

DRAFT - Rossendale Borough Council Budget 2017/18 Risk Analysis and Report Under s25 of the Local Government Act 2000

1. This analysis is produced in order to:
 - a) Support the conclusions as to the robustness of the budget and adequacy of reserves set out in the Chief Finance Officers report under 25 of the Local Government Act 2000.
 - b) Inform members of the financial risks facing the Council for consideration as part of their debates around the setting of the budget and approving the Medium Term Financial Strategy.
2. Financial risks are clearly of various sorts but can broadly be characterised as follows:
 - The chance of overspending against budget
 - The chance of under spending against budget
 - The chance of an unforeseen event with a major financial impact (for example a flood or similar event)
 - The chance of a significant reduction in previously available financial resources (eg Revenue Support Grant, New Homes Bonus, National Non-Domestic Rates, Council Tax, etc)
3. Clearly such risks have either a positive or negative effect on the Council's overall financial position. It is the purpose of the financial management process to allow the Council to both identify the risks it faces and the steps required to either mitigate them in the case of negative risks or exploit them in the case of positive risks.
4. The degree to which the Council is exposed to such risks is influenced by a number of factors:
 - The robustness of the budget estimates. In preparing the budget a line by line review of spending and income is carried out by finance staff and Managers to ensure that budgets reflect the reality of operations and Council policies. This process gives some assurance that underlying budget issues are identified and dealt with.
 - The achievability of major variations to spending plans such as growth or savings items. Where major change is undertaken it is always possible that there will be some delays in delivery, for example due to delays in filling posts or restructuring departments. These issues are dealt with in the costing of the business case for change which should tend to underestimate the achievement of savings and overestimate new costs thus presenting a prudent estimate for inclusion in the budget.
 - External factors such as: inflation, the economy, changes to local government financing and the downturn in the property market all of which have an influence on costs and income. These issues and how they can be managed are dealt with in the next section of this report.

- The budget reflects the ongoing cost of business previously approved by Members. Any policy changes which impact on the core financial budget requirement are always brought before Members for approval.

Turning to the specific risk areas within the Council's budget for 2017/18 and the medium term the following specific areas of risks have been identified:

Expenditure/ Income Heading	Impact	Likelihood	Comments
Employee Costs			
Pay awards	Medium	Low	The budget assumes an average underlying 1.0% for general pay awards for 2016/17 as per the 2 yr pay deal together with any contractual increment growth. .
Vacancies / structures	Medium	Medium	Vacancies normally occur during the year generating savings - this has been the experience in recent years. The budgets include an estimate from the savings associated with natural turnover of staff during 2017/18 being £150k for the year.
Pension Contributions	High	Low	The latest actuarial valuation published December 2016 has indicated a requirement to continue to increase future service rates, now 15.6% (14.0% in 16/17) over the next 3 years and has quantified the deficit payment of c £1m pa. Officers as part of the Treasury Management strategy will be recommending an option to claim an early prepayment discount.
Running Costs			
Energy and Fuel	Medium	Low	Fuel has steadily risen during 2016 but can be contained with the Operations budget. Corporate budgets also include a £60k contingency
Repairs and maintenance	Medium	Medium/High	High risk/cost areas remain with. Amongst others, the many drainage culverts within RBC land ownership, uninsured malicious damage to property and resolution of potential public liability

Expenditure/ Income Heading	Impact	Likelihood	Comments
			<p>matters. The Capital budget has previously set aside an emergency works budget and now has an available balance of £100k. Capital requirements continue to experience increasing demand.</p> <p>In addition to capital receipts we continue to set aside £100k as a revenue contribution to Capital</p>
Insurance	Medium	High	<p>The Council's insurance portfolio was tendered during 14/15 with the potential for a new 7 year relationship.</p> <p>Sporadically we are seeing a number of occupational health claims in relation to past employment. Councils are often seen, mistakenly, as resource rich by the legal system as liability is deemed to be with the local government public sector even though working life could have been, in part, within the private sector. A number of claims companies have recently run national campaigns in relation to occupational health claims. In addition we continue to experience numerous small value trip claims which seem to include disproportionate legal costs.</p> <p>MMI the Councils insurer in 1992 triggered the Creditors Scheme of Arrangement, during 2013/14. MMI now require contribution rates of 25% (previously 15%).</p> <p>The Council has set aside or provided for contributions equivalent to 30%. Adequacy of provisions will be reviewed at the close of 2016/17.</p> <p>The Council has <u>not</u> been able to identify its insurance providers pre – 1971. Any financial claims pre-1971 will fall entirely on the Council – effectively self-insured for pre 1971 claims.</p>

Expenditure/ Income Heading	Impact	Likelihood	Comments
Contract Costs			
ICT	Low/Medium	Low	Additional savings continue to be identified from improved technology and systems.
Leisure	Medium	Medium	The budget and MTFS take account of past Member decisions in relation to the Marl Pits refurbishment and its funding. Rossendale Leisure Trust is now self-financing.
Revenues Benefits and Customer Contracts	Low	Low	The price of this contract is now fixed following a three year extension to Sept 2019 as previously approved by Members.
Housing Benefits	Very High	Medium/High	Expenditure in this area is c. £20m and is the largest single item of expenditure in the Council's budget. While this expenditure, is in the main, fully funded by grant there is an extremely complex system of rules that determine what is and what is not eligible for grant. Given that a 1% variance on this budget amounts to £196k and with some previous history of variances in this area, significant caution needs to be exercised.
Council Tax Support	Very High	Medium/High	Since 2013/14 the council is now exposed to the cost of increased take up from claimants (be they of working age or pensioners). A 2% allowance has been factored into our tax base for additional growth. The Council and other precepting authorities are now exposed to the risk of additional growth and the cost of non-collection from those who are now be eligible to a maximum 80% benefit. Any over allowance in the tax baser will correct itself through actual billings and the Collection Fund Account

Expenditure/ Income Heading	Impact	Likelihood	Comments
Income			
Property Related (Planning Fee, Building Control & Land charges) and other income	Medium	Medium/High	A prudent view has been taken for all income streams and does not include any upside from price increases.
Licencing	Medium	Medium	A prudent view has been taken on Taxis incomes following recent policy changes.
Market Rents	Medium	High	Reflects the previous decisions by Members on pricing and policy.
Waste Collection / Recycling income	Medium	Medium / High	The budget reflects the current value of previously tendered waste recycling income albeit that the market is subject to volatility. The LCC Cost share agreement ends 31 st March 2018 and will result in a £600k funding pressure.
Capital Financing and Interest	High	Medium	Our capacity to make interest gains has significantly reduced over the last few years as bank rates remain at all-time lows and which are assumed to again remain flat during 2016/17. Estimates of future interest rates can be seen in the Councils Treasury Management Strategy. The Council is the 100% owner of the local bus operator. No dividends or income is anticipated (other than departure charges). The Council effectively acts as the company's bankers, with security over its property.
NNDR (Business Rates)	High	Medium	The Council is now part of a Lancashire wide pool were it will retain 40% of all revenues (subject to its tariff) (with 10% of the previous levy charge going to LCC). The MTFS reflects this additional income. The greatest risk within the MTFS is in

Expenditure/ Income Heading	Impact	Likelihood	Comments
			<p>relation to forecast income from the Scout Moor expansion (c 50% of which is the estimated value of NNDR which is retained 100% by Council).</p> <p>In addition the financial benefits the Council receives from the pooling arrangement may not be the same following the “100% retention of business rates at a local level” the details and timing of which have yet to be finalised.</p>
New Homes Bonus	High	High	<p>The budget assumes the receipt of New Homes Bonus funding, with continued funding in future years. Receipt of 2017/18 has been confirmed. However the funding is limited now to only 4 years with reward only for units achieved in excess of a national target baseline.</p> <p>There is increased risk as to the value of NHB for future years. The recent changes to the NHB formula have taken £3m out of the Council’s MTFS resource assumptions over the five year period.</p>
Housing	High	Medium	<p>During 16/17 the Council has continued to face a significant financial and capacity challenge as it worked to recover and finally exit the HCA Empty Homes programme.</p> <p>The 17/18 budget assumes that all day to day operational costs and opportunities now vest with the Calico the Council’s housing partner.</p> <p>Some residual legal challenge costs and their risk may remain with Council</p>
Current Economic Outlook	High	High	<p>Central Government resources were significantly reduced as part of both the CSR 2010 and 2015 as all councils continue to suffer financially from the</p>

Expenditure/ Income Heading	Impact	Likelihood	Comments
			<p>austerity agenda. The Council does at least have a 4 year settlement estimate on which to base its MTFs, albeit RGS now ceases in 2019/20.</p> <p>The medium term remains particularly challenging for District Councils who continue to be asked to do more with less resource, particularly following changes to the NHB formula and a reduction in its value..</p> <p>It would seem that NHB has been top sliced at a local district level in order to contribute to the increasing costs of Adult Social Care within the upper tier authorities. It cannot be guaranteed that a similar impact will not occur again under some other Central Gov't change (eg: 100% retention of business rates)</p>
Use of Transitional Reserves	High	High	<p>The Council will continue to grow when and where possible this reserve in order to support and balance future in year budget deficits.</p> <p>Given the increasing MTFs deficit this reserve will run out in 19/20.</p>
Level of Council Tax and Council Tax freeze grant	High	High	<p>This is the Council's most significant income source which has been frozen for the last seven years.</p> <p>As a district Council Rossendale is able to increase its CTax up to maximum of £5 or 1.99% (whichever is the higher) in order to avoid the risk of a referendum. A 1.99% increase is worth c £100k cumulative resources for each year</p> <p>With RGS coming to an end and with the value of NHB being reduced the decision on the level of Council tax is fundamental to the Council's medium term resources, future financial planning and ability to set a legally balanced</p>

Expenditure/ Income Heading	Impact	Likelihood	Comments
			budget,

In Summary this gives risks in the revenue budget in the range below

	Worst Case £000	Best Case £000	Weighted Average £000
Pay awards	0	0	0
Staff Vacancies	80	0	40
Pension Contributions	0	0	0
Energy and Fuel	0	-50	-25
Repairs and Maintenance	20	0	10
Insurance	0	0	0
ICT Contract	0	0	0
Leisure Contracts	0	0	0
Revenues, Benefits and Customer Contract	0	0	0
Housing	100	0	50
Housing Benefit Payments	200	-100	50
Council Tax support	0	0	0
Taxi, Planning & other Fees	0	0	0
Building Control	0	0	0
Property Rents	40	0	20
Waste Collection / Recycling	100	0	50
Capital Financing and Interest	35	-35	0
General economic Outlook	100	0	50
Business Rates	100	0	50
Transitional Reserves	0	0	0
Council Tax Revenues	0	0	0
Total	775	-185	295

The implication of this range of possible variations is that on a worst case basis the Council needs to maintain reserves of at least £775k to set against the identified risks.

Conclusion and Adequacy of Reserves

- Having considered the exposure to risk the following shows how this risk relates to the Council's reserves:

	£000
Maximum Financial Risk Exposure	775
Minimum level of General risk	<u>1,000</u>

	1,775
Less est' General Reserve @ 31.3.17	1,000
Less Transitional Reserves	2,403
Notional Surplus in available reserves	<u>1,628</u>

6. However, it is also unlikely that all these risks will materialise at once, and if the worst case possible variation is adjusted for likelihood set out in the risk assessment then the following shows the requirement to maintain reserves

	£000
Weighted Financial Risk Exposure	295
Minimum Level of General Reserve	<u>1,000</u>
	1,295
Less:	
Est General Reserve at 31.3.16	1,000
Est Transitional Reserves	2,403
Notional surplus in reserves	2,108

7. This notional surplus would indicate that reserves are adequate though they only represent approximately a two year contingency (all other things remaining equal)
8. It is generally accepted that no budget is without some exposure to risk. However, the position in Rossendale for 2017/18 is such that risks have been identified and either provided against or the above considered view taken that the scale of the risks are manageable. This is reflected in a budget that is both:
- Prudent, that is maintaining a balance between spending commitments and the resources with which to pay for them, and
 - Sustainable, that is able to maintain that balance over the short term.
9. The degree of risk that remains evident in the budget influences the view which should be taken on the level of reserves which the Council need to maintain, which is the second strand to this statutory advice. The Council's financial strategy suggests that Members continue to plan for general reserves of c.£1.0m. General reserves as at 1st April 2016 were £1.0m and are expected to continue to be £1.0m as at 31st March 2017. The Medium Term Financial Strategy identifies other pressures on the horizon in the main as a result of the CSR 2015, the recent Local Government Settlement (eg NHB) and other resource pressures. However, within the immediate medium term the Council has some resource to plan for the anticipated deficit over this period. This therefore means that general reserves should be planned for at a level of at least c. £1m over the medium term. Such general reserves, together with other earmarked reserves will allow a cushion against the risks which have been identified and those unforeseen incidents which may from time to time arise. The financial monitoring reports to Members include a forecast of all reserves over the medium term.

10. All that said, the Council is facing a continuing financial challenge over the medium term with an annual financial deficit of c.£1.2m commencing shortly in 2018/19. Therefore Council must give further consideration in its financial planning to either reduce costs or increase revenues and in particular consider carefully its support of non-statutory services and the Government's assumptions of Spending Power. Given the Council's previous success in delivering efficiency savings the current funding deficit and the ability to record a positive s25 report in the future is extremely challenging.

11. Therefore, in conclusion for 2017/18, being the current year ahead, I am able to give positive assurance to Members as to:

- The adequacy of General and earmarked reserves to address the risks against which they are held and
- The robustness of the budget for 2017/18

PJ Seddon
Head of Financial Services
February 2017

DRAFT