

**Draft - Rossendale Borough Council Budget 2019/20 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 2019/20 and the medium term the following specific areas of risks have been identified:

| <b>Expenditure/<br/>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 2019/20 as per the current 2 year pay offer together with any contractual increment growth. Thereafter a further 2% in line with national inflation targets.  |
| Vacancies / structures                 | Medium        | High              | 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 2019/20 being £150k for the year. This savings target is expected to be challenging given the current relatively stable workforce. Assuming c£5.2k saving per vacancy, 17% (29 FTE) staff turnover is required   |
| Pension Contributions                  | High          | Low               | <p>The latest actuarial valuation published December 2016 indicated a requirement to continue to increase future service rates, now 15.6% over the 3 years ending 2019/20 and has quantified the deficit payment of c £1m pa.</p> <p>Council has previously taken advantage of the option to claim an early prepayment discount by way of prepayment made during 2017/18, for the 3 yrs 2017/20.</p> <p>2019 is the year of the triennial valuation. Officers continue to work with both the Fund and the actuary to investigate payment plans that meet both the needs of Council and the Fund.</p> |

| Expenditure/<br>Income Heading | Impact | Likelihood | Comments   |
|--------------------------------|--------|------------|--|
| <b>Running Costs</b>           |        |            |  |
| Energy and Fuel                | Medium | Low        | <p>Fuel can be contained with the Operations budget. Albeit 2018 saw an increase in spot prices of late there has been a reversal. Latest price is 101.4p compared to an opening cost of 98.25p. Corporate budgets also include a £50k contingency</p>   |
| Repairs and maintenance        | 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 £100k. Capital requirements continue to experience increasing demand.</p> <p>In addition to capital receipts we historically aside £100k pa as a revenue contribution to Capital – given the revenue pressure this allowance may have to be reduced in future.</p>   |
| Insurance                      | Medium | High       | <p>The Council's insurance portfolio was tendered during 14/15 with the potential for a new 7 year max'm relationship.</p> <p>Sporadically we continue to experience 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>Adequacy of provisions will be reviewed</p> |

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|--|---------------|-------------------|--|
|  |               |                   | <p>at the close of 2018/19. Having received further claims during 18/19.</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>   |
| <b>Contract Costs</b>                    |               |                   |  |
| ICT                                      | Low/Medium    | Medium            | Additional ITC investments and initiatives during the past year has seen an increase in costs from which Council expects some future return.   |
| Leisure                                  | Medium        | Low               | Albeit supported by the Council’s “back office,” Rossendale Leisure Trust is now self-financing and forecasting a small surplus for 18/19.   |
| Revenues Benefits and Customer Contracts | High          | Low               | <p>The price of the largest single contract is now fixed following a three year extension to Sept 2019, as previously approved by Members.</p> <p>2018/19 saw a retender of the service resulting in further savings over the MTFS and in excess of previous assumptions.</p>  |
| Housing Benefits                         | Very High     | Medium/High       | Expenditure in this area is c. £19m and is the largest single item of expenditure in the Council’s budget. Whilst 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.£190k 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  |

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|--|---------------|-------------------|---|
|  |               |                   | <p>additional growth. The Council and other precept authorities continue to be exposed to the risk of additional growth and the cost of non-collection from those who are not eligible to a maximum 80% benefit.</p> <p>Any over allowance in the tax base will correct itself through actual billings and the Collection Fund Account</p>  |
| <b>Income</b>  |               |                   |   |
| Property Related<br>( Planning Fee,<br>Building Control<br>& Land charges)<br>and other income | Medium        | Medium/High       | A prudent view has been taken for all income streams based on recent experience plus an inflation uplift where appropriate.   |
| Licencing  | Medium        | Medium            | A prudent view has been taken on Taxis incomes following previous year policy changes and recent experience.  |
| Market Rents   | Medium        | High              | Reflects the previous decisions by Members on pricing and policy.   |
| Waste Collection<br>/ Recycling<br>income  | Medium        | Medium            | The LCC Cost share agreement ended on 31 <sup>st</sup> March 2018. During 2018/19 the value of the recycling market collapsed. Council is not budgeting for any recycling income for 2018/19 and beyond.  |
| Capital Financing<br>and Interest  | High          | Medium            | <p>Our capacity to make interest gains has significantly reduced over the last few years as bank rates, despite recent small increases, remain at all-time historical lows and which are assumed to again remain flat during 2019/20.</p> <p>The use of cash balances to support capital projects will reduce our balances to close to day to day working capital requirements.</p> <p>Estimates of future interest rates can be seen in the Councils Treasury Management Strategy.</p> |

| Expenditure/<br>Income Heading  | Impact | Likelihood | Comments  |
|---------------------------------|--------|------------|---|
| NNDR (Business Rates)           | High   | High       | <p>2019/20 see's the Council being now part of a Lancashire wide "75% retention" pilot scheme for one year only were it retains 56% of all additional revenues (subject to its tariff). The MTFS reflects the additional one off income (£200k) and which is now assumed to be core funding. Not all Council's include NNDR surpluses within their core funding.</p> <p>In addition the financial benefits the Council receives from the pooling arrangement may not be the same once the national "75% retention of business rates" is introduced for 2020/21. <b><i>The changes yet to be announced are the single biggest risk to the Council's annual resource assumptions.</i></b></p> |
| New Homes Bonus                 | High   | High       | <p>2018/19 is the final year for the 4 year NHB funding and its value has been confirmed.</p> <p>There is increased risk as to the value of the replacement scheme for future years. The details of which have yet to be announced.</p>   |
| Housing                         | High   | Medium     | <p>During 18/19 the Council has continued to face a significant capacity challenge as it worked to recover and finally exit the HCA Empty Homes programme.</p> <p>The 19/20 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</p>   |

| Expenditure/<br>Income Heading      | Impact | Likelihood | Comments   |
|-------------------------------------|--------|------------|--|
|                                     |        |            | <p>then austerity agenda. The previous 4 year settlement ceases in 2019/20. There is much uncertainty as to what will follow given the Fair Funding Review and changes to 75% NNDR retention at local level</p> <p>There is also the Brexit factor as the UK sets to exit EU on 31<sup>st</sup> March 2019 – deal or no deal. What lies beyond is anyone's guess.</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, 2019/20 will see the second significant use of this reserve (£511k) in order to set a legal balanced budget.</p> <p>The forecast balance for 31/03/20 is c.£1.5m.</p>  |
| <b>Level of Council Tax</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 RSG and NHB coming to an end 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<br/>£000</b> | <b>Best Case<br/>£000</b> | <b>Weighted<br/>Average<br/>£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<br>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 @ 31.3.19    | 1,000        |
| Less Transitional Reserves (estimate)  | <u>2,100</u> |
| Notional Surplus in available reserves | 1,265        |

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 31.3.19   | 1,000        |
| Est Transitional Reserves        | <u>2,100</u> |
| Notional surplus in reserves     | 1,750        |

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 2019/20 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 2018 were £1.0m and are expected to continue to be £1.0m as at 31<sup>st</sup> March 2019. 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, the Fair Funding Review, 75% retention of NNDR 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 initially c £700k which first commenced in 2018/19 and continues into 2019/20. 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 and need. 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 is extremely challenging but deliverable – subject to future announcements regarding our share of local business rates.

11. Therefore, in conclusion for 2019/20, 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 2019/20

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Draft