

Draft - Rossendale Borough Council Budget 2013/14 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 2013/14 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 1.0% for general pay awards for 2013/14 and beyond (0% actual for 3 years 2010/11 to date). Any award continues to be in the context of what has been very tight Local Government finance settlement. Previous statements from the Chancellor put a cap on Public Sector pay of 1% from 13/14 onwards. Given this, there is potentially a risk of service disruption due to strike action. A 1% variance in pay equates to a c. £50k (including employers cost of national insurance). <i>Pension costs are excluded due to separate funding requirements.</i>
Vacancies / structures	Medium	High	Vacancies normally occur during the year generating savings. However, given the current market conditions assuming low turn-over of staff the budget does not account for any savings being made. The budgets do however include general estimates for a number of planned efficiencies during 2013.
Pension Contributions	High	Low	Employer contribution rates have been supported, in part, by the VAT shelter arrangement with Greenvale Homes. The latest 2010 actuarial valuation published January 2011 has indicated a requirement to continue to increase rates over this final year. 2013 will see a new valuation which will impact on 2014/15 budgets and beyond.
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 continue over the medium term. Each

Expenditure/Income Heading	Impact	Likelihood	Comments
			<p>additional 1p increase is equivalent to c. £2.2k per annum (on 220,000 litres pa)</p> <p>Energy contracts were last tendered during 2012 and saw an 18.5% increase in prices. The next tender is scheduled for Oct 2014.</p>
Repairs and maintenance	Medium	Medium/High	<p>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 set aside an affordable emergency works budget of £40k pa. The 2011/12 stock condition survey has also highlighted the need for areas of capital investment. This whole area continues to experience increasing demand.</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 5 year long term agreement until March 2014 (this includes an option to extend which has been taken).</p> <p>Increasingly we are seeing a number of occupational 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 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</p>
Contract Costs			
ICT	Low/Medium	Low	Additional savings continue to be identified from improved technology and

Expenditure/Income Heading	Impact	Likelihood	Comments
			systems.
Leisure	High	Medium/High	<p>The provision of Leisure facilities as been one of the dominant topics during last 4 years. The budget and MTFS take account of past Member decisions in relation to the Marl Pits refurbishment and its funding .</p> <p>Part of the business case as identified in the original KKP report and as identified in the final financing arrangements for Marl Pits set aside £600k from the leisure reserve in response to a maximum £600k deficit in the Rossendale Leisure Trust balance sheet. As at February 2013 the accumulated deficit is forecast to be c. £500k at 31/03/13. This is matched by similar cash advances from Council to the Trust.</p>
Revenues Benefits and Customer Contracts	Low	Low	<p>The price of this contract is linked to RPI (Sept 12). As the contract price is fixed the risk of non-inflationary variation 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>Though there is a current need to save costs generally the contractual relationship of this service makes it more difficult to agree savings in this area. We are contracted until Oct' 2016, but negotiations have already commenced regarding service requirements post Oct' 2016, particularly as a result of the impact of change brought about by Universal Credit and relocation of the One Stop Shop.</p>

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Housing Benefits	Very High	Medium/High	<p>Expenditure in this area is c. £18.7m 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 £187k and with some 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 Housing Benefits element of the BVR is expected to be £200k at 31/03/13 enough to allow for a negative 1.1% variation.</p>
Council Tax Support	Very High	Medium/High	<p>The council has received a cash limited grant to support 90% of its proportion (c16%) of historical spend. The council is therefore 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 previously received a 100% benefit in the past.</p> <p>The Budget Volatility Reserve will again be used to support this area. Partial allowance has also been for non-collection of C Tax.</p>
Income			
Property Related (Planning Fee, Building Control & Land charges) and other income	Medium	Medium/High	<p>Land Charges, Building Control and Planning have seen reductions in income over recent years. The budget for 13/14 assumes the reduced levels with no sign of uplift in volume or prices. A prudent view has also been taken of other income streams and does not include any upside from price increases.</p>

Expenditure/Income Heading	Impact	Likelihood	Comments
Licencing	Medium	Medium/High	A very prudent view has been taken on Taxis incomes. This area saw significant growth in 2012/13
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 waste recycling income but the market is subject to volatility. The LCC Cost share agreement ended 31st March 2013. A new 5 year contract has been accepted.
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 2013/14. Interest receipts have been based on forecast bank base rates plus 0.3%. Estimates of future interest rates can be seen in the Councils Treasury Management Strategy.
NNDR (Business Rates)	High	Medium /High	Changes to local government financing now expose the Councils finances to any downturn in Business Rates collections up to a maximum of £147k before any safety net payments apply. This compares to an upside of only 20p in the £1.
New Homes Bonus	High	High	The budget assumes the receipt of an additional £70k as a result of New Homes Bonus funding. Receipt of this has been confirmed. However the funding is limited to six year period.
Current Economic Outlook	High	High	The Council has not been immune to the down turn of an economic fall. At the same time central government resources have been significantly reduced as part of the CSR 2010 and

Expenditure/Income Heading	Impact	Likelihood	Comments
			<p>Autumn statements, 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 impacted negatively on: central gov't grants and financing, 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 a 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 forthcoming months. In particular the Council has experienced some downside over recent years due to the promotion by the private sector of C Tax re-banding reviews.</p> <p>2013/14 will also see customers previously on Council Tax benefit during 12/13 now receiving bills for 13/14 demanding at least an 8.5% payment contribution.</p>
Use of Transitional Reserves	High	High	<p>In order to produce a balanced budget the Council will use, as previously planned, £386k from its Transitional Reserve. This balance of £386k represents the start of an in year deficit which is set to increase significantly over the medium term to c. £1.5m by 2016/17. Members, collectively, now have to acknowledge this growing deficit and make some difficult choices and decisions in order to balance annual income and expenditure over the medium term.</p>
Level of Council Tax and Council Tax freeze grant	High	High	<p>The budget proposes to freeze C Tax for the 4th year running (last increase in 2009/10). In receipt of the freeze the</p>

Expenditure/Income Heading	Impact	Likelihood	Comments
			Council will be entitled to accept a grant for the next 2 years of £55k pa. However, though this has been a benefit to paying customers, the continued freezing of Council tax reduces Council resources over the medium to long term. For example if Council had continued to increase its Council tax over the last 3 years in line with its MTFS assumptions of 3% it would have c. £400k pa of additional resources from C Tax receipts over the medium term.

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
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	187	-187	0
Council Tax support	0	0	0
Concessionary Fares	0	0	0
Planning & other Fees	0	-60	-30
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	147	20	63
Transitional Reserves	0	0	0
Council Tax Revenues	0	0	0
Total	719	-352	183

The implication of this range of possible variations is that on a worst case basis the Council needs to maintain reserves of at least £719k 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	719
Minimum level of General risk	1,000
	1,719
Less est' General Reserve @ 31.3.13	1,200
est' Budget Volatility Reserve @ 31.3.13	<u>200</u>
Notional deficit in available reserves	<u>519</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	183
Minimum Level of General Reserve	1,000
	1,183
Less:	
Est General Reserve at 31.3.13	1,200
Est Budget Volatility Reserve at 31.3.13	<u>200</u>
Notional surplus in reserves	<u>217</u>

7. This notional surplus would indicate that 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 2012 were £953k and are expected to be £1,200k as at 31st March 2013. The Medium Term Financial Strategy identifies other pressures on the horizon in the main as a result of the CSR 2010 and previous Autumn statements, however, within the medium term the Council has some resource, should it be mindful, to plan for further reductions in Central Government resources. This therefore means that general reserves should be planned for at a level above c. £1m over the medium term. Such general reserves, together with other earmarked reserves (Change Management and Director Reserves), will allow a cushion against the 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 2013/14

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