

Appendix 1

Rossendale Borough Council Budget 2009/10 Risk Analysis and Report Under s25 of the Local Government Act 2000

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.

Financial risks are clearly of various sorts but can broadly be characterised as follows:

- The chance of overspending against budget
- The chance of underspending against budget
- The chance of an unforeseen event with a major financial impact (for example a flood or similar event)

Clearly such risks might have either a positive or negative effect on the Council's overall financial position and 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.

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 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. 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 and the downturn in the property market which have an income 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 2009/10 the following specific areas of risks have been identified.

Expenditure/Income Heading	Impact	Likelihood	Comments
Employee Costs			
Pay awards	Medium	Medium	The budget assumes 2.5% for pay awards for 2009/10 (2.45% 08/09) and compares to a Treasury guideline of 2%. Any awards continues to be in the context of what is a very light Local Government finance settlement. Given this there is a risk of service disruption due to strike action. A 1% variance equates to a c.£70k
Job Evaluation	High	Medium/High	The impact of Job evaluation is now being absorbed into the Council's funding requirement on a phased basis. The impact on 09/10 has been an additional cost of £140k of which £100k is funded from the Single Status Reserve. An indicative claim has been received regarding back dated equal pay claims however at this stage it is thought that adequate contingency remains within the Single Status Reserve. Senior management posts are currently going through the Job Evaluation process. There is therefore the risk of some additional cost on completion of this exercise.
Vacancies	Medium	High	Vacancies will inevitably occur during the year generating savings. No savings are assumed within the base budget providing some cushion in relation to pay awards. Savings in previous years have been around £100k. Savings in 08/09 were higher but this was due to the effect of organisational changes.
Pension Contributions	High	Low	Employer contribution rates for the three years commencing 1.4.08 have been frozen at previous levels (18.1%). However, this assumed continued good investment performance and some positive benefit from scheme changes. The impact of the global economic downturn and stock market falls has proved past performance assumptions to be wrong. However, an element of

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			the stock transfer proceeds was earmarked to mitigate pension risks, this has commenced in 08/09 and will continue in 09/10 and is equivalent to a 6.5% additional contribution. A requirement to provide for 1% additional contributions equates to £55k, although any increase in the main contribution rate will not be payable until after 1.4.11
Running Costs			
Energy and Fuel	Medium	High	Prices in the international fuel and energy markets are currently high but have now peaked. Additional inflationary provision has been made in future forecasts. However, energy contracts have been tendered during 2008 and fixed for 2 years.
Repairs and maintenance	Medium	Medium/High	This area of the budget has consistently overspent in the past and is highly demand driven. While the availability of resources in the capital maintenance programme will reduce demand over time the tipping point has yet to be reached. A variance of 10% equates to £22k.
Insurance	Medium	Medium	The Council's insurance portfolio is currently out to tender. There is optimism that we have gone to the market at the point of optimum advantage for the Council. We have therefore anticipated a small reduction but are hopeful of more. Much of the Council's investment programme is aimed at reducing exposure to insurable risks and this is a factor which will be reflected in the procurement process. A 5% variance which is within the forecast range equates to £18k
Contract Costs			
ICT	Low/Medium	Low	The Council has now brought ICT services back in-house with savings as previously reported to Members and reflected in the 09/10 budget
Leisure	High	Medium/High	Options for leisure are now out to public consultation. The proposed budget includes an additional £50k in order to align with the current options. Should there be a delay in the closure

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			<p>of swimming pools this would be at a cost of £10k per month and therefore equal to c. £120k over a full year. Also additional savings identified within Head Office cost in the event of facility closures maybe delayed. Finally the Trust continues to suffer from competition and will not be immune to the negative impact of the UK economic climate. There is therefore a risk to Head Office savings of c. £20k, c. £40k from market forces and c. £120k depending upon Members final decisions regarding leisure facilities. Total c £180k pa.</p> <p>Members have previously agreed not to use reserves to support core budget requirements. We should therefore look to use other un-earmarked reserves in the event of all facilities remaining open in order to create a transitional funding pool. Possible options are: Area Based Grant , Health Grants (less committed), though such use is at the cost of either delays in or not delivering other Council priorities. Final decisions regarding current options for leisure need to be made on the basis that a sustainable and affordable solution is found for the future.</p> <p>In addition to the current options being consulted on regarding facilities Rossendale Leisure Trust's balance sheet deficit has increased by £100k during 2008. This figure was highlighted to Members in setting the budget for 2008/09. The Trusts' deficit is now £400k and in order for it to remain a going concern it will require an annual support statement from the Council. It is therefore prudent to commence setting aside funds in order to create, within the Council's balance sheet, an earmarked reserve for the Trust's Balance Sheet Deficit. This reserve can be created over future years from</p> <ul style="list-style-type: none"> • 50% of in year savings within the

Expenditure/Income Heading	Impact	Likelihood	Comments
			<p>Councils own budget for 2008/09 and beyond</p> <ul style="list-style-type: none"> Approximately 5 to 10% top slice of current earmarked reserves (c.£100 /£200k) as at 31st March 2009, with the final amount to be agreed by the Accounts' Committee in approving the Councils' annual financial statement. <p><i>NB – No transfer of cash will follow, the reserve will sit on the Council's balance sheet.</i></p> <p>Should facilities close there will be a need for staff redundancies, although clearly steps will be taken to minimise the numbers affected. Given the current resource deficit within the Trust's Balance sheet, such change cost will realistically fall on the Council. The best estimate of termination costs for one swimming pool and Bacup Leisure Hall is £170k and could be funded from the Council's Change Management Reserve</p>
Revenues Benefits and Customer Contracts	Low	Low	<p>The price of this contract is linked to RPI (Sept 5.0%) and while this index is increasing it is foreseeable. As the contract price is fixed the risk of non-inflationary variations is slight. The contract does contain an incentivisation mechanism which will generate rewards to the contractor. However, this mechanism is capped and reserves to meet roughly three years payments under this mechanism have already been set aside.</p>
Housing Benefits	Very High	Medium/High	<p>Expenditure in this area is just short of £19m and is the largest single item of expenditure in the Council's budget. While this expenditure is 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 £190k and with a previous</p>

Expenditure/Income Heading	Impact	Likelihood	Comments
			<p>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 BVR is expected to be £280k at 31/03/09, enough to allow for a negative 1.5% variation.</p>
Concessionary Fares	Medium /High	Medium/ High	<p>Pooling arrangement, better understanding of costs following the introduction of electronic NowCards (bus passes) and additional provision within the budget should allow for some stability during 2009/10. The test will come in approximately 2 years time where there are proposals to move Concessionary Travel to the upper tier authorities – this will have significant implications for Rossendale.</p>
Income			
Property Related Fees: Planning Fee, Building Control & Land charges	Medium	Medium/High	<p>Land Charges has seen the largest negative impact from the current property market. As per the 08/09 forecasts income has been reduced by £80k.</p> <p>Building control has also seen a decline in income in recent years and saw its trading account in deficit during 2008. The budget has factored in efficiency savings to bring the trading account to at least break-even.</p> <p>Planning income has not yet seen the negative impact of property market changes experienced by other Council departments. There is risk that incomes may well be adversely impacted upon during 09/10, when in addition to the effects of changes in the rules over what requires planning permission which are likely to be fully reflected in income levels. However, as with all building related income should the Council begin to see any significant decline in this area it will have to consider its cost base in order to mitigate adverse financial impact.</p>

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			There therefore is some risk in this area of c. £50 to £100k.
Market Rents	Medium	High	Market rents have failed to achieve budget consistently in recent years. This pattern reflects changes in shopping patterns and economic forces which are beyond the Council's control, though in the current climate Markets may be seen as a viable alternative. The Communities Team are currently completing a review of this area; an interim report has already gone to Members. The Budget reflects an above inflationary increase in rents(given the lack of price increases since 2006). While the budget has been adjusted to a more realistic level there still remains a risk in the +/- 10% range equating to £12k
Waste Collection / Recycling income	Medium	Medium / High	Whether it is income gains or cost of disposal the value of Rossendale's recycling has fallen. The budget reflects a c £100 negative impact. Recent evaluations of waste collection rounds and the impact of H & S requirements and new arrangements with LCC may mean some changes and additional cost to our collection methods, though some, though not all, cost may be contained by re-engineering programmes. That said there is some risk in the budget of c.£100k
Capital Financing and Interest	High	High	The recent dramatic fall in interest rates and future forecasts has resulted in £100k being removed from the core income budget when compared to previous years. Interest gains should now be secure for 09/10 following a number of 12 month investments at strong rates before recent rate falls.
Current Economic Outlook	High	High	The Council is not immune to the downturn of an economic fall. There will be more pressure on the Council from its customers to do more and resolve local economic issues. As mentioned above the downturn will impact on: property matters, benefits,

Expenditure/Income Heading	Impact	Likelihood	Comments
			recycling income and interest rates to mention a few. We should also be wary of one fundamental issue, that of Council Tax collection. As of now we have seen no sign of negative impact on collection rates, but as Council Tax is our biggest source of income we need to keep a careful watch on collection rates and value, over the forthcoming months.

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

	Worst Case £000	Best Case £000	Weighted Average £000
Pay awards	70	0	35
Job Evaluation	0	0	0
Staff Vacancies	0	-100	-50
Pension Contributions	0	0	0
Energy and Fuel	0	0	0
Repairs and Maintenance	22	0	11
Insurance	18	-18	0
ICT Contract	0	0	0
Leisure Contracts	30	0	15
Revenues, Benefits and Customer Contract	0	0	0
Housing Budget Payments	190	-190	0
Concessionary Fares	0	0	0
Planning Fees	100	0	50
Building Control	0	0	0
Market rents	12	0	6
Waste Collection / Recycling	100	0	50
Capital Financing and Interest	36	-36	0
Economic Outlook	100	0	50
Total	678	-344	167

The implication of this range of possible variations is that on a worst case basis the Council needs to maintain reserves of at least £578k 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	678
Minimum level of General risk	750
	1,428
Less est General Reserve @ 31.3.09	850
est Budget Volatility Reserve @ 31.3.09	<u>280</u>
Notional shortfall in available reserves	<u>298</u>

However, it is 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	167
Minimum Level of General Reserve	750
	917
Less:	
Est General Reserve at 31.3.09	850
Est Budget Volatility Reserve at 31.3.09	280
Notional surplus in reserves	<u>213</u>

This notional surplus equates to 10% of other forecast earmarked reserve and 1.8% of the likely budget requirement for 2009/10. In this context it would seem reserves are adequate though they only represent on this basis a one year contingency.

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.

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 revised financial strategy suggests that Members consider a target range for general reserves of £0.75 to £1.0m. General reserves as at 1st April 2008 were £813k and are expected to be

£850k as at 31st March 2009. The Medium Term Financial Strategy identifies other pressures on the horizon (Concessionary travel, pensions, revenue support grant). This therefore means that general reserves should be maintained at the level of £750k with a view to increasing them over the medium term. This level of general reserves, together with other smaller earmarked reserves, will allow a cushion against the sort of risks which have been identified and those unforeseen incidents which may from time to time arise. The Medium Term Financial Strategy includes a forecast of all reserves over the medium term.

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 2009/10

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