

Budget Strategy – Risk Assessment Update

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

Executive Summary

The resurgence of the Covid-19 pandemic, which was highlighted as a major risk in the last report to the Committee, threatens further delays to economic recovery, with consequent impacts for the Council. The risk associated with EU transition appears to have receded at the time of writing, with a trade deal in place, but there remain risks to the road network and in the longer term to the UK economy.

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

Meeting	Date
Audit, Governance and Standards Committee	18 January 2021

Budget Strategy – Risk Assessment Update

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	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
Cross Cutting Objectives	The cross cutting objectives are reflected in the MTFS and the budget.	Director of Finance and Business Improvement
Risk Management	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
Financial	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
Staffing	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
Legal	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.	
Privacy and Data Protection	No implications.	Director of Finance and Business Improvement
Equalities	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
Public Health	None identified.	Director of Finance and Business Improvement
Crime and Disorder	None identified.	Director of Finance and Business Improvement
Procurement	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 2020/21 at its meeting on 26th February 2020. The position has changed completely since then as a result of the Covid-19 pandemic. The Council has:

- incurred substantial additional expenditure, in particular as a result of accommodating homeless people and establishing a community hub
- suffered a reduction in Council Tax and Business Tax receipts
- lost substantial income in areas such as parking.

This will give rise to a very substantial overspend against the original budget. With a third lockdown having recently come into effect, it is difficult to forecast the outcome for the year with any degree of certainty.

2.3 The deficit has been mitigated by government grants and actions that the Council has taken at its own initiative. We have received £2.5 million in four tranches of unringfenced Covid-19 local authority funding. We are also eligible to claim reimbursement for 75% of lost sales, fees and charges above a minimum threshold. We have so far claimed £1 million in respect of the first 4 months of 2020/21. The combined effect of these grants, together with cost mitigation measures carried out on our own initiative, will still leave the Council facing a substantial deficit, which will have to be covered from reserves. The Council had unallocated General Fund reserves of £8.8 million as at 31 March 2020, so we have the capacity to absorb the deficit, albeit at the expense of reduced resilience to future financial shocks.

2021/22 Budget and Medium Term Financial Strategy

2.4 The impact of Covid-19 will be long-lasting, so from a budget viewpoint, consideration will also need to be given to the impact on future years. Initial projections indicated that, under a neutral scenario, the Council would face a £3 million budget gap in 2021/22. This budget gap has now reduced, thanks largely to the government announcing more support for local authorities in the Chancellor's Spending Review and in the provisional Local Government Finance Settlement for 2021/22. There nevertheless remains a substantial budget gap. Savings proposals going to Service Committees in January 2021 will reduce the gap, if adopted by Council. But there will remain a residual budget gap which will have to be covered by drawings on other revenue resources, pending further savings being delivered over the following two years (2022/23 and 2023/24).

2.5 The position is further complicated by the lack of clarity about future funding of 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.

2.6 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

- 2.7 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.
- 2.8 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.
- 2.9 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 has had the effect of reducing the in-year revenue costs of capital expenditure.
- 2.10 The Chancellor's Spending Review 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

- 2.11 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.
- 2.12 Covid-19 impacts directly on the budget as set out in paragraph 2.2 above, ie through additional direct costs, loss of Council Tax and Business Rates income, and loss of income from parking and commercial activities. The impact of the second wave of Covid-19 has been to increase the risk to the budget and this was reflected in an update to the Budget Risk Register in November.
- 2.13 The other major external risk previously identified was potential adverse financial outcomes from a disorderly Brexit. The UK has now negotiated a trade deal with the EU, which has substantially mitigated this risk. However, there remain risks from disruption at the Channel ports arising from the implementation of new customs arrangements, and more broadly from the overall impact on the economy, for example if UK exports are affected adversely by the new trading arrangements.

2.14 The Budget Risk Register has been reviewed in light of developments since it was last reported to members. A summary of the changes to the risk register is set out below.

	Risk	Factor considered	Implications for risk profile
J	Capital programme cannot be funded	Reduction in cost of borrowing and government encouragement for local authority investment reduces this risk.	Impact – major (no change) Likelihood – unlikely (reduced)
N	Adverse financial consequences from a disorderly Brexit	This risk has been substantially mitigated through the negotiation of a trade deal with the EU, but there remain risks associated with traffic disruption and the longer term economic impact.	Impact – major (no change) Likelihood – possible (reduced)

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.

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.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 Option 2 – It is recommended that the Committee notes the risk assessment.

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.