

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

Covid-19 has had a major impact on the Council's financial position. This report updates the budget risk assessment accordingly. It sets out how a very substantial projected deficit this year will be addressed, and how the Council intends to update the Medium Term Financial Strategy for future years in the light of the pandemic.

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	29 July 2020

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 Council's past record indicated that there was a reasonable level of assurance that performance would be in line with budget, subject to normal operating risks such as:

- failure to contain expenditure within agreed budgets
- failure to deliver planned savings
- shortfall in fees and charges against budgeted income
- failure of commercial initiatives (eg property investment, income generating activities in parks)
- costs of litigation.

2.3 Since then, the position has changed completely. 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.

The result is that a deficit of £8.563 million is projected before taking account of any mitigations. Full details are set out in a report to the Policy and Resources Committee meeting of 21st July.

2.4 The deficit is only partially mitigated by government grant, so it is expected that there will be a drawing in the region of £4 million on the Council's reserves to bridge the gap. On current projections, this will bring the Council's unallocated reserves down to just over £4 million. This is still above the Council's specified minimum reserves level of £2 million but leaves little flexibility in the event, for example, of a second lockdown.

2.5 The starting point for this report, which looks at future risks to the Council's budget, is the projected outturn for 2020/21 as adjusted by drawing on reserves.

2.6 It could be argued that the increased level of risk highlighted by the Covid-19 pandemic justifies increasing the existing specified minimum level of reserves. The appropriate level of reserves is a matter of judgement, but in developing a new Medium Term Financial Strategy, consideration will be given to increasing the required minimum level of reserves to £4 million.

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 has been reviewed in the light of the Covid-19 pandemic. The majority of projects in the current programme are either already under way, are required for health and safety reasons, or must be carried out to meet contractual commitments. However, it is proposed that a number of projects are deferred to 2021/22, which will have the effect of reducing the in-year revenue costs of capital expenditure.

External factors

- 2.10 The Covid-19 pandemic shows how vulnerable the Council is to external factors. In common with many organisations, the Council did not previously take account of risks (eg global warming, pandemics) which can be foreseen in broad terms, but where the timing and nature of their impact is completely uncertain. It is now accepted for the purposes of corporate risk management that we cannot ignore such risks. 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.
- 2.11 The other major external risk is potential adverse financial outcome from a disorderly Brexit. Whilst the UK has now left the EU, future trading arrangements with the EU are still to be agreed and there remains a risk of disruption if this has not happened by the government's deadline of 31 December 2020. This therefore remains as a moderate risk in the budget risk register.
- 2.12 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.
- 2.13 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 2021/22 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.