

Audit Committee

28 July 2022



Title	The Council's risk exposure to wider externalities and impact
Purpose of the report	To note
Report Author	Punita Talwar, Internal Audit Manager
Ward(s) Affected	All Wards
Exempt	No
Exemption Reason	N/A
Corporate Priority	<p>This report and risk assessment outlines the Council's risk exposure to wider externalities impacting the effective delivery of all corporate priorities (CARES).</p> <p>Community Affordable Housing Recovery from Covid Environment Service Delivery</p>
Recommendations	<p>The Audit Committee is asked to:</p> <p>(i) Note the report setting out the impact and broader implications of wider externalities to the Council and its communities, and the supporting risk assessment at Appendix A. Two major externalities of significance (in terms of impact) include the macroeconomic environment and geopolitical uncertainty – some explanation of this terminology is given below.</p> <p>Macro-economic environment <i>This focuses on the aggregate changes in the economy as a whole such as unemployment, growth rate, GDP, and inflation. References to the Cost-of-Living crisis link directly to inflationary pressures.</i></p> <p>Geo-Political risk – <i>The risk associated with wars, terrorist acts, tensions between states that affect the normal course of international relations.</i></p> <p>(ii) Note the close linkages and common themes between the significant risks and issues facing the Council raised in this report and the separate Corporate Risk Management report (also on the Committee agenda)</p>
Reason for Recommendation	Not applicable

1. Summary of the report

1.1 This report seeks to highlight significant risks for Spelthorne where the impact of wider externalities such as the macroeconomic environment and geopolitical situation on the Council and the communities served have been most prevalent, and key control and mitigation measures underway. For the Council, these wider externalities have had the most profound impact on the following broad risk categories:

- Economic activity and prosperity
- The Council's financial position (sustainability and resilience)
- Housing and Communities

1.2 The report also recognises the wider effect of externalities across services, operations, and society in general, with implications for Council priorities.

2. Key issues

2.1 As previously reported, those risk categories and specific risks that are adversely influenced by wider externalities (as referred to earlier under 1.1) represent areas where the Council has limited, or no direct control. Whilst the Council is taking steps to manage the risks and issues presented by these wider externalities, this is likely to be influenced by ongoing uncertainty regarding the external environment, along with emerging and evolving external pressures. (This contrasts with non-externality risks that can generally be more effectively mitigated and controlled through local council actions to influence positive outcomes in delivering objectives).

2.2 The Wider Externalities Risk assessment is set out at Appendix A which sets out the specific risk descriptions identified under each broader risk category (Economy, Finances, Housing and Communities), as well as the controls and mitigation measures (as advised by Services) to manage identified risks. It includes any further actions underway or for perusal, including some new actions. A RAG rating is applied to risks so they can be prioritised for action and given due focus in accordance with significance. Most of these risks are assessed as red, and therefore require prompt action and regular monitoring.

2.3 The Council's risk exposure to wider externalities and associated impact are summarised below at 2.3 (a) to 2.3 (c). An outline of some corresponding risk management measures being pursued are highlighted, as well as any residual risks to be acknowledged. There are inevitably overlaps and synergies with the significant risks highlighted in the separate Corporate Risk Register report, particularly around the Economy and Finances. These risks will continue to impact delivery of corporate priorities. It is acknowledged that the Council is commissioning an LGA Peer review in November 2022 with a view to ascertaining how we can further improve addressing key organisational challenges in the evolving external environment.

(a) Economic Prosperity – red risk category A.

In the context of the economy the impact of wider externalities remain hugely significant, comprising volatility of the global economy, an accelerating rate of inflation (UK inflation reached a new 40-year high of 9.1% in May 2022 and is

forecast to increase further), post-brexite environment, geopolitical instability and the Ukraine crisis. All these external factors combined are continuing to place enormous pressure and strain on the following areas, with consequential effects:

- Supply chains disruptions due to changes in migration and trading regimes following Brexit, as well as surges in consumer demand as we emerged from the pandemic. Continued labour shortages as well as international political sanctions against Russia have further impacted supply chains across various industries and sectors creating bottlenecks and leading to shortages of certain goods, services, consumables, materials, commodities, and subsequently surging prices. This inevitably places increased strain on local businesses, household budgets, Council Services, Council budgetary and financial position. Food shortages and increased costs create further reliance on community services such as foodbanks.
- As UK wage growth is on average significantly lower than the rate of inflation, the cost-of-living crisis is a major issue impacting businesses, consumers, residents, local economic prosperity and the Council's financial sustainability. This also presents wider threats of industrial action across some parts of the public sector and is likely to increase risks around unfilled Council vacancies which have been separately highlighted on the Corporate Risk Register under recruitment and retention risks.

The refreshed Economic Prosperity Strategy covering 2022 -2027 is due to be considered by the Economic Development committee for final adoption on 29 September 2022. This will also incorporate any residual actions from the economic elements of the corporate recovery plan. The aviation sector has been particularly slow to recover from the pandemic as well as being hit by wider challenges, and of course Spelthorne's proximity to Heathrow with the airport representing a major local employer makes the impact more profound. The discretionary Additional Restrictions grant scheme has been fully allocated to support businesses and local economic recovery, with all funds spent by 31 March 2022 to meet timeframes stipulated by central government.

Challenges of the macro-economic environment on local economic activity continues to place demands on a range of Council Services and significantly impacts the Council's financial position. This is elaborated further under 2.3 (b) below.

(b) Financial Sustainability and Resilience red risk category B.

(Please note that some of the following narrative is also included in the Corporate Risk Register report as it is deemed relevant).

As already highlighted earlier under section 2.3 (A), we continue to experience an escalating cost of living crisis because of a combination of factors including the recovery from the pandemic, post-Brexit, geopolitical situation, the rising cost of goods and services, steep increases in energy/fuel/food/household and inflationary pressures. This is adding

significant cost increases to Spelthorne's revenue and capital expenditure, presenting an adverse impact on the Council's financial and budgetary position. In particular, the inflationary pressures continue to have a major impact on progressing the Council's Housing delivery programme and delivering targets, with further viability assessments of proposed and approved residential development schemes due to be undertaken to analyse the financial cost effect of increased PWLB loan rates and rising inflationary pressures relating to construction/materials/labour/transportation costs. To ensure financial viability of schemes, as well as taking on board the delays, adaptations to property developments continue to be reviewed to ascertain workable solutions, which may now require expanding the size of developments.

The above pressures therefore present threats to sustainability of Council services, also affecting local businesses and communities, as well as suppliers and Contractors. There is also greater pressure on delivering Council services due to increased demands and implementation of new schemes on top of 'Business as usual'.

A report is going to Corporate Policy and Resources Committee in July quantifying the financial impact of inflationary pressures, increased PWLB loan rates and other relevant factors on the Council's budget, reinforcing the need to make efficiency savings to address the anticipated budget deficit for current and future years. An inflationary pressure contingency reserve is being proposed to assist with the predicted budget deficit, subject to Council approval. Other financial constraints and mitigation measures are to take effect such as a moratorium on additional growth/resource for 2023/24 unless it meets a statutory need or externally funded.

The collection fund is monitored regularly to assess the impact of the cost-of-living crisis on rates of collection for Council Tax and Business Rates, as the ability for local businesses and households to pay becomes more challenging. The government energy rebate scheme has been implemented to support eligible residents with rising gas and electricity costs, as well as a discretionary element.

Increased risks of fraud and theft are widely recognised as being more prevalent during periods of economic challenge and rising living costs. This is therefore a matter to remain vigilant too, which could have a knock-on effect on delivery of Council services to local communities if scarce resources are abused and diverted to opportunists, leading to financial losses. In addition, increased cost of living may encourage anti-social behaviour in some individuals and other problems such as fly tipping may well be on the increase.

(c) Housing and Communities – red risk category C.

The geopolitical situation and the war in Ukraine have led to significant levels of refugees fleeing conflict. This humanitarian crisis (externality) has required council services and other voluntary/charitable organisations to offer help and support. Under the government funded assistance scheme Spelthorne have provided support to Afghan Families and to refugees from Ukraine. Dedicated

support workers have been appointed to assist families settle into a new environment.

The international political situation (Ukraine crises) continues to impact supply and availability of certain food groups and agricultural commodities, resulting in rising prices to the consumer. The impact of this on the most financially vulnerable households is significant. As mentioned also under 2.3 (a), food shortages and increased costs create further reliance on community provision such as foodbanks, and the Council supports this facility.

3. Options analysis and proposal

- 3.1 To note and accept the contents of this report and the Risk Assessment at Appendix A setting out the Council's risk exposure to wider externalities and impact/implications for the Council, local communities and businesses, including any risk mitigating actions underway or for perusal. The Risk Assessment at Appendix A is considered to be an accurate reflection of the Council's risk areas where wider externalities are having the most profound impact. It includes the application of the corporate risk scoring model and RAG rating based on our assessment of risk and controls in operation. (Preferred option)

Or:

- 3.2 To recommend amendments to wider externalities risk reporting for consideration by the Corporate Risk Management Group.

4. Financial implications

- 4.1 As previously reported, there are major financial implications arising from the the Council's risk exposure to wider externalities, as discussed under section 2.3 above. Unless the Council addresses these issues, there is a threat that the Council will not be able to meet its statutory obligations in delivering essential services given the major inflationary pressures and significant adverse costs being generated and likely to worsen, and neither will it be able to effectively deliver corporate priorities. As referred to under section 2.3, a report is going to Corporate Policy and Resources Committee on 11 July setting out the adverse financial and budgetary position for the Council arising from the extremely challenging inflationary pressures, and the mitigating steps being taken/proposed.

5. Risk considerations

- 5.1 This report supported by the risk assessment at Appendix A sets out the Council's risk exposure to wider externalities (specifically the macroeconomic environment and geopolitical uncertainty). Appendix A encapsulates three broad risk categories (Economic prosperity, Financial sustainability and Housing and Communities) representing those areas where the externalities continue to have the most profound impact for the Council and its communities. Specific risk considerations, implications and wider consequences are identified and articulated, as well as the current controls and mitigation measures in place or planned to manage these risks.

6. Legal considerations

- 6.1 Please refer to issues raised at section 4.1 with reference to meeting statutory obligations in delivering essential services.

7. Other considerations

- 7.1 As part of the forthcoming LGA Corporate Peer review planned for November 2022, this process will provide continued direction and insight in supporting the Council to address its significant strategic risks, considering overlapping themes around developments, housing, supporting communities and finances.

8. Equality and Diversity

- 8.1 Under the government funded assistance scheme Spelthorne have provided support to Afghan Families and to refugees from Ukraine. Dedicated support workers have been appointed to assist these families and communities settle into a new environment and advise on how they can access relevant services and facilities.

9. Sustainability/Climate Change Implications

- 9.1 There are no specific implications.

10. Timetable for implementation

- 10.1 The Council's risk exposure to Wider Externalities and supporting Risk Assessment is to be reviewed and updated periodically as part of the Audit Committee work programme for 2022/23. There are no other specific timeframes to highlight, other than where timing is indicated by Officers for progressing further actions in the risk assessment (note last column at Appendix A).

11. Contact Internal Audit Manager, Punita Talwar.

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Background papers: None other than general economic discussion sources

Appendices:

Appendix A – Risk Assessment – The Council's Risk Exposure to Wider Externalities and impact