

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

Current monitoring indicates that in year financial performance in 2021/22 remains in line with budget. Budget proposals for 2022/23 currently being presented to Service Committees will, if agreed, also allow a balanced budget to be achieved for next year. Nevertheless, future years' performance remains subject to a range of risks, including continued high inflation, the impact on third party income from further pandemic outbreaks, and challenges in delivering the capital programme when materials and labour are scarce.

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	17 January 2022

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
Biodiversity and Climate Change	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 Details of the Council's financial performance for the third quarter of 2021/22 are due to be reported to Service Committees in the next Committee cycle. At present, indications are that the Council will remain within budget overall, although there are a number of offsetting overspends and underspends.

Provisional Local Government Finance Settlement 2022/23

- 2.3 The government announced the Provisional Local Government Finance Settlement for 2022/23 on 16th December 2021. This broadly confirmed existing assumptions about Council Tax, our main source of income, and Business Rates. It also gives the Council further one-off funding in the form of Services Grant (£225,000), Lower Tier Services Grant (£146,000) and New Homes Bonus (£4.216 million). Given that the Council was already projecting a budget surplus for 2022/23, this gives a reasonable degree of comfort about the financial position in the short term.
- 2.4 The settlement only covers one year. 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 The capital programme plays a vital part in delivering the Council's corporate objectives. There are two main risks associated with the capital programme.
- 2.6 Firstly, the availability of funding is essential to delivery of the programme. At present, funding for the capital programme is readily available at very low cost. In the short term, funding is available through the market in borrowing and lending between local authorities. Longer term funding is available from 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. Whilst short term interest rates have increased, longer term rates remain stable and borrowing costs remain within the Council's 2% budgeted level.
- 2.7 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.

External factors

- 2.8 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 current Covid-19 pandemic and this has been mirrored in the Budget Risk Register.
- 2.9 As already indicated above in relation to the capital programme, inflation poses a risk to the Council's budget over the medium term. Over the past year, the Bank of England has steadily raised its projection for the peak level of inflation. It currently states that inflation will reach about 6% by spring 2022, and expects it to start to come down after that. However, there is a risk that higher levels of inflation may become embedded.
- 2.10 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.
- 2.11 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% next year. Council Tax increases in future years may continue being capped at less than the rate of inflation, implying a squeeze on service delivery.
- 2.12 In light of the higher levels of risk described above, the following changes are proposed to the budget risk register.

Ref	Risk	Factor considered	Implications for risk profile
G	Inflation rate is higher than the 2% government target ¹	Inflation is now expected to peak at 6% and there is a risk that it will remain high.	Impact – major (no change) Likelihood – almost certain (increased)
J	Capital programme cannot be funded	Inflation and supply blockages lead to price increases, thus limiting the amount that can be delivered within the overall capital budget envelope.	Impact – major (no change) Likelihood – possible (increased)

¹ This risk was formerly described as 'Inflation rate predictions in MTFS are inaccurate', and the base case MTFS projections assumed 2% as the inflation rate. This assumption is now under review, so the new description refers directly to the rate of inflation.

2.13 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.

2.14 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.

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 2022/23 budget and the results will be reported to Service Committees as part of the budget setting process.

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.

8. REPORT APPENDICES

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

- Appendix A: Budget Strategy Risks

9. BACKGROUND PAPERS

None.