

**Draft - Rossendale Borough Council Budget 2018/19 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, New Homes Bonus, 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 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 2018/19 and the medium term the following specific areas of risks have been identified:

<b>Expenditure/ Income Heading</b>	<b>Impact</b>	<b>Likelihood</b>	<b>Comments</b>
<b>Employee Costs</b>			
Pay awards	Medium	Medium	The budget assumes an average underlying 2.0% for general pay awards for 2018/19 as per the current 2 year pay offer together with any contractual increment growth. At the time of writing the offer has been rejected by the 2 major Trade Unions. Previous assumptions assumed 1%
Vacancies / structures	Medium	Medium	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 2018/19 being £150k for the year. This savings target is expected to be challenging given the recent new appointments. Assuming c£5.2k saving per vacancy, 17% (29 FTE) staff turnover is required
Pension Contributions	High	Low	The latest actuarial valuation published December 2016 has indicated a requirement to continue to increase future service rates, now 15.6% (14.0% in 16/17) over the next 3 years and has quantified the deficit payment of c £1m pa.  The option to claim an early prepayment discount by way of pre-payment has been made during 2017/18.
<b>Running Costs</b>			
Energy and Fuel	Medium	Low	Fuel has steadily risen during 2017 but can be contained with the Operations budget. Corporate budgets also include a £50k contingency

Expenditure/ Income Heading	Impact	Likelihood	Comments
Repairs and maintenance	Medium	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 £120k. Capital requirements continue to experience increasing demand.</p> <p>In addition to capital receipts we continue to set aside £100k as a revenue contribution to Capital</p>
Insurance	Medium	High	<p>The Council's insurance portfolio was tendered during 14/15 with the potential for a new 7 year relationship.</p> <p>Sporadically we are seeing 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% (previously 15%).</p> <p>The Council has set aside or provided for contributions equivalent to 30%. Adequacy of provisions will be reviewed at the close of 2017/18.</p> <p>The Council has <u>not</u> been able to identify its insurance providers pre – 1971. Any financial claims pre-1971 will fall entirely on the Council – effectively self-insured for pre 1971 claims.</p>

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<b>Contract Costs</b>			
ICT	Low/Medium	Low	Additional ITC investments and initiatives during the past year has seen an increase in annual running costs.
Leisure	Medium	Medium	The budget and MTFS take account of past Member decisions in relation to the Marl Pits refurbishment and its funding.  Rossendale Leisure Trust is now self-financing.
Revenues Benefits and Customer Contracts	Low	Low	The price of this contract is now fixed following a three year extension to Sept 2019 as previously approved by Members.
Housing Benefits	Very High	Medium/High	Expenditure in this area is c. £20m 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 c.£200k and with some previous history of variances in this area, significant caution needs to be exercised.
Council Tax Support	Very High	Medium/High	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 precepting authorities are now exposed to the risk of additional growth and the cost of non-collection from those who are not eligible to a maximum 80% benefit.  Any over allowance in the tax base will correct itself through actual billings and the Collection Fund Account
<b>Income</b>			
Property Related	Medium	Medium/High	A prudent view has been taken for all

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( Planning Fee, Building Control & Land charges) and other income			income streams and does not include any upside from price increases.
Licencing	Medium	Medium	A prudent view has been taken on Taxis incomes following recent policy changes.
Market Rents	Medium	High	Reflects the previous decisions by Members on pricing and policy.
Waste Collection / Recycling income	Medium	Medium / High	The LCC Cost share agreement ended on 31 <sup>st</sup> March 2018 and has resulted in a £551k funding pressure.
Capital Financing and Interest	High	Medium	<p>Our capacity to make interest gains has significantly reduced over the last few years as bank rates remain at all-time lows and which are assumed to again remain flat during 2016/17.</p> <p>The disposal of Rosso has resulted in a reduction of interest previously gained from acting as the company's primary lending facility.</p> <p>Estimates of future interest rates can be seen in the Councils Treasury Management Strategy.</p>
NNDR (Business Rates)	High	Medium	<p>The Council is now part of a Lancashire wide pool were it retains 40% of all revenues (subject to its tariff) (with 10% of the previous levy charge going to LCC). The MTFs reflects this additional income and which is now assumed to be core funding. Not all Councils include NNDR surpluses within their core funding.</p> <p>The recent planning decision by the Secretary of State has put an end to the financial benefits previously assumed in relation to renewable energy.</p> <p>In addition the financial benefits the Council receives from the pooling arrangement may not be the same</p>

Expenditure/ Income Heading	Impact	Likelihood	Comments
			following the “100% retention of business rates at a local level” the details and timing of which have yet to be finalised.
New Homes Bonus	High	High	<p>The budget assumes the receipt of New Homes Bonus funding, with continued funding in future years. Receipt of 2018/19 has been confirmed. However the funding is limited now to only 4 years with reward only for units achieved in excess of a national target baseline (0.4% growth).</p> <p>There is increased risk as to the value of NHB for future years. The previous change to the NHB formula have taken £3m out of the Council’s MTFS resource assumptions over the five year period.</p>
Housing	High	Medium	<p>During 17/18 the Council has continued to face a significant financial and capacity challenge as it worked to recover and finally exit the HCA Empty Homes programme.</p> <p>The 18/19 budget assumes that all 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 may remain with Council</p>
<b>Current Economic Outlook</b>	High	High	<p>Central Government resources were significantly reduced as part of both Comprehensive Spending Reviews (CSR) 2010 and 2015 as all councils continue to suffer financially from the austerity agenda. The Council does at least have a 4 year settlement estimate on which to base its MTFS, albeit RGS now ceases in 2019/20.</p> <p>The medium term remains particularly challenging for District Councils who</p>

Expenditure/ Income Heading	Impact	Likelihood	Comments
			<p>continue to be asked to do more with less resource, particularly following changes to the NHB formula, a reduction in its value together with the negative impact of the renewable energy decision.</p> <p>It cannot be guaranteed that a similar impact will not occur again under some other Central Gov't change (eg: 100% retention of business rates, treasury management restrictions)</p>
<b>Use of Transitional Reserves</b>	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>However, 2018/19 will see a significant use of this reserve (£803k) in order to set a legal balanced budget.</p> <p>The forecast balance for 31/03/19 is c.£1.8m. Given the increasing MTFS deficit this reserve will run out in 20/21.</p>
<b>Level of Council Tax and Council Tax freeze grant</b>	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 £5 or 2.99% (whichever is the higher) in order to avoid the risk of a referendum. A 2.99% increase is worth c £150k cumulative resources for each year</p> <p>With RGS coming to an end and with the value of NHB being reduced 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

	<b>Worst Case £000</b>	<b>Best Case £000</b>	<b>Weighted Average £000</b>
Pay awards	60	0	30
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	200	-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	100	0	50
Transitional Reserves	0	0	0
Council Tax Revenues	0	0	0
<b>Total</b>	<b>835</b>	<b>-135</b>	<b>350</b>

The implication of this range of possible variations is that on a worst case basis the Council needs to maintain reserves of at least £835k 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:

	<b>£000</b>
Maximum Financial Risk Exposure	835
Minimum level of General risk	<u>1,000</u>
	1,835



Less est' General Reserve @ 31.3.18	1,000
Less Transitional Reserves (estimate)	1,800
Notional Surplus in available reserves	<u>965</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

	<b>£000</b>
Weighted Financial Risk Exposure	350
Minimum Level of General Reserve	<u>1,000</u>
	1,350
Less:	
Est General Reserve at 31.3.16	1,000
Est Transitional Reserves	1,800
Notional surplus in reserves	1,450

7. This notional surplus would indicate that reserves are adequate though they only represent approximately a **two year contingency** (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 2018/19 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 2017 were £1.0m and are expected to continue to be £1.0m as at 31<sup>st</sup> March 2018. The Medium Term Financial Strategy identifies other pressures on the horizon in the main as a result of the CSR 2015, the recent Local Government Settlement (eg NHB) 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 of very near £1.0m commencing in 2018/19 – i.e. the current year ahead. 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. 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 will be extremely challenging.

11. Therefore, in conclusion for 2018/19, 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 2018/19

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