

**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**

Current projections indicate that the Council will remain within budget for the current financial year in spite of pressures in particular around temporary accommodation. Future prospects are more uncertain, given the economic outlook and lack of information about how the strategy of the new administration led by Liz Truss will impact on local government. Work is under way in developing a budget for 2023/24 and will consider a range of potential scenarios.

**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	27 September 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.

### **Current financial position**

- 2.2 The Council set a balanced budget for 2022/23, including an additional provision of £1.3 million for the expected impact of higher inflation on the Council's input costs.
- 2.3 Current financial monitoring indicates that a surge in the numbers presenting as homeless and requiring temporary accommodation will give rise to an additional pressure in 2022/23 of around £700,000. Inflationary pressures can be contained within the provision made in the budget and anticipated underspends elsewhere will offset the £700,000 pressure and allow the Council's budget to remain within balance overall. Although the Council has a good track record of remaining with budget, because of the pressures on the homelessness budget, the risk of failing to contain expenditure within agreed budgets has been modified in the risk register.
- 2.4 The Council's balance sheet position remains strong. At the start of the financial year 2022/23, unallocated General Fund reserves amount to £9 million. Short-term investments – cash or equivalent – amounted to £41 million. Long term borrowing remained modest, at £9 million.
- 2.5 The Council has an ambitious capital programme, amounting to £230 million over five years. This will largely be funded from external sources, so borrowing will increase rapidly from the current low levels. In anticipation of higher interest rates, the Council has committed to forward borrowing of £80 million, which will be drawn down between 2024 and 2026. This provides a measure of assurance that the Capital Programme remains deliverable, notwithstanding increases in finance costs and potential future constraints on local authority borrowing from the Public Works Loan Board.
- 2.6 In summary, the Council currently enjoys a sound financial position, with a balanced budget and a strong balance sheet.

### **Future financial position**

- 2.7 The prospects for the broader UK economy over the five years of the MTF5 period are extremely challenging. The Bank of England projects negligible growth over the next two years and any subsequent recovery will be modest.
- 2.8 Stagnant economic growth will be accompanied, in the short term at least, by high inflation. Inflation has reached over 10% before falling back slightly in August 2022. 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. The Council will need to balance the requirement to support employees in meeting the cost of living with the need for future pay settlements to remain affordable.

- 2.9 Work is currently under way to update the Medium Term Financial Strategy and to propose a budget for 2023/24. At this stage, the financial context remains unclear, both because of the UK's economic position and because at this early stage in the life of the new administration led by Liz Truss it is not known how its strategies will impact local government. Whilst members of the government have promoted the idea of 'going for growth', it is not clear whether local authorities will be given the financial flexibility needed to support this aspiration at a local level.
- 2.10 A key variable for this Council, given its dependence on Council Tax income, is the Council Tax referendum limit, which for 2022/23 is 2%. With inflation running at around 10%, maintaining the referendum limit at this level would require substantial savings to be made, so the risk arising from constraints on council tax increases has been upgraded in the budget risk register.
- 2.11 It can therefore be seen that the future budget position of the Council is heavily dependent on government policy in relation to the referendum limit as well as on the overall economic climate.

### **Delivering the capital budget**

- 2.12 There are two main risks associated with the capital programme.
- 2.13 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.
- 2.14 However, it is appropriate to mitigate the risk of dependency on the PWLB, and as set out in paragraph 2.5 above the Council has sourced £80 million of forward borrowing from a private sector investor. This also allows the Council to lock in interest rates as at March 2022 for a portion of its debt.
- 2.15 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**

- 2.16 The Covid-19 pandemic shows how vulnerable the Council is to external factors, although in the event the financial impact has been mitigated through government support. 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.

2.17 As already indicated above, the overall performance of the economy impacts both the revenue budget and the capital programme.

2.18 In light of the risks described above, the following changes are proposed to the budget risk register.

Ref	Risk	Factor considered	Implications for risk profile
A	Failure to contain expenditure within agreed budgets	A very substantial overspend is anticipated on the cost of providing temporary accommodation, which it may not be possible to offset through savings elsewhere	Impact – very substantial (increased) Likelihood – possible (no change)
I	Constraints on Council Tax increases	If the Council Tax referendum limit remains at 2% this would create a large budget gap	Impact – very substantial (increased) Likelihood – probable (no change)

2.19 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.

2.20 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.
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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.