

APPENDIX 1 – The Council’s risk exposure to wider externalities and impact - Risk Assessment

(June 2022. Coordinated and analysed by Internal Audit Manager, Punita Talwar)

The Risk Assessment focuses on wider externalities each representing significant risk impact to the Council, its operations and local communities. The extent to which these risks can be reduced and mitigated continue to be significantly impacted by evolving externalities.

The main externalities considered and highlighted in the risk assessment include:

Macro-economic environment *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.*

Geo-Political risk – *The risk associated with wars, terrorist acts, tensions between states that affect the normal course of international relations.*

Please refer to the bottom of this document for the ‘Risk Scoring Matrix’ and plotting of these risks to determine relative significance and prioritisation. Elements of risk categories A, B and C are also referred to in the Council’s Corporate (strategic) risk register.

| Risk Area | Likelihood | Impact | Control Measures and Mitigation | Risk or Issue Action Plan |
|--|------------|--------|---|---|
| <p>A. ECONOMIC ACTIVITY RED RISK</p> <p><u>(i)Risk:</u> Challenges of the macro-economic environment on local economic activity continues to place demands on a range of Council Services and impacts the Council’s financial position (the impact on the Council’s</p> | (i)3 | (i)4 | <p>Periodical updates to the Economic Development Committee regarding the recovery plan actions were drawn to a close in June 2022 as part of the transition to developing the new Economic prosperity strategy (see actions column).</p> <p>Several initiatives were set up some time ago to support economic recovery with some examples as follows :</p> | <p>ONGOING ACTION: The local economic situation is regularly reviewed and reported, considering the inflationary pressures and Cost of Living crisis.</p> <p>ONGOING ACTION: Reviewed June 2022 Regular reporting on actions and tasks completed / in progress takes place at the Economic Development Committee. On 9 June 2022, the</p> |

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| <p>finances is highlighted under section B).</p> <p><u>(ii)</u> Risk: Whilst Council actions aim to support and influence sustained economic recovery and growth, these alone cannot control outcomes due to the macroeconomic environment, global drivers, geopolitical uncertainty - conflicts in Ukraine and political sanctions. These factors present uncertainty for the global economy and worldwide inflation.</p> | (ii)3 | (ii)4 | <ol style="list-style-type: none"> 1. A review of reports and surveys by relevant organisations to fully understand the adverse impact on employment and the aviation section. 2. Council working with Enterprise M3 (Local Enterprise Partnership) to promote ‘Job Fuse’ as a means of brokering new job opportunities. 3. Small business incubator is operational. 4. Youth Hub will increase the accessibility to job, training, and employment opportunities for NEETs, and offers wellbeing support. 5. Appointment of a Town Centres Manager who is developing individual action plans for Ashford, Shepperton and Sunbury. 6. Various other initiatives of a collaborative nature. | <p>members of the committee noted the final update report on the recovery action plan. (The 6 ongoing actions will be incorporated into the Economic Prosperity Strategy so they are not lost).</p> <p>ACTION IN PROGRESS (Reviewed June 2022) – The Economic Prosperity strategy is being reviewed and is due for a complete refresh (to cover 2022 - 2027). Some key elements and actions were considered and noted by the Economic Development Committee on 25 January 2022. The final draft of the strategy will be considered by the committee for final adoption on 29 September 2022.</p> |
| <p>iii. Risk: Uncertainty and volatility for global economy. UK inflation has hit a new 40-year high of 9.1% in May 2022, putting increased pressure and strain on businesses (threat</p> | (iii)4 | (iii)4 | <p>Financial support for businesses has been made available through the Additional Restrictions Grant (ARG) applied up to 31 March 2022. This is a discretionary grant scheme. The Additional Restrictions Grant (ARG) task group agreed direction for spending the remaining ARG fund monies in</p> | |

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| <p>of business failure), households, and the Council’s budget. The escalating cost-of-living crisis impacts economic prosperity and recovery.</p> <p>iv. Disruptions to supply chains caused by a range of factors (changes in migration and trading regimes following Brexit; surges in consumer demand; continued labour shortages; international political sanctions). This has led to shortages of certain goods, services, consumables, materials, commodities, and subsequently surging prices, placing increased strain on local businesses, household budgets, Council Services, Council budgetary and financial position.</p> | (iv)4 | (iv)4 | <p>supporting businesses, focussing on equipment, support and training.</p> <p>Economic Development committee remit includes scrutiny of budgets and grant spend.</p> | |

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| <p>v. In the context of major challenges being faced by the aviation sector (eg staff shortages/industrial action), Spelthorne’s proximity to Heathrow impacts local economic prosperity. Heathrow represents a major employer in the area and facilitates business activity.</p> <p><i>(Economic news sources: Average UK wage rises are below half the inflation rate with demands for wage increases across some professions/sectors; threat of summer of discontent and industrial action; job vacancies may remain unfilled for key public services; Retail sales nationally are reported to have fallen in May 2022)</i></p> | (v)3 | (v)4 | | |

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| | | | | |
| <p>B. FINANCIAL SUSTAINABILITY AND RESILIENCE – <i>The following risks arising from wider externalities are highly likely or almost certain to lead to an adverse impact on the Council’s financial position thereby impacting sustainability and resilience.</i></p> <p>RED RISK</p> <p>(i) <u>Risk</u> - Significant financial cost implication for the Council associated with the</p> | (i)4 | (i)3 | <p>In February 2022, Full Council approved balanced budget for 2022/23. At the time, the following three years (2023-24 to 2025-26) also balanced.</p> <p>Medium term financial strategy. Budget process for 2023/24 brought further forward to provide timely opportunities to review. Reserves Strategy refreshed and approved by 7th February 2022 Corporate Policy and Resources Committee.</p> <p>Monitoring tax base and collection fund deficits and assessing impacts on the current/future budgets.</p> | <p>ONGOING MONITORING (Reviewed June 2022):</p> <p>The Local Government Provisional Funding Settlement in December 2021 has provided the detail of funding arrangements at an individual council level. However subsequent Local Government Funding Settlement only provided details for one year, so there is no medium-term funding certainty for councils. Recent indications from DLUHC suggest there are unlikely to be any major funding formulae/methodology changes for the 2023/24 Local</p> |

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| <p>macro-economic environment, in particular the impact of rising inflationary pressures such as energy, fuel and household costs on balancing the budget, as well as rising base rate interest rates, increased PWLB borrowing rates, and financial impact of geopolitical situation.</p> <p>(ii) <u>Risk</u>: Rising inflationary pressures have led to significant increases in construction costs (materials, shipping and labour), therefore adversely impacting the overall cost, and financial viability of residential property development schemes. This has led to further assessments to determine how the authority can break even.</p> | <p>(ii)4</p> <p>(iii)4</p> | <p>(ii)3</p> <p>(iii)3</p> | <p>Identifying and monitoring the increased cost of residential property schemes with further financial viability assessments planned.</p> <p>Longer term modelling to assess impact of stock market and pensions. Triennial Surrey pensions fund valuation undertaken by actuaries as at 31 March 2022- currently Surrey Pension has recovered well and achieving full funding levels.</p> <p>Sinking funds reserves set aside for commercial investments as a prudent measure and funds increased from £26m to £34m at the end of 21-22.</p> <p>Financial impact assessment /scenario modelling is undertaken regularly. Ten year worst and best case sinking fund scenario projections are reviewed on a fortnightly basis and will be shortly extended to a 20-year time frame. Expected case scenarios also highlighted.</p> <p>Continued weekly monitoring of commercial asset income due/any shortfalls</p> | <p>Government Funding Settlement. Changes may take place in 2024/25.</p> <p>ONGOING MONITORING (Reviewed June 2022): Periodical progress updates are reported to Audit Committee regarding the action plan arising from the LGA Finance Peer Review recommendations. Any synergies between this and the CIPFA Financial Management Code, Self-Assessment are also undertaken.</p> <p>REVISED ACTION IN PROGRESS (Reviewed June 2022): The finance team continue to assess and report on the significant financial impact of inflationary pressures and other external pressures on services and budgets for current and future years, highlighting anticipated budget gaps. Updated Budget pressures report going to 11th July</p> |

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| <p>(iii) <u>Risk</u>: The Cost-of-Living crisis has wide reaching implications for the borough, its residents and businesses including lower living standards, challenges in paying bills (such as Council Tax and Business Rates) leading to reduced taxbase income for the Council. This coincides with increased costs for the Council such as provision of financial support for leisure centres. There are also increased risks of fraud and theft during periods of economic challenge, as well as greater levels of anti-social behaviour leading to financial losses/reputational damage and diversion of Council scarce resources.</p> | (iv)4 | (iii)3 | <p>anticipated. (99.98% collection rate for 21/22). Currently 95% of the investment asset portfolio occupied. We are making progress in lettings and are moving towards 78% let on the one asset with significant unlet space.</p> <p>Bluebox software system is currently being used for raising, collecting, and monitoring single tenant rents in investment properties from June 2021.</p> <p>A weekly review of all investment and regeneration assets (including Elmsleigh) is undertaken which covers rent collection, lease negotiations, arrears and sinking fund expected and worse case scenarios.</p> <p>Liquidity and cash flow forecasting and monitoring / Treasury Management to assist planning for increased levels of expenditure and monitoring of market activity. Periodical review of strategies and regular advice from external Treasury Management advisors.</p> <p>Counter Fraud strategies for the Council.</p> | <p>PCRC identifying additional inflationary pressures of approximately £1.2m impacting on the 2023/24 budget and making recommendation about a range of mitigating actions. Contingency reserve being proposed to assist with the predicted budget deficit, subject to Council approval.</p> <p>ACTION IN PROGRESS (Reviewed June 2022): Individual business plans for each of the Council’s investment assets are under development. A template for plans agreed by Development Sub-Committee. A further batch of business plans will be taken in due course to Development Sub-Committee.</p> <p>ONGOING ACTION (Reviewed June 2022): Development Sub Committee of Corporate Policy and Resources receives regular</p> |

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| <p>(iv) <u>Risk</u> - Significant negative impact on residents, businesses and local communities if Council Services are unable to meet need in delivering services due to financial pressures, constraints and a requirement to generate further savings.</p> | | | | <p>monitoring reports for scrutiny on the performance of the Investment portfolio. This includes an annual performance report.</p> <p>ONGOING ACTION (Reviewed June 2022): Monitoring of Business Rates and Council Tax collection levels. Deferral by a year of Fair Funding Review and Business Rates 75% retention has been delayed at least a further year. Fair funding review and business rates reset may happen in 2023-24.</p> <p>NEW ACTION ADDED: JUNE 2022 As set out at Budget Briefing 21 June 2022 a number of steps are being taken to tighten the 2023-24 Budget process including implementing a moratorium on growth FTE bids except where</p> |

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| | | | | <p>required for statutory purposes or externally funded.</p> <p>NEW ACTION ADDED: JUNE 2022: Due to undertake a review of sinking fund methodology and strategy during summer 2022.</p> <p>NEW ACTION ADDED: JUNE 2022 Energy rebate scheme to support households with increased cost of living, led by Councils and introduced during quarter 1 of 2022/23.</p> |
| <p>C. HOUSING AND COMMUNITIES</p> <p>AMBER and RED RISK</p> <p>(i) Risk: Increased levels of homelessness. Some of the causes include greater threat of eviction due to financial pressures felt by households attributed to the worsening Cost of Living Crisis. This is further</p> | (i)3 | (i)3 | <p>(i)Housing Service discuss options with tenants at the outset to minimize risks of landlord eviction. Government funding to assist vulnerable families that are in rent arrears and to prevent homelessness.</p> | <p>Please also refer to the Corporate Risk Register (risk category 1B- Housing – Affordable).</p> <p>NEW ACTION ADDED: JUNE 2022 (Note this action also applies to risk category B above) Energy rebate scheme to support households with increased cost of living, led by Councils and</p> |

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| <p>exacerbated by delays in delivery of the Council’s Housing Delivery Programme impacting the achievement of affordable housing provision, as well as meeting wider housing needs.</p> <p>(ii) Impact of geopolitical situation and Ukraine crises on food supply chains with reduced availability for some staple food items, leading to consumer price increases impacting all communities and particularly effecting the most financially vulnerable households. Agricultural commodities such as fertilizers to support mass production can no longer be imported from Ukraine , impacting supply chains, food price increases and shortages.</p> | (ii)3 | (ii)3 | <p>(ii) Foodbank support is available for Spelthorne residents.</p> <p>Council Tax Energy rebate scheme introduced by government to help protect households from rising energy costs. This includes a £150 council tax energy rebate to all households whose primary residence is valued in Council Tax Bands A to D. Discretionary fund for households in need who are not eligible under the main scheme. Customer services team at SBC have implemented the scheme.</p> | introduced during quarter 1 of 2022/23. |

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| iii) Geopolitical situation (Ukraine conflict) has led to humanitarian crises. In supporting refugees from Ukraine the Council along with partners holds a pivotal role in responding to and coordinating essential needs including safe and secure housing provision. | (iii)4 | (iii)3 | (iii) Measures to support Afghan and Ukrainian refugee families under the relocation and assistance scheme (Home Office Funding of temporary accommodation for refugees). Some members of the local community are supporting refugees in their homes. 2 Ukrainian support workers have been appointed. | NEW ACTION ADDED: JUNE 2022 Costs incurred are being monitored and submitted to SCC/Home Office for reimbursement. |

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Evaluating risks and Risk Matrix
(In accordance with the Risk Management Policy)

The Council evaluates its risks on a four-point scale on the likelihood of the risk occurring and the impact caused should the risk occur. Risks are evaluated with their controls in place. Risks are plotted on a risk matrix (see below) and prompt action is taken on those risks that fall into the red zone. Action is considered for “amber” risks while “green” risks are regarded as acceptable. The above risks associated with COVID-19 (reference A to E) have been plotted on the graph below.

| | | | | | |
|---------------|-----------------------------|---------------------|-------------------------|-----------------------|-----------------------------------|
| Impact | 4 (Catastrophic) | | | A (i)(ii)(v) | A(iii) (iv) |
| | 3 (Major) | | | C (i,ii) | B (i) (ii) (iii)(iv) C(iii) |
| | 2 (Medium) | | | | |
| | 1 (Trivial) | | | | |
| | | 1 (Rare) | 2 (Unlikely) | 3 (Likely) | 4 (Almost certain) |
| | | Likelihood | | | |