

**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**

As the 2021/22 year end approaches, the risk of failing to deliver against the revenue budget for the year is reducing. A balanced budget has been set for 2022/23 but the position for future years remains uncertain. Higher levels of inflation pose significant risks, but particularly for delivery of the capital programme.

**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	14 March 2022

# 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
<b>Biodiversity and Climate Change</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 2021/22 revenue budget**

- 2.2 Details of the Council's financial performance for the third quarter of 2021/22 have now been reported to all the Service Committees. Overall, income and expenditure are broadly in line with budget and an underspend against budget of £207,000 is projected for the year as a whole. As the year end approaches, the risk of failing to meet budget is therefore steadily diminishing.

### **Budget 2022/23**

- 2.3 Budget proposals were considered by Council at its meeting on 23<sup>rd</sup> February. A balanced budget was agreed for 2022/23, based on a Council Tax increase of 2%. Provision was made for expenditure on strategic policy and planmaking, together with a contribution to a Housing Investment Fund to support the Council's Affordable Housing Programme, by earmarking New Homes Bonus, which for 2022/23 amounts to £4.2 million. A contingency of £1.3 million in total has been built into the budget to allow for higher levels of inflation than anticipated in the original Medium Term Financial Strategy assumptions.
- 2.4 The context for the Council's budget is the government's Local Government Finance Settlement, which only covers 2022/23. It is likely that there will be changes in funding arrangements in 2023/24, so there remains uncertainty about the position looking further forward.

### **Delivering the capital budget**

- 2.5 There are two main risks associated with the capital programme.
- 2.6 Firstly, the availability of funding is essential to delivery of the programme. Currently, funding for the capital programme is readily available: in the short term, through the market in borrowing and lending between local authorities; and over the longer term, through the Public Works Loan Board (PWLB). There is no indication that the government will withdraw this facility for local authorities, so long as the lending is not for purely commercial investment purposes.
- 2.7 However, it is appropriate to mitigate the risk of dependency on the PWLB, and in line with the Treasury Management Strategy the Council is considering alternative sources of financing which will also allow the Council to lock in current interest rates for a portion of its debt.
- 2.8 A second risk to the capital budget is the impact of inflation and supply blockages. Over time, the impact of higher input costs should be reflected in higher returns from capital investment and increases in the value of capital assets. However, the Council is likely to see severe budget pressures in the short term at the level of individual capital projects, requiring additional funding to be transferred within the overall capital budget envelope and reducing the overall amount of funding available.

These risks are likely to be exacerbated by Russia's invasion of Ukraine and the consequent impact on energy prices.

### **External factors**

- 2.9 The Covid-19 pandemic shows how vulnerable the Council is to external factors. The corporate risk register includes risks relating to (a) major emergencies such as a new pandemic and (b) a resurgence of the Covid-19 pandemic. This has been mirrored in the Budget Risk Register.
- 2.10 As already indicated above in relation to the capital programme, inflation poses a risk to the Council's budget. CPI currently stands at 5.5% and continues to rise. The Bank of England projects a fall in inflation in the second half of 2022, but there is a risk that higher levels of inflation may become embedded.
- 2.11 Higher levels of inflation affect the Council in a variety of ways. The most direct is through contracts which are linked to inflation. The main item of Council expenditure, comprising around 50% of the total, is pay. Market pay rates are increasing, particularly in sectors where qualified staff are scarce. The Council will need to respond in order to attract and retain good quality staff.
- 2.12 Whilst increases in cost inputs can be offset to an extent by increasing fees and charges, some of these are fixed statutorily. The Council's main source of revenue is Council Tax, which is subject to a referendum limit of 2%. Council Tax increases in future years may continue being capped at less than the rate of inflation, implying a squeeze on service delivery.

### **Pension liability**

- 2.13 Members have highlighted the risks associated with the Council's pension liability in respect of present and former employees. The Council's financial statements include a provision to cover this risk, and periodic valuations are carried out to ensure that ongoing employer pension contributions are sufficient to fund this liability. Risk arises in a number of ways, including pension fund investment performance, inflation in salaries and pensions, changes in longevity, and capacity of the organisation to support pension fund contributions. These are all taken into account in actuarial valuations for the purposes of quantifying pension fund liability and assessing contribution levels. Where appropriate, mitigation actions are taken, eg by increasing contribution levels. For the purposes of the Budget Risk Register, it is proposed to acknowledge the risks by including a collective item to address them in the register, but to recognise the mitigations in the scoring of the risk.
- 2.14 In light of the changes in risk levels described above, the following changes are proposed to the budget risk register.

Ref	Risk	Factor considered	Implications for risk profile
B	Fees and charges fail to deliver sufficient income	Projections indicate that there will be a modest underspend against budget for 2021/22.	Impact – major (no change) Likelihood – low (reduced)
C	Other income fails to achieve budget	Projections indicate that there will be a modest underspend against budget for 2021/22.	Impact – major (no change) Likelihood – low (reduced)
R	Pension liability cannot be funded (new risk)	There are a range of risks affecting the pension liability. These are considered as part of regular actuarial valuations and mitigating actions taken as appropriate.	Impact – major Likelihood – low

2.15 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.

2.16 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 was completed for the 2022/23 budget and the results were 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.