

Draft - Rossendale Borough Council Budget 2020/21 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 New Homes Bonus, National Non-Domestic Rates, Council Tax, Fees & Charges, 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 fluctuations 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 2020/21 and the medium term the following specific areas of risks have been identified:

Expenditure/ Income Heading	Impact	Likelihood	Comments
Employee Costs			
Pay awards	Medium / High	Medium	<p>The budget assumes an average underlying 2.0% for general pay awards - being similar to the previous 2 year pay award together with any contractual increment growth.</p> <p>The new agreement for 20/21 has yet to be confirmed. The three main trade unions have submitted a claim for a 10% increase – equivalent to an additional MTFS cost pressure of c. £500k pa. Of late public sector pay has seen debate at the highest level and received some support. Pressures will be on both sides of the negotiations to find a reasonable and fair compromise.</p>
Vacancies / structures	Medium	High	<p>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 2020/21 being £150k for the year.</p> <p>Albeit achieved in previous years this savings target remains challenging given the current relatively stable workforce. Staff turnover required would be c 5 FTEs</p>
Pension Contributions	High	Low	The latest actuarial valuation published December 2019 together with a 3 year pre-payment (April 2020) has confirmed the budget and MTFS assumptions.
Running Costs			
Energy and Fuel	Medium	Low	It is thought that fuel can be contained with the Operations budget as was the

Expenditure/ Income Heading	Impact	Likelihood	Comments
			case during 19/20
Repairs and maintenance	Medium	High	<p>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 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 historically aside £100k pa as a revenue contribution to Capital, potentially reduced to £75k for 2021/22 as a consequence of revenue pressures.</p>
Insurance	Medium	High	<p>The Council's insurance portfolio was tendered during 14/15 with the potential for a new 7 year max'm relationship.</p> <p>Sporadically we have in recent years experienced 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.</p> <p>MMI the Councils insurer in 1992 triggered the Creditors Scheme of Arrangement, during 2013/14. MMI now require contribution rates of 25% per claim.</p> <p>Adequacy of provisions will be reviewed at the close of 2019/20. No further claims were received during 19/20, but we are dealing with two from the previous year.</p> <p>The Council has <u>not</u> been able to identify its insurance providers pre –</p>

Expenditure/ Income Heading	Impact	Likelihood	Comments
			1971. Any financial claims pre-1971 will fall entirely on the Council – effectively self-insured for pre 1971 claims.
Contract Costs			
ICT	Low/Medium	Medium	Additional ITC investments and initiatives during the past year has seen an increase in costs from which Council expects some future return.
Leisure	Medium	Low	Albeit supported by the Council's "back office," Rossendale Leisure Trust is now self-financing and planning for a similar position in 20/21.
Revenues Benefits and Customer Contracts	High	Low	The price of the largest single contract is now fixed following a tender and is now in place for at least another 10 years (with options to extend) commencing 1 st December 2019.
Housing Benefits	Very High	Medium/High	Expenditure in this area is c. £19m and is the largest single item of expenditure in the Council's budget. Whilst 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 c.£190k and with some previous history of variances in this area, significant caution needs to be exercised.
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 precept authorities continue to be exposed to the risk of additional growth and the cost of non-collection from those who are not eligible to a maximum 80% benefit.</p> <p>Any over allowance in the tax base will correct itself through actual billings and</p>

Expenditure/ Income Heading	Impact	Likelihood	Comments
			monies received as part of the annual Collection Fund Account
Income			
Property Related (Planning Fee, Building Control, licencing & Land charges) and other income	Medium	Medium/High	A prudent view has been taken for all income streams based on recent experience plus an inflation uplift where appropriate.
Market Rents	Medium	High	Reflects the previous decisions by Members on: management, pricing and policy changes (eg Rawtenstall).
Waste Collection / Recycling income	Medium	Medium	The LCC Cost share agreement ended on 31 st March 2018. The value of the recycling market remains negligible. Council is not budgeting for any recycling income for 2020/21 and beyond.
Capital Financing and Interest	High	Medium	Our capacity to make interest gains has significantly reduced over the last few years as bank rates, despite recent small increases, remain at all-time historical lows and which are assumed to again remain flat during 2020/21. The use of cash balances to support capital projects will reduce our balances to close to day to day working capital requirements. Estimates of future interest rates can be seen in the Councils Treasury Management Strategy.
NNDR (Business Rates)	High	low	Given the reverting to the “50% pooling” arrangement for 20/21 and previous gains accumulated in reserves this area is relatively clear and secure for 20/21.
New Homes Bonus	High	High	2018/19 was the final year for the 4 year NHB funding. There has been no similar replacement scheme. Funds due for 20/21 are as per the Government’s

Expenditure/ Income Heading	Impact	Likelihood	Comments
			<p>Finance Settlement.</p> <p>There is an increased risk as to the value of the replacement scheme for 21/21 future years. The details of which have yet to be announced.</p>
Housing	High	Medium	<p>During 19/20 the Council has continued to face a significant capacity challenge as it worked to recover and finally exit the HCA Empty Homes programme.</p> <p>The 20/21 budget assumes that the majority of 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 are likely to remain with Council</p>
Current Economic Outlook	High	High	<p>Various views will be made depending on assumptions. The Brexit issue has to some degree been addressed with the December general election bringing more certainty to the economic outlook. Unemployment remains low as do interest 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>2020/21 will not require the use of the Transitional Reserves.</p> <p>The forecast balance for 31/03/21 is c.£2.0m.</p>
Level of Council Tax	High	High	<p>This is the Council's most significant income source.</p> <p>As a district Council, Rossendale is able to increase its CTax up to maximum of</p>

Expenditure/ Income Heading	Impact	Likelihood	Comments
			<p>25 or £5 (whichever is the higher) in order to avoid the risk of a referendum. Each 1% increase is worth c£55k cumulative resources for each year</p> <p>With NHB coming to an end and share of future NNDR uncertain, 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 budget,</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	120	0	60
Staff Vacancies	80	0	40
Pension Contributions	0	0	0
Energy and Fuel	0	0	0
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	100	-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	0	0	50
Transitional Reserves	0	0	0
Council Tax Revenues	0	0	0
Total	695	-135	280

The implication of this range of possible variations is that on a worst case basis the Council needs to maintain reserves of at least £695k 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	695
Minimum level of General risk	<u>1,000</u>
	1,695
Less est' General Reserve @ 31.3.20	1,000
Less Transitional Reserves (estimate)	<u>2,000</u>
Notional Surplus in available reserves	1,305

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	280
Minimum Level of General Reserve	<u>1,000</u>
	1,280
Less:	
Est General Reserve at 31.3.20	1,000
Est Transitional Reserves	<u>2,000</u>
Notional surplus in reserves	1,720

7. This notional surplus would indicate that reserves are adequate though they only represent approximately a **two and half year contingency** (of Max'm financial risk 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 2020/21 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 in the budget influences the view which should be taken on the level of reserves which the Council needs 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 2019 were £1.0m and are expected to continue to be £1.0m as at 31st March 2020. The Medium Term Financial Strategy identifies other pressures on the horizon in the main as a result of: future Local Government Settlements, the Fair Funding Review, 75% retention of NNDR 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 which first commenced in 2018/19 and continues in 2021/22. 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 and need. 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 but getting closer to being delivered – subject to future announcements regarding our share of local business rates.

11. Therefore, in conclusion for 2020/21, 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 2020/21

K Masser
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