

## APPENDIX

### UPDATE ON MANAGEMENT OF FINANCIAL RISK – AUDIT PANEL DECEMBER 2021.

This update provides more detail on the management of strategic risk 5.A.1 – financial failure due to being unable to maintain delivery within a balanced budget. The risk is scored Red at 20 with an impact of 5 and likelihood of 4 against a target score of 4 (impact 4 and likelihood of 1). Related but separate to this risk is 2.A.1 Adequacy of Internal Control discussed at the September Audit Panel.

Currently the activity in place to mitigate this risk includes:

- Audited financial statement and VFM – unqualified;
- Medium Term Financial Strategy, regular monitoring of reserves and provisions, and balanced budget;
- Financial planning addresses historic pressures, emerging demand / costs, and cuts needed in future years; and
- Financial planning considers commitments across collection fund, general fund, schools, housing, pension fund, and capital plans.

As with all risk management the steps are to:

- identify and assess all elements of the risk;
- establish the appropriate control framework;
- prioritise actions and establish an approach to managing the risk;
- assessment of the actions to ensure that these are working as designed.

The two main drivers of the risk are external and internal factors. External factors reflect recent short notice changes in government funding plans for local government, for example; one year only settlements, growth in reliance on one-off grants for pressures, onus on increasing local taxations (e.g. social care precept), and now the threat of levelling up and the impact for London. Internal factors reflect officers ability to realign and operate services within available resources to mitigate key service and community risks following over ten years of funding reductions at a time of rapid rising population presenting more need.

The key risk considerations for maintaining delivery within a balanced budget start with understanding and preparing for the level of resources available – the external factors – and then planning and operating within these constraints – the internal factors.

In 2020/21 and 2021/22 this risk became even more acute and difficult to mitigate due to the Covid pandemic, the resultant pressures on services and budgets, the impact on residents and businesses, and the uncertainty as to the levels and timing of Government support to be received to meet this. These were not only additional but often interwoven with existing service priorities, in particular where focused on vulnerable needs and inequalities. This makes the management of this risk more challenging as the Council works to recover to a more stable but changed business model focused on residents, the community and local business.

As a result the Council set a balanced budget in 2021/22 without the use of reserves, but this was predicated on significant budget cuts. This has meant that the ability to maintain delivery within a balanced budget became more challenging.

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### External risk considerations:

1. Fair funding reset – now pushed back until 2023/24 at the earliest (since 2018/19).
2. Levelling up agenda – what this means to London with priorities such as rurality given more weight than deprivation and more fairness in Council Tax levels.
3. Business rates reset – with the potential impact of lost growth since 2013/14 and risk to the local top-up either through the area cost model nationally or priorities for London coming first.
4. Adult social care and related Social Care reforms – increased discharges with more complex needs requiring more double-handed care packages or other expensive provision and rising number of children taken into care as community / family support weakens.
5. Increased demand pressures – Homelessness and availability of affordable quality housing stock, school places for special education needs, good quality local placements and support services for children and adults with physical and learning needs.
6. Priorities and pressures of climate change – on the cost of goods and services, need to change supply chains including waste, and the physical risks for London with much of the Borough on a flood plain.

### Internal risk considerations

1. Overspending as services fail to align the cost of services or income collection for services provided in line with budget plans. For 2021/22 currently forecast at £8.5m.
2. COVID pressures, no new funding expected but the Council spent over £40m in 20/21 on its own services and a further £25m in 2021/22. These demand pressures if not quickly unwound will become overspending in 2022/23.
3. As a result of needing to address previously delayed cuts from using reserves, service overspending, new pressures and demands, and insufficient funding a significant level of savings £28m were required for 2021/22. Of these up to £15m remain undelivered as part of business as usual and covid pressures.
4. Following the delivery of £190m of budget reductions to 2020/21 services are already pared back to the bone reducing the options for what to cut next and making the need to stop certain activities more likely. Especially in the context that the majority – over 70% of service spend excluding schools is on social care – adults and children – and public health services.
5. Reserves position with £20m of general un-earmarked balances. There are other earmarked reserves but these are committed within current plans and to fund potential risks such as those related to change including redundancy and pension costs.
6. The Council's control framework is as set out in the Constitution, the financial controls are detailed in Section K – Financial Regulations, the Schemes of Delegation and is supplemented by the Financial Procedures. These are also supported by the procurement regulations at section I.
7. There is monthly financial reporting to EMT and quarterly financial reporting to Public Accounts Select Committee and Mayor and Cabinet for both capital and revenue.
8. The Medium Term Financial Strategy was presented to Mayor & Cabinet in July 2021 to enable robust financial planning for 2022/23 – 2025/26.
9. The Treasury Management Strategy update was presented to Mayor & Cabinet in September 2021 and the capital position is being presented in January 2022.

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### Priorities and Actions

A number of priority actions to further support the established control framework and manage and mitigate the risks were introduced. These include:

- one Council approach led by the Executive Management Team, this includes greater engagement with Directors (Senior Leadership Team) and Senior Managers (Extended Leadership Team) on a regular basis;

*This strengthened ownership and understanding to assist all budget holders with identifying pressures early and implementing measures to reduce in-year spend.*

- utilising a thematic approach to generate savings to close the gap;

*This has increased collaboration across services looking at whole ways of working and meant that cross-cutting initiatives are identified with greater scope for transformation.*

- stronger financial engagement for all budget holders, including the introduction of SLT signing off their respective service budgets on the 1 April 2021;

*This has increased financial accountability and ensured that all budget holders identify pressures early and implement measures to reduce in year spend.*

- improving monthly monitoring to align performance activity with financial position;

*This is ongoing and is being further embedded in the financial monitoring to ensure that trends and pressures can be identified early and exceptions focused on.*

- specific and dedicated governance arrangements and extensive modelling of financial risks for the capital programme;

*This includes thematic boards to monitor the delivery of all agreed cuts and a clearer profiling and allocation of capital to maximise delivery.*

- lobbying government on shared financial pressures – e.g. social care, housing, business rates, etc..

*This enables robust financial planning and reduces reliance on Council Tax to fund new or emerging pressures.*

This work will continue as part of the ongoing mitigations being tracked and the risk scoring reassessed. The key upcoming other factors are the local government finance settlement for 2022/23 expected in September ahead of the Council needing to set a balanced budget by the 11 March 2022. The overall status forming part of the professional considerations and report to Council of the Section 151 Officer in their Section 25 statement to accompany the budget.