

Draft - Rossendale Borough Council Budget 2015/16 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 2015/16 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 2015/16 as concluded during the latter part of 2014 and fully implemented January 2015.
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 estimates for any planned efficiencies or known vacancies during 2015/16.
Pension Contributions	High	Low	The last 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 13.4%. The deficit contribution is now an additional fixed sum contribution.
Running Costs			
Energy and Fuel	Medium	Low	Internationally we have seen the price of oil fall over the last 4 months. The fuel price within the budget has been set at c 10p above the current spot price. Electricity and Gas were tendered in October on a 3 year basis.
Repairs and maintenance	Medium	Medium/High	High risk/cost areas remain with the many drainage culverts within RBC land ownership, uninsured malicious damage to property and resolution of potential public liability matters. The Capital budget has previously set aside an emergency works budget of £40k pa and now has an available balance of £110k. The 2011/12 stock condition survey has also highlighted the need for

Expenditure/ Income Heading	Impact	Likelihood	Comments
			<p>areas of capital investment. This whole area continues to experience increasing demand. In addition to capital receipts we continue to set aside £100k as a revenue contribution to Capital</p>
Insurance	Medium	Medium	<p>The Council's insurance portfolio was tendered during 14/15 with the potential for a new 7 year relationship. The results of the tender are yet to be fully evaluated but first reviews look to be at least cost neutral.</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 764 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 Councils insurer in 1992 triggered the Creditors Scheme of Arrangement, during 2013/14 resulting in the Council setting aside a 25% provision regarding historical claims This also means that any new claims will incur a 25% cost.</p> <p>The Council has not been able to identify its insurance provides pre – 1971. Any claims pre-1971 will fall on the Council in full.</p>
Contract Costs			
ICT	Low/Medium	Low	<p>Additional savings continue to be identified from improved technology and systems.</p>

Expenditure/ Income Heading	Impact	Likelihood	Comments
Leisure	Medium	Medium/High	<p>The budget and MTFS take account of past Member decisions in relation to the Marl Pits refurbishment and its funding.</p> <p>As at the end of March 2015 the Trusts deficit is forecast to be £764k and is forecast to increase during 2015/16, subject to the Vertical Playground investment. The Vertical Playground is anticipated to create a profit stream to reduce RLT's cost above its current grant from Council (£95k pa)</p> <p>As at 31st March 2014 the Leisure reserve was £750k.</p>
Revenues Benefits and Customer Contracts	Low	Low	<p>The price of this contract is linked to RPI (Sept 14). 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, the incentive has never been triggered during the life of the contract.</p> <p>We are contracted until Oct' 2016 and 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. A report on the Council's options post Oct 2016 will be presented to Members in the new term.</p>
Housing Benefits	Very High	Medium/High	<p>Expenditure in this area is c. £19.6m 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</p>

Expenditure/ Income Heading	Impact	Likelihood	Comments
			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 £267k at 31/03/15 enough to allow for a negative 1.4% variation.
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 are 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 made for non-collection of Council Tax.</p>
Income			
Property Related (Planning Fee, Building Control & Land charges) and other income	Medium	Medium/High	Land Charges, Building Control and Planning show some uplift on previous years. A prudent view has also been taken of other income streams and does not include any upside from price increases.
Licencing	Medium	Medium/High	A prudent view has been taken on Taxis incomes. This area has seen significant growth in recent years, which is reflected in future years of the medium term forecast and prudently is not included in the reserves calculations below.
Market Rents	Medium	High	Reflects the previous decisions by Members on pricing and policy.
Waste Collection / Recycling	Medium	Medium / High	The budget reflects the current value of previously tendered waste recycling

Expenditure/ Income Heading	Impact	Likelihood	Comments
income			<p>income albeit that the market is subject to volatility.</p> <p>The LCC Cost share agreement ends 31st March 2018 and will result in a £600k funding pressure.</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 2015/16.</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 15/16 will be added to reserves and not to the Council's core budget.</p>
Current Economic Outlook	High	High	<p>Central Government resources have been significantly reduced as part of the 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</p>

Expenditure/ Income Heading	Impact	Likelihood	Comments
			<p>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. As of now we have seen no sign of any significant 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 period.</p> <p>In addition as noted above the performance of Business Rates income and collection forms an integral part of Council resources. For the first year of the new arrangements (13/14) the Council has calculated a levy due to central gov't of £86k. We are forecasting £350k plus for 15/16. Officers are therefore working on legitimate schemes to retain more of this income.</p>
Use of Transitional Reserves	High	High	The Council will continue to grow when and where possible this reserve in order to support and balance future in year budget deficits.
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 a one 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> <p>Though not an issue for this Council this year the government has announced that it will continue to set the Council</p>

Expenditure/ Income Heading	Impact	Likelihood	Comments
			Tax referendum threshold at 2%.

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	0	0
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	100	0	50
Revenues, Benefits and Customer Contract	20	0	10
Housing Benefit Payments	200	-100	50
Council Tax support	0	0	0
Taxi, Planning & other Fees	0	-200	-50
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	820	-435	242

The implication of this range of possible variations is that on a worst case basis the Council needs to maintain reserves of at least £820k 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	820
Minimum level of General risk	<u>1,000</u>

	1,820
Less est' General Reserve @ 31.3.14	1,000
est' Budget Volatility Reserve @ 31.3.14	<u>267</u>
Notional deficit in available reserves	<u>553</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	242
Minimum Level of General Reserve	<u>1,000</u>
	1,242
Less:	
Est General Reserve at 31.3.13	1,000
Est Budget Volatility Reserve at 31.3.13	<u>267</u>
Notional surplus in reserves	<u>25</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 2014 were £1000k and are expected to continue to be £1,000k as at 31st March 2015. 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 of at least c. £1m over the medium term. Such general reserves, together with other earmarked reserves (Transitional reserve, Change Management and Director Reserves etc.), will allow a cushion against the risks which have been identified and those unforeseen incidents which may from time to time arise. The quarterly 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 2015/16

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