

Draft - Rossendale Borough Council Budget 2011/12 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 underspending 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, Council Tax, etc)
3. 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.
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 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 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 2011/12 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 0.0% for pay awards for 2011/10 (0.0% 10/11) and compares to a Treasury guideline of 0%. It therefore assumes a pay freeze for those positions below £21k. Any award continues to be in the context of what has been very tight Local Government finance settlement. Given this there is a risk of service disruption due to strike action. A 1% variance in pay equates to a c.£70k
Job Evaluation	High	Medium/High	The impact of Job evaluation has been absorbed into the Council's funding requirement on a phased basis. No transfer is being made in 11/12 from the Single Status Reserve (£40k in 10/11). An indicative claim has been received regarding back dated equal pay claims however at this stage it is thought that adequate contingency remains within Council resources.
Vacancies	Medium	High	Vacancies normally occur during the year generating savings. However, given the current market conditions the budget does not account for any savings being made.
Pension Contributions	High	Low	Employer contribution rates have been 25.1% over recent years and have in part been supported by the VAT shelter arrangement with Greenvale Homes. The 2010 actuarial valuation recently published has indicated a requirement to increase rates over the next 3 years by 4.2%.
Running Costs			
Energy and Fuel	Medium	High	Prices in the international fuel and energy markets remain high. The past year has seen a steady increase in fuel costs, one which we have forecast to

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Expenditure/Income Heading	Impact	Likelihood	Comments
			<p>continue over the medium term. Each additional 1p increase is equivalent to £2.5k</p> <p>Energy contracts were tendered during 2010 and saw a reduction in prices of between 28% and 38% (with prices fixed between 2 & 3 yrs)</p>
Repairs and maintenance	Medium	Medium/High	<p>The MTFS has assumed a reduction in the maintenance budget of 7.5 /15%. The reduced resources will now require increasing prioritisation against need.</p> <p>High risk/cost areas remain with the many drainage culverts within RBC land ownership. The Capital budget has set aside an emergency works budget of £75k pa.</p>
Insurance	Medium	Medium	<p>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 with an option to extend.</p> <p>Increasingly we are seeing a number of health claims in relation to past employment as far back as the 50'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. The authority has no documented proof of insurance cover for pre-1971 however a whiteness statement has recently been signed by the Councils previous Treasures covering a period back to the mid 60's though the value of this statement has yet to be tested.</p>
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 11/12 budget

Expenditure/Income Heading	Impact	Likelihood	Comments
Leisure	High	Medium/High	<p>The provision of Leisure facilities has been one of the dominant topics during last 2 years. It has been assumed that:</p> <ul style="list-style-type: none"> • the financial costs relating to Ski Rossendale will cease at the end of March 2011 • that the business plan will generate revenue savings to support the £4.6m 25yr loan taken in March 2010.
Revenues Benefits and Customer Contracts	Low	Low	<p>The price of this contract is linked to CPI (Sept 10, RPI +4.7%). 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.</p> <p>Given the current need to save costs the contractual relationship also makes it more difficult to agree savings.</p>
Housing Benefits	Very High	Medium/High	<p>Expenditure in this area is c. £20.4m 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 £205k 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 £314k at 31/03/11, enough to allow for a negative 1.5% variation.</p>

Expenditure/Income Heading	Impact	Likelihood	Comments
Income			
Property Related Fees: Planning Fee, Building Control & Land charges	Medium	Medium/High	Land Charges, Building Control and Planning have seen reductions in income over recent years. The budget for 11/12 assumes the reduced levels with no sign of uplift in volume or prices.
Market Rents	Medium	High	Reflects the previous decisions by Members on pricing and policy.
Waste Collection / Recycling income	Medium	Medium / High	<p>Total budgeted recycling income:</p> <ul style="list-style-type: none"> • Paper £50/tonne budget (compares to c. £60 in 10/11). Total income budget £96k • Glass, cans, plastics £Nil / tonne (Compares to £28/ tonne in 10/11). Total income £Nil <p>Given the volatile nature of recycling income any price gains have been deferred for one year in order to give Council adequate planning time should the recycling market see a significant downturn</p>
Capital Financing and Interest	High	High	<p>Our capacity to make interest gains has significantly reduced over the last 2 years and is set to remain flat during 2011/12. Interest receipts have been based on forecast bank base rates plus 0.3%.</p> <p>Estimates of future interest rates can be seen in the Councils Treasury Management Strategy.</p>
Current Economic Outlook	High	High	<p>The Council has not been immune to the down turn of an economic fall. Current announcements indicate the UK emerging from recession, however, central government resources have been significantly reduced as part of the CSR 2010, as all councils enter into a new period of austerity.</p> <p>As mentioned above and in the main body of the report, the downturn has</p>

Expenditure/Income Heading	Impact	Likelihood	Comments
			impacted negatively on: RSG, 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 continue to keep a careful watch on collection rates and value, over the forth coming 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	20	0	10
Insurance	0	0	0
ICT Contract	0	0	0
Leisure Contracts	0	0	0
Revenues, Benefits and Customer Contract	20	0	10
Housing Benefit Payments	205	-205	0
Concessionary Fares	0	0	0
Planning 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 conomic Outlook	100	0	50
Total	590	-290	150

The implication of this range of possible variations is that on a worst case basis the Council needs to maintain reserves of at least £590k 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	590
Minimum level of General risk	1,000
	1,590
Less est General Reserve @ 31.3.11	1,047
est Budget Volatility Reserve @ 31.3.11	<u>314</u>
Notional deficit in available reserves	<u>229</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	150
Minimum Level of General Reserve	1,000
	1,150
Less:	
Est General Reserve at 31.3.11	1,047
Est Budget Volatility Reserve at 31.3.11	<u>314</u>
Notional surplus in reserves	<u>211</u>

7. This notional surplus equates to c 6% of other forecast earmarked reserves and 2.0% of the likely budget requirement for 2011/12. In this context it would seem 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 2010 were £999k and are expected to be £1,047k as at 31st March 2011. The Medium Term Financial Strategy identifies other pressures on the horizon in the main as a result of the CSR 2010 however within the medium term the Council has other resources, should it be mindful, in which to plan for further anticipated RSG reductions in 2014/15. 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 monthly 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 2011/12

PJ Seddon
Head of Financial Services
February 2011