

Draft - Rossendale Borough Council Budget 2014/15 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, 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.

Turning to the specific risk areas within the Council's budget for 2013/14 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 1.0% for general pay awards for 2014/15 and beyond (1% actual for 2013/14). Any award continues to be in the context of what has been very tight Local Government finance settlement. Previous statements from the Chancellor have put a cap on Public Sector pay of 1%. Given this, there is potentially a risk of service disruption due to strike action. A 1% variance in pay equates to a c. £50k (including employers cost).
Vacancies / structures	Low	High	Vacancies normally occur during the year generating savings. However, given the current market conditions assuming low turn-over of staff the budget does not account for any savings being made. The budgets do however include general estimates for any planned efficiencies during 2014/15.
Pension Contributions	High	Low	The latest 2013 actuarial valuation published December 2013 has indicated a requirement to continue to increase rates over this final year – Employer rates for future service is now 14.0%. The deficit contribution is now an additional fixed sum contribution.
Running Costs			
Energy and Fuel	Medium	High	Prices in the international fuel and energy markets remain high. The past year has again seen a steady increase in Energy prices. Energy contracts were tendered during 2013 and saw an 18.5% increase in prices. The next tender is scheduled for Oct 2014.
Repairs and maintenance	Medium	Medium/High	High risk/cost areas remain with the many drainage culverts within RBC land

Expenditure/Income Heading	Impact	Likelihood	Comments
			ownership, uninsured malicious damage to property and resolution of potential public liability matters. The Capital budget continues to set aside an affordable emergency works budget of £40k pa. The 2011/12 stock condition survey has also highlighted the need for areas of capital investment. This whole area continues to experience increasing demand. In addition to capital receipts 2 new initiatives are proposed to support the general programme from revenue £100k and to target £50k towards flooding matters.
Insurance	Medium	Medium	<p>The Council's insurance portfolio was tendered during 08/09 and has been extended for one final year for 2014/15.</p> <p>Increasingly we are seeing a number of occupational health claims in relation to past employment as far back as the 1950's. 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 run national campaigns in relation to occupational health claims (the most recent focusing on hearing loss). In addition we continue to experience numerous small value trip claims which seem to include disproportionate legal costs.</p> <p>MMI the Council's insurer in 1992 have now triggered the Creditors Scheme of Arrangement for which the Council will provide at 25%</p>
Contract Costs			
ICT	Low/Medium	Low	Additional savings continue to be identified from improved technology and systems.
Leisure	High	Medium/High	The budget and MTFs take account of past Member decisions in relation to the

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			<p>Marl Pits refurbishment and its funding.</p> <p>Part of the business case as identified in the original KKP report and as identified in the final financing arrangements for Marl Pits set aside £600k from the leisure reserve in response to a maximum £600k deficit in the Rossendale Leisure Trust balance sheet. As at February 2014 the accumulated deficit is forecast to be c. £580k at 31/03/14. This is matched by similar cash advances from Council to the Trust. The Trust now needs to deliver their deficit reduction.</p>
Revenues Benefits and Customer Contracts	Low	Low	<p>The price of this contract is linked to RPI (Sept 13). As the contract price is fixed the risk of non-inflationary variation is slight. The contract does contain an incentive mechanism which will generate rewards to the contractor. However, this mechanism is capped and reserves to meet roughly three years maximum payments under this mechanism have already been set aside.</p> <p>Though there is a current need to save costs generally the contractual relationship of this service makes it more difficult to agree savings in this area. We are contracted until Oct' 2016, but negotiations have already commenced regarding service requirements post Oct' 2016, particularly as a result of the impact of changes expected to be brought about by Universal Credit and the recent relocation of the One Stop Shop.</p>
Housing Benefits	Very High	Medium/High	<p>Expenditure in this area is c. £18.7m 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</p>

Expenditure/Income Heading	Impact	Likelihood	Comments
			<p>eligible for grant. Given that a 1% variance on this budget amounts to £187k and with some previous history of variances in this area, significant caution needs to be exercised. With this in mind the Council has established a Budget Volatility Reserve (BVR) to deal with fluctuations in demand led budgets. The Housing Benefits element of the BVR is expected to be £300k at 31/03/14 enough to allow for a negative 1.6% variation.</p>
Council Tax Support	Very High	Medium/High	<p>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 previously received up to a max'm 91.5% benefit in the past. This same group will now be eligible to a maximum 80% benefit</p> <p>The Budget Volatility Reserve will again be used to support this area. Partial allowance has also been for non-collection of C Tax.</p>
Income			
Property Related (Planning Fee, Building Control & Land charges) and other income	Medium	Medium/High	<p>Land Charges, Building Control and Planning have seen reductions in income over recent years. The budget for 14/15 assumes the reduced levels with no sign of uplift in volume or prices. A prudent view has also been taken of other income streams and does not include any upside from price increases.</p>
Licencing	Medium	Medium/High	<p>A prudent view has been taken on Taxis incomes. This area has seen significant growth in recent years.</p>
Market Rents	Medium	High	<p>Reflects the previous decisions by Members on pricing and policy.</p>

Expenditure/Income Heading	Impact	Likelihood	Comments
Waste Collection / Recycling income	Medium	Medium / High	<p>The budget reflects the current value of recently tendered waste recycling income albeit that the market is subject to volatility.</p> <p>The LCC Cost share agreement ended 31st March 2013. A new 5 year contract has been accepted.</p>
Capital Financing and Interest	High	High	<p>Our capacity to make interest gains has significantly reduced over the last few years and is set to again remain flat during 2014/15. Interest receipts have been based on forecast bank base rates plus 0.3%.</p> <p>Estimates of future interest rates can be seen in the Councils Treasury Management Strategy.</p>
NNDR (Business Rates)	High	Medium	<p>Changes to local government financing now expose the Councils finances to any downturn in Business Rates collections up to a maximum of £135k before any safety net payments apply. This compares to an upside of only 20p in the £1. Officers believe that there is evidence to show that over the short term the Council will not fall below its baseline position imposed by Government – we have therefore budgeted at this level.</p>
New Homes Bonus	High	High	<p>The budget assumes the receipt of an additional £70k as a result of New Homes Bonus funding, with continued growth for future years. Receipt of this has been confirmed. However the funding is limited to six year period. Due to this limitation the excess for 14/15 will be added to reserves and not to the Council's core budget.</p>
Current Economic	High	High	<p>Central Government resources have been significantly reduced as part of the</p>

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Outlook			<p>original CSR 2010 and subsequent annual Autumn Statements, as all councils continue the austerity agenda.</p> <p>As mentioned above and in the main body of the report, the downturn has impacted negatively on: central gov't grants and financing, property related receipts, benefits, recycling income and interest rates to mention a few. We continue to be wary of one fundamental issue: that of Council Tax collection. As of now we have seen no sign of a negative impact on collection rates, but as Council Tax is our biggest source of income we need to continue to keep a careful watch on collection rates and their value, over the forth coming months. In particular the Council has experienced some downside over recent years due to the promotion by the private sector of C. Tax re-banding reviews. This does seem to have significantly reduced in 2013/14.</p>
Use of Transitional Reserves	High	High	<p>In order to produce a balanced budget the Council will use, as previously planned, £1.5k from its Transitional Reserve. Given additional in year savings during 2013/14 the reserve is likely to have a value of £1.3m by 31/03/14.</p>
Level of Council Tax and Council Tax freeze grant	High	High	<p>The budget proposes to freeze C. Tax at the current level of £253.40 and therefore be entitled to the 2 year Freeze Grant of £55k pa. Government ministers have indicated that freeze grants will continue within Baseline funding, however, they will not be identifiable in future years. The reality of the localisation of public finances is that the Council is likely to be, in the main, solely reliant on revenue generated within the Borough towards the latter period of its MTFS..</p>

Expenditure/Income Heading	Impact	Likelihood	Comments
			<p>As highlighted last year an increase of 3% pa over the last 4 years would have generated additional financial resources compared to recent freeze grants</p> <p>Though not an issue for this Council, at the Spending Review 2013, the government announced that it intended to set the Council Tax referendum threshold at 2%. At the time of writing the Department for Communities and Local Government has yet to confirm the threshold. It is understood that the threshold will be confirmed 12th February 2014 at the latest.</p>

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

	Worst Case £000	Best Case £000	Weighted Average £000
Pay awards	50	0	25
Staff Vacancies	0	-50	-25
Pension Contributions	0	0	0
Energy and Fuel	20	0	10
Repairs and Maintenance	20	0	10
Insurance	0	0	0
ICT Contract	0	0	0
Leisure Contracts	50	0	25
Revenues, Benefits and Customer Contract	20	0	10
Housing Benefit Payments	187	-187	0
Council Tax support	0	0	0
Taxi, Planning & other Fees	0	-150	-75
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	135	-100	17
Transitional Reserves	0	0	0
Council Tax Revenues	0	0	0
Total	757	-522	117

The implication of this range of possible variations is that on a worst case basis the Council needs to maintain reserves of at least £757k to set against the identified risks.

Conclusion and Adequacy of Reserves

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

	£000
Maximum Financial Risk Exposure	757
Minimum level of General risk	1,000
	1,757
Less est' General Reserve @ 31.3.14	1,000
est' Budget Volatility Reserve @ 31.3.14	<u>300</u>
Notional deficit in available reserves	<u>457</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	117
Minimum Level of General Reserve	1,000
	1,117
Less:	
Est General Reserve at 31.3.13	1,000
Est Budget Volatility Reserve at 31.3.13	<u>300</u>
Notional surplus in reserves	<u>183</u>

7. This notional surplus would indicate that reserves are adequate though they only represent on this basis a one year contingency.
8. It is generally accepted that no budget is without some exposure to risk. However, the position in Rossendale is such that risks have been identified and either provided against or the above considered view taken that the scale of them is 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 consistently over time.
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 2013 were £1000k and are expected to continue to be £1,000k as at 31st March 2014. The Medium Term Financial Strategy identifies other pressures on the horizon in the main as a result of the CSR 2010, 2013 Spending review and the Autumn statement, however, within the medium term the Council has some resource, should it be mindful, to plan for further reductions in Central Government resources. This therefore means that general reserves should be planned for at a level above c. £1m over the medium term. Such general reserves, together with other earmarked reserves (Change Management and Director Reserves), will allow a cushion against the risks which have been identified and those unforeseen incidents which may from time to time arise. The monthly financial monitoring report to Members includes a forecast of all reserves over the medium term.

10. Therefore in conclusion 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 2014/15

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