West Northamptonshire Council

WEST NORTHAMPTONSHIRE COUNCIL
AUDIT AND GOVERNANCE COMMITTEE

28 April 2022

Report Title	**Risk Register Deep Dive – Financial Resilience**
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Contributors/Checkers/Approvers

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List of Appendices

Appendix 1 – Risk EO1 – Financial Resilience

1. Purpose of Report

1.1. To receive a 'deep dive' report on the 'Financial Resilience' risk included in the Corporate Risk Register.

2. Executive Summary

2.1 The Audit and Governance Committee receives the Corporate Risk register at each of its meetings. The committee then determines if they would like to do a 'deep dive' on any of the risks so they can understand the risk in more detail and seek assurance that it is being appropriately managed.

2.2 The Committee expressed a wish to look at risk:

"E01 – Financial Resilience – The Council's finances are not sustainable and stable as a result of economic shock, poor decisions or controls on investment or expenditure or unexpected demand"

2.3 This report looks at the key controls in place to mitigate and manage this risk.

3. Recommendations

3.1 It is recommended that the Audit and Governance Committee consider this report and determine if any further action is required.

3.2 It is recommended that the Committee consider if they concur with the view of the S151 officer that this risk is being effectively managed based on the content of the report.

4. Reason for Recommendations

4.1 The Audit and Governance Committee have determined that they should take a closer look at risks included in the Corporate Risk Register.

4.2 This recommendation meets that requirement.

5. Report Background

5.1 The corporate risk register includes the following risk that the Audit and Governance Committee have requested they receive more information on:

"E01 - Financial Resilience – The Council's finances are not sustainable and stable as a result of economic shock, poor decisions or controls on investment or expenditure or unexpected demand."

5.2 The relevant risk has been extracted from the Corporate Risk register and attached as an appendix to this report for convenience.

5.3 The corporate risk register operates under a 5 x 5 risk management matrix which scores the impact of a risk becoming a reality on a scale of 5 as follows:

1 – Negligible impact
2- Low impact
3 – Medium impact
4 – High impact
5 – Very high impact

5.4 The relevant risk is also then scored on the likelihood of whether the risk will become a reality or not on a scale of 5 as follows:

1 – Very rare likelihood
2 – Unlikely

3 – Possible
4 – Likely
5 – Very likely

5.5 The impact score and likelihood score are then multiplied to give an overall score for the risk. Two scores are presented 'inherent' risk score which is the score if no action was taken to mitigate the risk and a 'residual' risk score which is the risk score remaining after mitigation. The inherent score should always be higher than the residual score.

5.6 The inherent score is important as it shows what impact the risk would potentially have if no action was taken to mitigate it.

5.7 The inherent and residual risk scores for Risk E01 are included below:

		Impact	Likelihood		Total
Inherent Risk Score		4 (High)	4 (Likely)		16
Residual risk score		4(High)	3 (Possible)		12

5.8 As is often the case the mitigating actions reduce the likelihood of the risk coming to reality rather than the impact of the risk.

5.9 It can also be seen from the above table that the inherent risk score if it remained 'unmitigated' would be a red and therefore deeply concerning risk whereas the residual (mitigated) risk reduces to an amber risk. However, an amber risk still means that the risk needs to be managed and mitigated continually and carefully.

5.10 The detail in the appendix then sets out a number of 'sub risks' that sit under the main risk and potentially contribute to the overall likelihood of the risk becoming a reality. The sub risks that potentially contribute to the over all risk are as follows:

a. COVID national emergency creates unfunded cost, demand and income pressure
b. Children's demand rises leading to overspend in the trust
c. Inability to deliver financial efficiencies within the budget assumptions
d. Costs and pressures arise from LGR process and configuration of services as liabilities and costs not clear or stranded costs created
e. Reserves insufficient to address unexpected financial shock, demand or funding gap
f. Audits of 19/20 and 20/21 accounts for predecessor councils result in adjustments to WNC budgets
g. Reduced medium and long term financial viability
h. Reduction in services to customers
i. Reduced income
j. Reduced financial returns (or losses) on investments/assets
k. Poor customer service and satisfaction
l. Lack of officer capacity or skills to meet service demand and support robust financial management

m. Decisions taken by legacy authorities will lead to significant financial pressures that have not been budgeted for in West Northamptonshire
n. Emerging issues such as the impact of the new Social Care Reforms.
o. Ukrainian and other humanitarian crises that have caused a global economic impact.

5.11 Any or all of these sub risks can contribute to financial resilience being weakened along with any other sub risks that are currently unknown or unidentified. The mitigation set out in the Appendix provides a further level of detail on how each of these sub risks are being managed and therefore how the overarching risk is being managed.

5.12 Of the sub-risks highlighted above the following are the ones that are currently giving the greatest cause for concern:

- COVID national emergency creates unfunded cost, demand and income pressure
- Lack of officer capacity or skills to meet service demand and support robust financial management
- Emerging issues such as the impact of the new Social Care Reforms.
- Ukrainian and other humanitarian crises that have caused a global economic impact.

The reason these are picked out is because they are very current, and the ongoing impact is unknown. The mitigations set out in the detailed register and the main ones highlighted below will assist in dealing with these should they come to fruition.

A further risk that is worth considering but has not been captured as a sub-risk at this point relates to the 'sustainability (green) agenda'. An action plan is currently being prepared to address the ambition to Carbon Neutral by 2030. This will then need to be fully costed to determine affordability and impact on the Council's finances.

5.13 The view of the S151 officer is that the overarching risk (EO1 – Financial Resilience) and all its sub risks are being proactively managed and whilst it is improbable that we will ever move the 'likelihood' score from a 3 (possible) to a 2 (unlikely), given the size of the organisation and the fact that finance underpins everything, his view is that we are currently effectively managing the risk.

5.14 The following sections give some assurance on why this view has been reached.

Budget Monitoring

5.15 Budget monitoring takes place monthly. It is reported publicly on a quarterly basis but reported to the Executive Leadership Team (ELT) and the portfolio holder each month. Budget holders work closely with their finance business partners to forecast what the outturn position will be for all the budgets they have responsibility for. This information is then collated and put into a report for further consideration.

5.16 If it becomes apparent that there is a forecast overspend being projected management actions are taken across all services to seek to bring the position back into balance.

Forecast Outturn (2021-22)

5.17 The first financial year of the new organisation was challenging and there was a good deal of 'settling down' of the budget required as we began to get to grips with the actual costs of the services for West Northants Council.

5.18 As the financial year progressed we could have more confidence in the forecast outturn position and the overall impact on the budget as the budget and the actuals were understood in more detail. The forecast outturn position is showing that we are likely to be within budget in this first year which is a great achievement and demonstrates that the budget that was set was realistic, robust and achievable.

Budget Setting 2022-23

5.19 The budget setting process was robust and built on the process used for 2021-22. As part of the 'settling down' referred to above a number of base budget corrections were required to reflect the latest information and intelligence on demand for services, costs and income. Some of the budget assumptions inherited from previous authorities were also checked and made more realistic.

5.20 The budget process included a 'star chambers' exercise which involved all of ELT and portfolio holders going through each of their service areas to highlight and address any particular issues in their areas.

5.21 The budget for 2022-23 also included a 'budget robustness' round of sessions to go through each of the savings' lines for the service to highlight if they believed they were deliverable or if they had concerns about them. Any savings highlighted as 'red' by the service were not included in the final budget.

Contingencies

5.22 Within the budget for 2021-22 there were a number of contingencies set up for specific purposes (such as pay, COVID and disaggregation costs). This was supplemented by a further £5m contingency to deal with any 'bumps' in the road. This general contingency was proposed to be funded through one off general reserves and therefore the expectation was that we would seek to avoid using this one-off funding. However, the flexibility was there to be used if required.

5.23 For the 2022-23 budget we have again included the £5m reserve to fall back on if required (to potentially mitigate against some of the risks referred to above). In addition to this we have also included a further base budget (which provides for ongoing funding not one-off funding) of £4.8m to guard against some of the risks highlighted above and in the run up to setting the final budget this included. Taken together these contingencies provide further cover for:

- Significantly increased inflationary costs on utilities, fuel, material etc.

- Cost of living pay awards over and above the assumption included in the budget
- Any ongoing impact of COVID now that Government funding is significantly reduced
- Any unforeseen or unknown increases in demand for services

The expectation will still be that services manage any pressures within their service but there are contingencies available within the base budget to deal with this if required.

Reserves

5.24 Even if the risks highlighted cannot be managed and do become reality, and if they cannot be contained within the budget or within the contingencies detailed above we then need to consider what reserves we have to help to manage the situation.

5.25 The budget report set out details of earmarked and general fund balances. It highlighted the following position:

	2021-22 Final Budget Report (23rd Feb 2021) £m	Latest Reserves Forecast £m
General Fund	40.0	40.0
Earmarked Reserves	55.0	69.4
	95.0	**109.4**

5.26 This demonstrated that the initial forecast on inherited reserves and their use was prudent and that there is a significant level of general reserves which should be held as the contingency of last resort. The budget paper set out that, in the opinion of the S151 officer, the minimum level of general fund reserves should be in the region of 5% of the net budget which would equate to approximately £17m. The figure of £40m is reassuringly in excess of the minimum level and could therefore be used to deal with any further issues that cannot be funded using other budgets, contingencies or reserves.

Medium Term Financial Plan (MTFP)

5.27 The MTFP is another important tool to be used to manage the overall finances of the Council. We should not be short sighted and look only to the next year when formulating a budget. Budget formulation should deliver a balanced budget for the forthcoming year and then a look ahead to at least the following three years so that the overall scale of financial challenge can be estimated and planned for. The MTFP forecasts for the next four years as set out in the budget report showed the following emerging deficits based on the assumptions incorporated into the financial forecasting at the time:

	2022-23 £m	**2023-24 £m**	**2024-25 £m**	**2025-26 £m**
Estimated budget (surplus)/deficit	-	15.454	23.394	26.448

Whilst the £15.5m is a large figure it represents approximately 4% of the net budget which is believed to be an achievable deficit to close.

5.28 The position highlighted above becomes the starting position for the detailed formulation of the budget for 2023-24. That process will begin in June where officers will begin to consider how such a gap can be closed and a balanced budget delivered. Members will then make choices around those budget options.

5.29 The point being made here is that although there is a deficit being forecast, that is normal practice, but a deficit of this sized compared to the net budget is not particularly alarming at this stage.

5.30 Medium term financial planning gives us time to strategically prepare for future financial years. The deficits will change as we go through the process as we get more and better information, but we are already planning for future year budgets.

The Team

5.31 All this sound financial management can only take place effectively if we have the right team in place.

5.32 In the West we are very fortunate with the staff we had disaggregated from the ex-County Council and the staff that came across from districts and boroughs as they are of the highest calibre.

5.33 We do not have too many vacancies, or sickness levels that are too high or turnover rates for staff that are too high. This gives us a degree of stability and a firm foundation as things continue to settle down. This is another key mitigating factor.

Executive Leadership Team (ELT)

5.34 Meet on a weekly basis and discuss emerging issues and how we should deal with them. It also considers the latest intelligence and information on matters that could positively or negatively affect the council and its operations.

5.35 There is a standard agenda item on Finance where the S151 updates on financial matters and the reviewed and refreshed risk register is considered monthly (including this risk).

6. Summary and Conclusion

6.1 It was determined that a deep dive should be carried on the risk E01 – Financial Resilience. This report has sought to provide more detail on the risk, setting out all the sub risks associated with it, the risks that are currently of most concern and all of the tools being employed to manage the risk.

6.2 In conclusion, the S151 officer believes that this risk is being proactively and effectively managed. Based on the content of this report it is for the Committee to determine if they concur with this view.

7. Implications (including financial implications)

7.1 **Resources and Financial**

7.1.1 There are no direct resource implications stemming from this report.

7.2 **Legal**

There are no direct legal implications stemming from this report.

7.3 **Risk**

7.3.1 This report is concerned with Risk E01 – Financial Resilience and details the actions being taken to manage this risk effectively.

7.4 **Consultation**

7.4.1 The risk register is updated monthly in consultation with the different risk leads and then through the Executive Leadership Team.

7.5 **Consideration by Overview and Scrutiny**

7.5.1 No consideration by the Overview and Scrutiny Committee

7.6 **Climate Impact**

7.6.1 No impact on the environment although the potential cost of becoming carbon neutral by 2030 is highlighted in the report as a possible future sub risk of the main risk.

7.7 **Community Impact**

7.7.1 No impact on the Community

8. Background Papers

8.1 Budget monitoring reports to Cabinet
8.2 Final budget report to full council 22 February 2022