

**Budget Strategy – Risk Assessment Update**

<b>Final Decision-Maker</b>	Audit, Governance and Standards Committee
<b>Lead Head of Service/Lead Director</b>	Mark Green, Director of Finance and Business Improvement
<b>Lead Officer and Report Author</b>	Mark Green, Director of Finance and Business Improvement
<b>Classification</b>	Public
<b>Wards affected</b>	All

**Executive Summary**

There have been no major changes in the pattern of budget risks faced by the Council since the last update to this Committee. The Council has now agreed a budget for the coming financial year, but the climate of continued risk and uncertainty faced by the Council means that great care will be required to manage within the framework that it has set out. An update has been made to the risk register to reflect the reduced risk associated with EU transition, but this is offset by the increased risk posed by the volume and complexity of burdens imposed on the Council as a result of Covid-19.

**This report makes the following recommendations to this Committee:**

That the Audit Governance and Standards Committee notes the updated risk assessment of the Budget Strategy provided at Appendix A.

**Timetable**

<b>Meeting</b>	<b>Date</b>
Audit, Governance and Standards Committee	15 March 2021

# Budget Strategy – Risk Assessment Update

## 1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
<b>Impact on Corporate Priorities</b>	The Medium Term Financial Strategy and the budget are a re-statement in financial terms of the priorities set out in the strategic plan. They reflect the Council's decisions on the allocation of resources to all objectives of the strategic plan.	Director of Finance and Business Improvement
<b>Cross Cutting Objectives</b>	The cross cutting objectives are reflected in the MTFS and the budget.	Director of Finance and Business Improvement
<b>Risk Management</b>	Matching resources to priorities in the context of the significant pressure on the Council's resources is a major strategic risk. Specific risks are set out in Appendix A.	Director of Finance and Business Improvement
<b>Financial</b>	The budget strategy and the MTFS impact upon all activities of the Council. The future availability of resources to address specific issues is planned through this process.	Director of Finance and Business Improvement
<b>Staffing</b>	The process of developing the budget strategy will identify the level of resources available for staffing over the medium term.	Director of Finance and Business Improvement
<b>Legal</b>	The Council has a statutory obligation to set a balanced budget and development of	Director of Finance and Business Improvement

	the MTFS and the strategic revenue projection in the ways set out in this report supports achievement of a balanced budget.	
<b>Privacy and Data Protection</b>	No implications.	Director of Finance and Business Improvement
<b>Equalities</b>	The Council's budgeted expenditure will have a positive impact as it will enhance the lives of all members of the community through the provision of resources to core services. In addition it will affect particular groups within the community. It will achieve this through the focus of resources into areas of need as identified in the Council's strategic priorities.	Director of Finance and Business Improvement
<b>Public Health</b>	None identified.	Director of Finance and Business Improvement
<b>Crime and Disorder</b>	None identified.	Director of Finance and Business Improvement
<b>Procurement</b>	None identified.	Director of Finance and Business Improvement

## 2. INTRODUCTION AND BACKGROUND

- 2.1 The remit of the Audit Governance and Standards Committee includes consideration of risk. Members have requested that the Budget Risk Matrix and Risk Register be updated and reported to each meeting of the Committee, so that it continues to be fully briefed on factors likely to affect the Council's budget position.

## **Delivering the revenue budget**

- 2.2 The Council set a balanced revenue budget for 2021/22 at its meeting on 24<sup>th</sup> February 2021. Although a deficit of £1.6 million was projected for the year 2021/22, arising primarily from the continued impact of Covid-19, this can be covered from reserves to achieve a balanced position. It is not sustainable to continue drawing on reserves to meet budget deficits, so the Medium Term Financial Strategy agreed by Council includes savings plans which will eliminate the ongoing budget gap by 2023/24.
- 2.3 The projected deficit of £1.6 million for next year is based on our estimates of ongoing income and expenditure. An unringfenced Covid-19 expenditure pressures grant of £860,000 (our share of a total £1.55 billion grant for all English local authorities) has been dealt with separately, so that it may be used, in line with government guidance, specifically for Covid-19 response and recovery.
- 2.4 Council agreed, when setting the budget for 2021/22, that the minimum level of uncommitted General Fund balances would be increased from £2 million to £4 million, in light of the heightened risk environment that we now face. The uncommitted General Fund balance as at 31 March 2021 is projected to be £7.7 million, so this leaves the Council with a reasonable margin of safety.

## **Medium Term Financial Strategy**

- 2.5 As described above, the Council's Medium Term Financial Strategy is designed to eliminate the ongoing budget deficit. The Council's track record of delivering savings provides assurance that this programme can be delivered and the budget deficit eliminated within a reasonable time-frame.
- 2.6 However, projections for 2022/23 and future years are subject to considerable uncertainty. A major variable is the nature of the government's future framework for local government. A new funding settlement had been promised following the end of the four-year settlement that came to an end in 2019/20. This was postponed for one year, owing to Brexit, and has now been postponed for a further year because the Chancellor of the Exchequer announced plans for only one year in his Autumn Spending Review.
- 2.7 The uncertainty about funding future funding arrangements makes long term planning very difficult. Whilst the Council seeks at all times to build financial resilience and minimise risk, many of the key financial variables, including the permitted level of Council Tax increase and our share of business rates, are set by central government. If the government is unable to provide any certainty about its future plans, the Council is prevented from planning with confidence and risks losing opportunities to invest in public services.

## **Delivering the capital budget**

- 2.8 The capital programme plays a vital part in delivering the Council's corporate objectives. The Council has borrowed to fund the capital

programme, for the first time, this year. The availability of funding is therefore important.

- 2.9 The cost of the capital programme is spread over the lifetime of investments, so it has not been as directly affected by Covid-19 related pressures. However, there are revenue consequences to the capital programme. The cost of borrowing is factored into the revenue budget, along with a Minimum Revenue Provision which spreads the cost of loan repayment over the lifetime of an asset.
- 2.10 The capital programme for 2020/21 was reviewed in the light of the Covid-19 pandemic. The majority of projects in the current programme were either already under way, were required for health and safety reasons, or had to be carried out to meet contractual commitments. However, a number of projects were deferred to 2021/22, which had the effect of reducing the in-year revenue costs of capital expenditure.
- 2.11 The Chancellor's Spending Review in November 2020 signalled a willingness to support local authority capital investment, particularly for housing and regeneration, by reducing the cost of borrowing from the Public Works Loan Board by 1%. This has reduced the risk, identified previously, of the Council not being able to fund its capital programme.

### **External factors**

- 2.12 The Covid-19 pandemic shows how vulnerable the Council is to external factors. The corporate risk register therefore now includes new risks relating to (a) major emergencies such as a new pandemic and (b) a resurgence of the current Covid-19 pandemic.
- 2.13 Covid-19 has impacted directly on the budget, ie through additional direct costs, loss of Council Tax and Business Rates income, and loss of income from fees, charges and other sources. This has already been reflected in the Budget Risk Register.
- 2.14 Previously, the potential loss of income from other sources such as new capital investment was described as 'commercialisation fails to deliver additional income'. This reflected the branding of the original strategy, but is now no longer appropriate, given that the investments in question have been incorporated into the Council's capital portfolio. The risk has now been re-named 'other income fails to achieve budget'.
- 2.15 Covid-19 and the range of government support for local authorities and the community have led to a rapid increase in the volume and complexity of reporting and regulation. Scaling up administrative resources to address the increased volume and complexity of reporting and regulation may divert attention from other priorities. Ultimately, failure to comply with new regulatory requirements could pose financial and reputational risk for the Council. This has now been recognised in the risk register by increasing the risk 'increased complexity of government legislation'.
- 2.16 The other major external risk previously identified was potential adverse financial outcomes from a disorderly Brexit. This risk was downgraded in

January 2021 following the transition to new trading arrangements with the EU. Although elements of these arrangements still have to be implemented, the low level of disruption in January and February would appear to justify a further downgrading of this risk. The overall impact on the economy of Brexit, for example if UK exports are affected adversely by the new trading arrangements, remains to be quantified.

2.17 A summary of changes in risk levels is set out below.

	Risk	Factor considered	Implications for risk profile
K	Increased complexity of government regulation	Increase in the volume and complexity of reporting and regulation arising from Covid-19.	Impact – minor (no change) Likelihood – possible (increased)
N	Adverse financial consequences from a disorderly Brexit	This risk has been mitigated through the negotiation of a trade deal with the EU. There has been a low level of disruption in the short term following the introduction of new trading arrangements. There remain risks associated with the longer term economic impact.	Impact – moderate (reduced) Likelihood – possible (no change)

2.18 Appendix A sets out the budget risks in the form of a Risk Matrix and Risk Register. Additionally, at the Committee’s request, the possible monetary impact of the risks has been indicated. Note that it is very difficult to quantify the financial impact of risks in precise terms. The information is provided simply to give an indication of the order of the risks’ financial magnitude. The information is also set out in the form of a bar chart.

2.19 Members are invited to consider further risks or to propose varying the impact or likelihood of any risks.

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### **3. AVAILABLE OPTIONS**

3.1 Option 1 - The Committee may wish to consider further risks not detailed in Appendix A or vary the impact or likelihood of any risks. This may impact the Council’s service planning and/or be reflected in the developing Medium Term Financial Strategy.

3.2 Option 2 - The Committee notes the risk assessment set out in this report and makes no further recommendations.

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#### **4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS**

- 4.1 Option 2 – It is recommended that the Committee notes the risk assessment.
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#### **5. RISK**

- 5.1 Risk is addressed throughout this report so no further commentary is required here.
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#### **6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK**

- 6.1 Each year the council as part of the development of the MTFS and the budget carries out consultation on the priorities and spending of the council. A Residents' Survey will be completed for the 2021/22 budget and the results will be reported to Service Committees as part of the budget setting process.
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#### **7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION**

- 7.1 The Audit, Governance and Standards Committee plans to continue keeping the budget risk profile under review at subsequent meetings.
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#### **8. REPORT APPENDICES**

The following document is to be published with this report and forms part of the report:

- Appendix A: Budget Strategy Risks
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#### **9. BACKGROUND PAPERS**

None.