### **Reserves**

- 3.21 Members are aware that the Council holds a number of earmarked balances within the General Fund. At 31 March 2011, the General Fund balance stood at £89.634m, of which £76.609m was held for specific purposes, meaning the unallocated General Fund balance stood at £13.025m. The Council's medium-term target was to have an unallocated General Fund balance of £12.8m by March 2012.
- 3.22 This target had already been met by 31 March 2011 and as a result, the current budget does not provide for any further contributions to the unallocated General Fund.
- 3.23 There are a number of planned contributions to / from the earmarked balances held within the General Fund. Details of these planned movements are shown in Appendix 2. Appendix 3 provides details on the purposes of the main earmarked balances held.
- 3.24 Members will note from the appendices that there are several contingency funds being held for similar purposes. Members are asked to approve merging the Contingency Fund (Corporate) and the Budget Flexibility Set Aside Fund into the Council Priorities Fund, thus creating a single fund which will be earmarked for strategic initiatives.

## **4 Financial Implications**

- 4.1 The financial implications in this report relate primarily to the risks inherent in the budget process and the likelihood of one or more of these materialising.

## **5 Equalities Impact**

- 5.1 There is no relationship between the matters described in this report and the public sector general equality duty.
- 5.2 There are no equalities implications arising from this report.

## **6 Environmental Impact**

6.1 There are no adverse environmental impacts arising from this report.

## **7 Conclusions**

7.1 Risks are inherent in the budget process. It is essential that these risks are monitored during the year and where necessary, action taken to mitigate these risks.

7.2 Council met its target of an unallocated General Reserve balance of £12.8m by March 2012 by 31 March 2011. Taking into account the monies earmarked for specific purposes, this is considered to provide adequate assurance at this time for the Council.

## **8 Recommendations**

8.1 The Policy and Strategy Committee is asked to:

- (i) Note the contents of this report;
- (ii) Recommend that Council approves the merger of the Contingency Fund (Corporate) and Budget Flexibility Set Aside Fund into the Council Priorities Fund; and
- (iii) Remit this report to Council for decision on 9 February 2012.

**Alastair D Maclean**  
Director of Corporate Governance

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Appendices	1 Risk Matrix 2 Planned use of reserves 3 Purpose of earmarked balances
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Wards affected	All
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Single Outcome Agreement	All
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Background Papers	Long Term Financial Plan Departmental budget working papers
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**Risk Matrix**

The table below summarised how the risks identified in the report are managed:

<b>Risk</b>	<b>Provision to Manage</b>
Procurement and other efficiency savings and service reductions	Workforce Reductions – Earmarked provision Other Reductions – Mitigating action
Equal pay settlements	Earmarked provision
Loss of income for trading services and other services that rely on trading income	Mitigating action
Demographic changes leading to rising service demands	Long-Term Financial Plan
Council Tax collection targets are not met	Unallocated reserve
Infrastructure	Mitigating action
Large scale emergencies	Unallocated reserve
Energy costs	Long-Term Financial Plan / Unallocated reserve / Spend to Save
Failure to meet recycling and landfill diversion targets	Spend to Save
Contract increases linked to inflation	Long-Term Financial Plan
Interest rates	Mitigating action / Long-Term Financial Plan
Universal credit	Long-Term Financial Plan
Property conservation	Earmarked provision / Unallocated reserve
Major projects	Long-Term Financial Plan

Earmarked Provision – the Council has set monies aside in an earmarked reserve or other provision to meet the estimated costs.

Mitigating Action – Directors will require to identify alternative measures to manage risks within available resources

Provided in Long-Term Financial Plan – costs are provided for in the Long-Term Financial Plan

Unallocated Reserve – Council would require to draw down from the unallocated General Fund balance to meet costs

Spend to Save – Council invests funds in the short-term to release savings over the longer-term

**Reserves Statement**

	Actual Balance 31-Mar-11 £000	Interest Payable £000	Utilisation of Balances 2011-12 £000	Restoration of Balances 2011-12 £000	Projected Balance 31-Mar-12 £000
<b>Usable Reserves</b>					
Unallocated General Fund Reserve	13,025				13,025
Budget Flexibility (incl Set Aside)	3,212				3,212
Change Management	365	2	-367		0
Contingency Fund (C&F)	1,300		-700		600
Contingency Fund (Corporate)	2,900				2,900
Contingency Fund (Infrastructure)	0			4,000	4,000
Council Priorities Fund	2,443		-851	2,000	3,592
<b>Total Usable Reserves</b>	<b>23,245</b>	<b>2</b>	<b>-1,918</b>	<b>6,000</b>	<b>27,329</b>
<b>Earmarked Balances</b>					
BT Efficiencies	1,305		-4,973	5,221	1,553
Spend to Save Fund	1,483	7	-1,000	21	511
Staff Severance	11,098		-7,200		3,898
Devolved School Management	1,900			215	2,115
Dilapidations Fund	4,467		-200	700	4,967
Energy Efficiency	693	3			696
Equal Pay	8,701	44			8,745
Licensing					
- Cabs	143			100	243
- H.M.O.s	352			75	427
- Liquor Licences	491		-275		216
Insurance Fund	10,151	51	-900	950	10,252
Joint Board Requisitions( <i>timing</i> )	0			1,818	1,818
Lothian Buses	2,000				2,000
PPP	1,027			131	1,158
R.S.L.s Council Tax	8,121	41	-7,503	2,500	3,159
Recycling Balances	9,848		-6,200		3,648
<u>Grants Set Aside</u>					
- Grants Set Aside by C&F	1,247		-1,247		0
- Grants Set Aside by CS	706		-650		56
- Grants Set Aside by CD	1,754		-1,142	100	712
- Grants Set Aside by FIN	47		-47		0
- Grants Set Aside by HSC	243		-243		0
- Grants Set Aside by SfC	350		-350		0
<u>Minor Funds</u>					
Major Exhibitions	125	1	-25		101
Social Inclusion	42		-42		0
Corner Bequest	30		-30		0
Lord Provost's Portrait Fund	39		-2	4	41
Dr Ethel Gray	8		-8		0
Other Minor Funds	18				18
<b>Total Earmarked Balances</b>	<b>66,389</b>	<b>147</b>	<b>-32,037</b>	<b>11,835</b>	<b>46,334</b>
<b>Total General Reserve</b>	<b>89,634</b>	<b>149</b>	<b>-33,955</b>	<b>17,835</b>	<b>73,663</b>
<b>Capital Fund</b>					
General Capital Fund					
- Equal Pay	10,178	51			10,229
- Capital Projects	4,957	25			4,982
- Other Capital Fund	1,155	6	-350		811
<b>Total Capital Fund</b>	<b>16,290</b>	<b>82</b>	<b>-350</b>	<b>0</b>	<b>16,022</b>
<b>Renewal and Repairs Fund</b>	<b>15,404</b>	<b>77</b>	<b>-130</b>	<b>1,154</b>	<b>16,505</b>



**Reserves Statement**

	Interest Payable £000	Utilisation of Balances 2012-13 £000	Restoration of Balances 2012-13 £000	Projected Balance 31-Mar-13 £000
<b>Usable Reserves</b>				
Unallocated General Fund Reserve				13,025
Budget Flexibility (incl Set Aside)		-863		2,349
Change Management				0
Contingency Fund (C&F)		-600		0
Contingency Fund (Corporate)				2,900
Contingency Fund (Infrastructure)				4,000
Council Priorities Fund		-600		2,992
<b>Total Usable Reserves</b>	<b>0</b>	<b>-2,063</b>	<b>0</b>	<b>25,266</b>
<b>Earmarked Balances</b>				
BT Efficiencies		-4,890	4,513	1,176
Spend to Save Fund	3			514
Staff Severance		-2,500		1,398
Devolved School Management				2,115
Dilapidations Fund		-500	700	5,167
Energy Efficiency	3			699
Equal Pay	44			8,789
Licensing				
- Cabs				243
- H.M.O.s				427
- Liquor Licences		-216		0
Insurance Fund	51	-900	950	10,353
Joint Board Requisitions( <i>timing</i> )		-1,818		0
Lothian Buses				2,000
PPP			131	1,289
R.S.L.s Council Tax	16	-3,174	2,500	2,501
Recycling Balances		-2,400		1,248
<u>Grants Set Aside</u>				
- Grants Set Aside by C&F				0
- Grants Set Aside by CS				56
- Grants Set Aside by CD		-597		115
- Grants Set Aside by FIN				0
- Grants Set Aside by HSC				0
- Grants Set Aside by SfC				0
<u>Minor Funds</u>				
Major Exhibitions		-3		98
Social Inclusion				0
Corner Bequest				0
Lord Provost's Portrait Fund			4	45
Dr Ethel Gray				0
Other Minor Funds				18
<b>Total Earmarked Balances</b>	<b>117</b>	<b>-16,998</b>	<b>8,798</b>	<b>38,251</b>
<b>Total General Reserve</b>	<b>117</b>	<b>-19,061</b>	<b>8,798</b>	<b>63,517</b>
<b>Capital Fund</b>				
General Capital Fund				
- Equal Pay	51			10,280
- Capital Projects	25			5,007
- Other Capital Fund	4	-750		65
<b>Total Capital Fund</b>	<b>80</b>	<b>-750</b>	<b>0</b>	<b>15,352</b>
<b>Renewal and Repairs Fund</b>	<b>83</b>	<b>-11,814</b>	<b>2,054</b>	<b>6,828</b>

**Reserves Statement**

	Interest Payable £000	Utilisation of Balances 2013-14 £000	Restoration of Balances 2013-14 £000	Projected Balance 31-Mar-14 £000
<b>Usable Reserves</b>				
Unallocated General Fund Reserve				13,025
Budget Flexibility (incl Set Aside)				2,349
Change Management				0
Contingency Fund (C&F)				0
Contingency Fund (Corporate)				2,900
Contingency Fund (Infrastructure)				4,000
Council Priorities Fund				2,992
<b>Total Usable Reserves</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>25,266</b>
<b>Earmarked Balances</b>				
BT Efficiencies		-2,922	3,845	2,099
Spend to Save Fund	3			517
Staff Severance				1,398
Devolved School Management				2,115
Dilapidations Fund		-1,000	700	4,867
Energy Efficiency	3			702
Equal Pay	44			8,833
Licensing				
- Cabs				243
- H.M.O.s				427
- Liquor Licences				0
Insurance Fund	52	-900	950	10,455
Joint Board Requisitions( <i>timing</i> )				0
Lothian Buses				2,000
PPP			131	1,420
R.S.L.s Council Tax	13	-2,528	2,500	2,486
Recycling Balances		-1,248		0
<u>Grants Set Aside</u>				
- Grants Set Aside by C&F				0
- Grants Set Aside by CS				56
- Grants Set Aside by CD				115
- Grants Set Aside by FIN				0
- Grants Set Aside by HSC				0
- Grants Set Aside by SfC				0
<u>Minor Funds</u>				
Major Exhibitions		-3		95
Social Inclusion				0
Corner Bequest				0
Lord Provost's Portrait Fund		-16	4	33
Dr Ethel Gray				0
Other Minor Funds				18
<b>Total Earmarked Balances</b>	<b>115</b>	<b>-8,617</b>	<b>8,130</b>	<b>37,879</b>
<b>Total General Reserve</b>	<b>115</b>	<b>-8,617</b>	<b>8,130</b>	<b>63,145</b>
<b>Capital Fund</b>				
General Capital Fund				
- Equal Pay	51			10,331
- Capital Projects	25			5,032
- Other Capital Fund	0			65
<b>Total Capital Fund</b>	<b>76</b>	<b>0</b>	<b>0</b>	<b>15,428</b>
<b>Renewal and Repairs Fund</b>	<b>34</b>	<b>-14,168</b>	<b>12,687</b>	<b>5,381</b>

**Reserves Statement**

	Interest Payable £000	Utilisation of Balances 2014-15 £000	Restoration of Balances 2014-15 £000	Projected Balance 31-Mar-15 £000
<b>Usable Reserves</b>				
Unallocated General Fund Reserve				13,025
Budget Flexibility (incl Set Aside)				2,349
Change Management				0
Contingency Fund (C&F)				0
Contingency Fund (Corporate)				2,900
Contingency Fund (Infrastructure)				4,000
Council Priorities Fund				2,992
<b>Total Usable Reserves</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>25,266</b>
<b>Earmarked Balances</b>				
BT Efficiencies			2,961	5,060
Spend to Save Fund	3			520
Staff Severance				1,398
Devolved School Management				2,115
Dilapidations Fund		-3,000	700	2,567
Energy Efficiency	4			706
Equal Pay	44			8,877
Licensing				
- Cabs				243
- H.M.O.s				427
- Liquor Licences				0
Insurance Fund	52	-900	950	10,557
Joint Board Requisitions( <i>timing</i> )				0
Lothian Buses		-1,000		1,000
PPP			131	1,551
R.S.L.s Council Tax	12	-2,550	2,500	2,448
Recycling Balances				0
<u>Grants Set Aside</u>				
- Grants Set Aside by C&F				0
- Grants Set Aside by CS				56
- Grants Set Aside by CD				115
- Grants Set Aside by FIN				0
- Grants Set Aside by HSC				0
- Grants Set Aside by SfC				0
<u>Minor Funds</u>				
Major Exhibitions				95
Social Inclusion				0
Corner Bequest				0
Lord Provost's Portrait Fund			4	37
Dr Ethel Gray				0
Other Minor Funds				18
<b>Total Earmarked Balances</b>	<b>115</b>	<b>-7,450</b>	<b>7,246</b>	<b>37,790</b>
<b>Total General Reserve</b>	<b>115</b>	<b>-7,450</b>	<b>7,246</b>	<b>63,056</b>
<b>Capital Fund</b>				
General Capital Fund				
- Equal Pay	52			10,383
- Capital Projects	25			5,057
- Other Capital Fund	0			65
<b>Total Capital Fund</b>	<b>77</b>	<b>0</b>	<b>0</b>	<b>15,505</b>
<b>Renewal and Repairs Fund</b>	<b>27</b>	<b>-15,851</b>	<b>14,451</b>	<b>4,008</b>

<b>Usable Reserves</b> Budget Flexibility (including Set Aside)	<b>Purpose</b> Monies set aside under the budget flexibility scheme, part of which is returned to services and part set aside to ensure the Council maintains an adequate level of reserves or to meet corporate contingencies.
Change Management	Balance of £1m of funding set aside to support the Council's change management programme.
Contingency Fund (Children and Families)	The Children and Families 2010/11 outturn provided for £1.3m of contingency which was set aside within reserves in recognition of potential future budget pressures within the department's revenue budget.
Contingency Fund (Corporate)	Fund created in the current financial year following Council's Council approval of a motion by Councillor Whyte at its meeting on 24 June 2010, which instructed the Director of Finance to bring forward proposals for building a financial contingency that can be used to facilitate a smoother transition to the more challenging financial environment anticipated in the future.
Contingency Fund (Infrastructure)	Monies earmarked within the Long-Term Financial Plan for loan charges associated with additional investment in infrastructure.
Council Priorities Fund	Fund created in 2010/11 with the departmental underspends, which Council agreed not to carry forward under the budget flexibility scheme. Council has approved use of these monies for the "Edinburgh Guarantee" and additional support for business during the tram project.
<b>Earmarked Reserves</b> BT Efficiency Fund	<b>Purpose</b> Monies set aside from efficiencies in the BT contract for the following purposes: <ul style="list-style-type: none"> <li>(i) cash releasing efficiency projects;</li> <li>(ii) modernising government, through enhanced use of IT;</li> <li>(iii) new ways of working; and</li> <li>(iv) strategic financial planning</li> </ul>
Spend to Save Fund	A fund set up in February 2000 to assist service departments to deliver revenue savings in future years through longer-term financial planning.
Staff Severance	This represents monies set aside to meet the costs relating to the voluntary release of staff. Pension strain costs will be repayable by departments over a period of up to five years.

<b>Earmarked Reserves</b>	<b>Purpose</b>
Devolved School Management	This represents the balances held by schools under devolved school management.
Dilapidations Fund	This represents monies set aside to meet dilapidation costs arising from the termination of property leases. The main costs are likely to arise for Chesser House.
Energy Efficiency Fund	Monies received from the Scottish Government's Energy Efficiency Initiative to facilitate the operation of spend-to-save schemes in this area.
Equal Pay	Monies set aside to manage additional costs arising from the implementation of equal pay.
Insurance Fund	Insurance Funds can be used to defray any loss where an authority could have insured against a loss but have not done so and for paying premiums on an insurance policy. This includes the power to meet excesses on insurance policies.
Licensing – - Cabs - H.M.O.s - Liquor licences	This represents the surplus derived from licensing cabs and houses in multiple occupation and liquor licenses. Council is not permitted to use this surplus on other services.
Lothian Buses	Holds additional dividend income previously paid by Lothian Buses which will be draw down in the event that Lothian Buses is unable to pay a dividend in a future financial year.
PPP	Holds monies set aside in recognition of the phasing issues relating to the former 'level playing field support' grant monies.
R.S.L.s – Council Tax	Holds monies received as a result of reducing Council Tax second home discounts. Use of the fund is prescribed by the Scottish Government and is restricted to housing type projects.
Recycling Balances	Holds monies received by Council through zero waste funding.
Grants Set Aside	Holds monies set aside at the year end, in accordance with proper accounting practice, where income has been received prior to the relevant expenditure being incurred.

**Minor Funds**

Major Exhibitions

**Purpose**

Established in 1988 to aid forward planning and provide financial commitment for large-scale events.

Social Inclusion

This fund was set up to meet the development and support costs for the main social exclusion partnerships and major initiatives such as the Lord Provost's Commission on Social Exclusion.

Corner Bequest

Set up with a donation to enable Central Library to purchase items connected with art of music.

Lord Provost's Portrait Fund

Established by Act of Council in 1983 to set up a fund to pay for a portrait of each retiring Lord provost.