

Audit Committee

25 September 2023



Report of:	Corporate Risk Register – Deep Dive
Title:	Deep Dive: CRR13 Possible Financial Framework and Medium-Term Financial Plan (MTFP) Failure
Ward:	N/a
Presenting Report	Head of Financial Management / Deputy S151 Officer

Recommendation

To note the contents of the report

Summary

The purpose of this report is to provide the Audit Committee with a ‘deep dive’ into the corporate risk CRR13: Possible Financial Framework and Medium-Term Financial Plan (MTFP) Failure

Report for Audit Committee – CRR13 Possible Financial Framework and Medium-Term Financial Plan (MTFP) Failure

Purpose

- 1.1. The purpose of this paper is to provide the Audit Committee with an overview of the corporate risk CRR13 and provide an opportunity for a more in-depth review.

2. Definition

- 2.1. CRR13 is the risk to the council of Failure to be able to reasonably estimate and agree the financial 'envelope' available, both annually and in the medium-term and the council is unable to set a balanced budget.

3. Background

Legal and Professional Framework

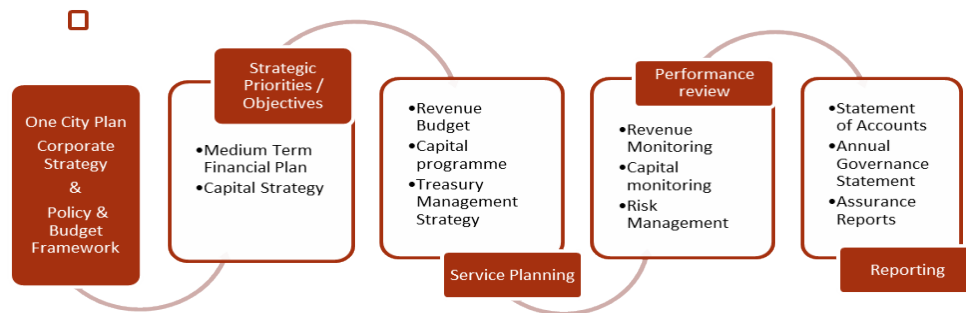
- 3.1. Local government finance in the UK is governed by primary legislation, regulation and professional standards as supported by statutory provision:

- Local Government Finance Act 1992 - to levy and collect council tax and make further provision with respect to local government finance.
- Local Government Act 2000 - states that it is the responsibility of the full council, on the recommendation of the executive (or the elected mayor) to approve the budget and related council tax demand.
- The Local Government Act 2003 set out a framework for the financing of capital investments in local authorities.
- Prudential Framework - to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable.
 1. Prudential Code for Capital Finance in Local Authorities
 2. Treasury Management in the Public Sector Code of Practice
- CIPFA Statements of Professional Practice (SOPP) (including ethics).
- CIPFA Statement on the Role of the Chief Financial Officer in Local Government.
- CIPFA Financial Management Code.

- 3.2. Notwithstanding the legislative requirement and council's legal responsibility to set an annual balanced budget (Local Government Finance Act 1992), financial plans are important because they act as a financial expression of the council's policies, presenting how its financial resources are to be allocated and utilised, showing the council's financial plan for the coming year with regard to statutory services as well as local key priorities and objectives.

Financial Framework

Figure 1



3.3. Whilst the statutory local authority budget setting process is on an annual basis a longer-term perspective is essential if local authorities are to demonstrate their financial sustainability. It is the responsibility of the leadership of the organisation, including elected members, senior management and the section 151 officer, to have a long-term financial view acknowledging financial pressures.

Medium Term Financial Planning

3.4. Medium term financial planning aims to pull together all known factors affecting the financial position and financial sustainability of the Council over the medium to long term, balance the financial implications of objectives and policies against constraints in resources and provides the basis for decision making.

Key Components:

- Capital Strategy (required by the prudential code) - sets out the long-term context in which capital expenditure and investment decisions are made.
- Medium Term Financial Plan - covering estimated revenue income and expenditure over at least three forward years.

3.5. The tightening fiscal landscape has placed the finances of local authorities under intense pressure and created a greater challenge to balancing budgets.

Key considerations across all Funds:

- Council Priorities
- Economic and financial outlook
- Local financial outlook
 - Underlying demand for services and risks
 - Potentially unachievable, savings and efficiency targets within plans.
 - Impact of the wider service delivery environment
 - The prospect of challenging grant settlements and changes in government funding

- All sources of funding, the long-term trends in their growth or decline and the key risks associated with resource levels.
- Existing sources of revenue but also the potential to generate additional revenue from existing and new sources.
- Financial health and resilience to shocks
- The Budget Gap, sensitivity scenarios and strategy for addressing the gap.

3.6. The position is unprecedented with global and national factors largely beyond the council's control, including inflation, interest rates and significant energy costs, pay related cost increases, and broader demand pressures and costs in both adults' and children's social care.

4. Risk and Context for the Rating

4.1. The council continues to manage a challenging financial environment. The risk has remained at a critical rating of 28 from September 2022, through to the time of this report at September 2023, with the high rating reflecting the following:

- Despite a balanced budget being approved for the General Fund, the budget had not balanced the full 5-year period of the MTFP, with the latter 2 years remaining pressured with a gap still to be managed.
- Uncertain cost levels due to the longer-term impact of the pandemic, the cost-of-living crisis, ongoing global supply challenges and labour shortages and continuing increases in demand for core services.
- The changes to income following Government settlement and delayed reform of local government funding and social care reforms.
- DSG deficit and the uncertainty and potential implications of the removal of the statutory override.
- Emerging risk in the in-year forecast to be fully quantified and mitigations to be identified.
- Exceptional inflation, the National and Real Living Wage, energy costs and interest rate uncertainty and more generally the cost-of-living crisis that continues to impact on demand for council services and income collection rates.
- Lack of multi-year settlements and clarity on financial reform to facilitate effective planning.

5. Controls & Mitigation Actions to Manage Risk

5.1. The Financial Strategy is reviewed and updated regularly, with key reporting points being at the July financial outlook (early indicator) October MTFP / CS publication, Public budget consultation and February Budget Setting. In-year financial performance is routinely reported to the leadership and additionally for mitigating actions formulated to address adverse variances.

5.2. The following controls and actions remain in place across both finance and the council to ensure the appropriate skills, governance and processes are embedded to enable delivery of the financial strategy updates.

Controls

- Use of benchmarking tools to provide data for regular insight and assessment.
- Strategic Finance partner in place, with active knowledge share / transfer.
- Robust and inclusive financial planning process with clear timelines for critical updates.
- Aligned organisation priorities – transformation programmes, data insight and evidence for MTFP/CS.
- Internal / external engagement, round tables, conference, regional / national networks and forums, webinars, to ensure teams are abreast of current national and local issues.
- Government representation, including local government consultations / surveys, regular and routine engagement with LGS and DLUHC on key issues.
- Member engagement and scrutiny - end to end.
- Specific subject matter working groups.
- Collaboration and partnerships.
- Integrated business and financial planning for subsidiary companies / JVs
- Training and corporate ownership of risk management / risk awareness.
- Periodic financial resilience assessment including balance sheet reviews of key items eg provisions, contingencies, accruals, reserves and balances.
- Benchmarking of costs and MTFP assumptions.
- Financial modelling (internal and external) of a range of scenarios.

Actions

- Ensuring that finance is appropriately resourced, including review of structure and resource need, recruitment, skills development and training.
- Improvements continue to be implemented to enhance the robustness of the council's approach to monitoring and delivery of revenue savings and delivering on time and to budget capital projects / programmes.
- Delivering better value programmes - SEND / CSC.

5.3. Throughout the MTFP / CS development and budget process regular updates are provided through governance routes including, EDMs, CLB, CMB and Scrutiny.

6. Conclusion

6.1. There remains significant uncertainty around the national and global economic and financial position. For most upper tier local authorities this presents a significant risk on the ability to robustly estimate the financial envelope available and to set a medium-term balanced budget. Equally, the potential impact on services resulting from the cost-of-living drivers and local market conditions, remains critical and it is essential that the work continues across the whole council collectively to consider and mitigate these considerable pressures through the development and approval of the MTFP / CS.

6.2. For the council the processes and controls in place to enable the MTFP / CS and annual budget to be developed and approved are well established. On the basis the refreshed risk mitigation actions and engagement to date (as at the time of this report), the risk is now assessed as HIGH, rather than CRITICAL and the corporate risk register has been updated to reflect this report and the assessment of the position.