

Draft - Rossendale Borough Council Budget 2010/11 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 2010/11 the following specific areas of risks have been identified.

Expenditure/Income Heading	Impact	Likelihood	Comments
<i>Employee Costs</i>			
Pay awards	Medium	Medium	The budget assumes 0.0% for pay awards for 2010/11 (1.00% 09/10) and compares to a Treasury guideline of 1%. Any award 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. £70k of this year's pay is funded from the Single Status Reserve (£100k in 09/10). 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.
Vacancies	Medium	High	Vacancies will inevitably occur during the year generating savings. This year savings have been assumed within the base budget of £tbc. Savings in previous years have been around £100k pa.
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 the stock transfer proceeds was earmarked to mitigate pension risks, this has commenced in 08/09 and will continue in 10/11 and is equivalent to a 6.5% additional contribution. A requirement to provide for 1% additional contributions equates to £55k, although

Expenditure/Income Heading	Impact	Likelihood	Comments
			any increase in the main contribution rate will not be payable until after 1.4.11. The MTFs has therefore assumed an increase in employer rates after this date.
Running Costs			
Energy and Fuel	Medium	High	Prices in the international fuel and energy markets remain high but have now peaked. Energy contracts were tendered during 2008 and fixed for 2 years however we have taken up our option to re-enter into contract negotiations with a view to reducing costs.
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 was tendered during 08/09. This exercise resulted in savings with annual costs now part of a 3 year long term agreement until March 2012.
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 10/11 budget.
Leisure	High	Medium/High	The provision of Leisure facilities has been one of the dominant topics during 2009/10. It has been assumed that: <ul style="list-style-type: none"> • the financial costs relating to Bacup Leisure Hall will cease during the summer of 2010, • the council will have c.£1m of earmarked capital resources • the business plan will generate revenue savings to support £1.5m.

Expenditure/Income Heading	Impact	Likelihood	Comments
Revenues Benefits and Customer Contracts	Low	Low	The price of this contract is linked to CPI (Sept 09 +1.14%). As the contract price is fixed the risk of non-inflationary variations 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.
Housing Benefits	Very High	Medium/High	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 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 £284k at 31/03/10, enough to allow for a negative 1.5% variation.
Concessionary Fares	Medium /High	Medium/ High	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 2010/11. The test will come in approximately 1 years time where there are proposals to move Concessionary Travel to the upper tier authorities – this may have significant implications for Rossendale.
Income			
Property Related Fees: Planning Fee, Building Control & Land	Medium	Medium/High	Land Charges and Building Control saw significant decline in income during 2008/09 and 2009/10. The budget for 10/11 assumes the reduced levels.

Expenditure/Income Heading	Impact	Likelihood	Comments
charges			Planning income saw a significant drop in the 1 st quarter of 2009. 2009/10 outturn is expected to have a £130k negative budget variance. 2010/11 incomes have therefore been similarly adjusted downwards.
Market Rents	Medium	High	Reflects the previous decisions by Members on pricing policies.
Waste Collection / Recycling income	Medium	Medium / High	Total budgeted recycling income: <ul style="list-style-type: none"> • Paper £25/tonne (compares to £40). Total income £70k • Glass, cans, plastics £2 / tonne (contracted). Total income c £7k
Capital Financing and Interest	High	High	Our capacity to make interest gains has significantly reduced during 2009/10 and is set to continue into 2010/11. Interest receipts have been based on forecast bank base rates plus 0.3%
Current Economic Outlook	High	High	The Council is not immune to the downturn of an economic fall. Current announcements indicate the UK emerging from recession, however, pressure remains on the Council from its customers to do more and to resolve local economic issues. As mentioned above the 2008/09 downturn has impacted negatively on: 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 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	-50	-25
Pension Contributions	0	0	0
Energy and Fuel	0	0	0
Repairs and Maintenance	22	0	11
Insurance	0	0	0
ICT Contract	0	0	0
Leisure Contracts	0	0	0
Revenues, Benefits and Customer Contract	20	-42	-11
Housing Budget Payments	190	-190	0
Concessionary Fares	0	0	0
Planning Fees	0	0	0
Building Control	0	0	0
Market rents	12	0	6
Waste Collection / Recycling	100	0	50
Capital Financing and Interest	36	-36	0
General conomic Outlook	100	0	50
Total	550	-318	116

The implication of this range of possible variations is that on a worst case basis the Council needs to maintain reserves of at least £550k 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	550
Minimum level of General risk	1,000
	1,550
Less est General Reserve @ 31.3.09	1,027
est Budget Volatility Reserve @ 31.3.10	<u>284</u>
Notional deficiit in available reserves	<u>239</u>

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	116
Minimum Level of General Reserve	1,000
	1,116
Less:	
Est General Reserve at 31.3.09	1,027
Est Budget Volatility Reserve at 31.3.09	<u>284</u>
Notional surplus in reserves	<u>195</u>

This notional surplus equates to 6% of other forecast earmarked reserves and 1.6% of the likely budget requirement for 2010/11. 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 continue to plan for general reserves of £1.0m. General

reserves as at 1st April 2009 were £942k and are expected to be £1,238k as at 31st March 2010. 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 c. £1m 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 2010/11

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