Appendix 2

Draft - Rossendale Borough Council Budget 2016/17 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 2016/17 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. Current negations are for a 2 yr deal at 2%.
Vacancies / structures	Medium	High	Vacancies normally occur during the year generating savings - this has been the experience in recent years. The budgets now include estimates for natural vacancies during 2016/17.
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 14.0%. The deficit contribution is now an additional fixed and known sum contribution.
Running Costs			
Energy and Fuel	Medium	Low	Internationally we have seen the price of oil fall over the last year. The fuel price within the budget has been set at historical budget levels, in anticipation of an increase in the longer term. Electricity and Gas are part of a fixed contract.
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 £100k+. The 2011/12 stock condition survey has also highlighted the need for areas of capital investment. This whole area continues to experience increasing

Expenditure/ Income Heading	Impact	Likelihood	Comments
			demand. In addition to capital receipts we continue to set aside £100k as a revenue contribution to Capital
Insurance	Medium	Medium	The Council's insurance portfolio was tendered during 14/15 with the potential for a new 7 year relationship. The results of the tender resulted in c.10% saving on historical costs 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. MMI the Councils insurer in 1992 triggered the Creditors Scheme of Arrangement, during 2013/14. MMI now forecast contribution rates of 15% – 34% to be confirmed in March 2016. The Council has set aside a 25% provision regarding historical claims This also means that any new claims will incur a % cost to be confirmed by MMI (currently 15%). The Council has not been able to identify its insurance providers pre – 1971. Any claims pre-1971 will fall on the Council in full.
Contract Costs			
ICT	Low/Medium	Low	Additional savings continue to be identified from improved technology and systems.

Expenditure/ Income Heading	Impact	Likelihood	Comments
Leisure	Medium	Medium/High	The budget and MTFS take account of past Member decisions in relation to the Marl Pits refurbishment and its funding. As at the end of March 2016 the Trusts deficit is forecast to be c £800k (before pension deficits). Grip & Go is anticipated to create a profit stream to reduce RLT's cost above its current grant from Council (£95k pa) At 31st March 2016 the Leisure reserve is forecast to be £853k. Officers are currently reviewing the Alliance Leisure operation lease (guaranteed by Council) and the potential benefits of a refinancing arrangement
Revenues Benefits and Customer Contracts	Low	Low	The price of this contract is now fixed following a three year extension arrangement to Sept 2019 as approved by Members.
Housing Benefits	Very High	Medium/High	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 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

Expenditure/ Income Heading	Impact	Likelihood	Comments
			maximum 80% benefit
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 albeit the contribution to cost are expected to reduce following policy recent 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 31st March 2018 and will result in a £600k funding pressure.
Capital Financing and Interest	High	High	Our capacity to make interest gains has significantly reduced over the last few years and is set 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 remains the overdraft provider and officers are currently looking at the refinancing of the company's mortgage arrangement. The trading environment

Expenditure/ Income Heading	**Impact**	**Likelihood**	**Comments**
			remains challenging for the limited company.
NNDR (Business Rates)	High	Medium	Experience over the last few years has seen the Council in a levy position with DCLG, with Council retaining only 20p in the £ of any income above its baseline. The Council is now part of a Lancashire wide pool were it will retain 40p (with 10% of the previous levy charge going to LCC). The MTFS reflects this additional income.
New Homes Bonus	High	High	The budget assumes the receipt of an additional New Homes Bonus funding, with continued growth for future years. Receipt of 2016/17 has been confirmed. However the funding is limited to six year period and it set to fall to 4 years in the future. NHB now becomes part of the Council's core funding resources.
Housing	High	High	During 15/16 the Council has faced a significant financial and capacity challenge as it worked to recover the HCA Empty Homes programme. By the start of 16/17 the most difficult properties will have been returned to owners or refurbished for tenant use, thus reducing voids. Voids are the one most significant negative impact on the finances of the programme. Officers have calculated an average revenue cost to Council over the life of the programme of £200k pa
Current Economic Outlook	High	High	Central Government resources have been significantly reduced as part of both the CSR 2010 and 2015 as all councils continue to suffer financially from the austerity agenda. As mentioned above and in the main body of the report, the austerity agenda has impacted negatively on Central Government funding with RGS now ceasing in 2019/20.

Expenditure/ Income Heading	Impact	Likelihood	Comments
			The medium term remains particularly challenging for District Councils who continue to be asked to do more with less resource.
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	This is the Council's most significant income source which has been frozen for the last six years. With RGS coming to an end and with no announcement of freeze grants for 2016/17 the decision on the level of Council tax is fundamental to the Council's medium term resources and future financial planning.

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	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	50	0	25
Revenues, Benefits and Customer Contract	0	0	0
Housing	300	0	150
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	**1075**	**-185**	**445**

The implication of this range of possible variations is that on a worst case basis the Council needs to maintain reserves of at least £1075k 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	1,075
Minimum level of General risk	1,000
	2,075
Less est' General Reserve @ 31.3.16	1,000
Less Transitional Reserves	2,497
Notional Surplus in available reserves	1,422

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	445
Minimum Level of General Reserve	1,000
	1,445
Less:	
Est General Reserve at 31.3.16	1,000
Est Transitional Reserves	2,497
Notional surplus in reserves	2,052

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 2016/17 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 2015 were £1.0M and are expected to continue to be £1.0M as at 31st March 2016. 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 and other resource pressures. However, within the medium term the Council has some resource to plan for the anticipated deficit over the medium term. 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 £500k to £600k commencing 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.

11. Therefore, in conclusion for 2016/17, 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 2016/17

PJ Seddon
Head of Financial Services
February 2016