

Audit Committee

24 November 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 controls and mitigation measures underway to manage risks. For the Council, these wider externalities continue to have 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 We have retained the format and presentation of this risk assessment as previously reported to the Audit Committee, given it has previously been acknowledged as conveying the necessary information in a clear and sufficient way.

2. Key issues

2.1 The revised risk assessment relating to the Council's risk exposure to wider externalities is set out at Appendix A. Risks continue to be assessed with current controls and current mitigations in place to determine their Red/Amber/Green (RAG) status and associated priority. Any further mitigation actions planned or underway are recorded in the last column of the risk assessment.

2.2 The specific risks identified and presented continue to be significantly influenced by external factors, due to the economic crisis and macroeconomic environment (elevated inflationary pressures, increased rates of borrowing from the Public Works Loan Board (PWLB) and rising interest rates, high energy/fuel/food prices and the Cost-of-Living strain) as well as the ongoing geopolitical uncertainty arising from the Ukraine crisis and factors such as China/US relations. Government instability and the recent mini budget has also impacted market volatility and confidence, and experts point to the economic outlook for the UK as bleak with the Bank of England forecasting a two-year recession and raising interest rates (bank rate) to 3% in seeking to tame soaring inflation. These increased borrowing costs are adding further financial strain to households and businesses. Gilt rate movements have significant influence on the Council's finances as they impact Public Works Loan Board (PWLB) rates. The Chancellor's forthcoming Autumn Statement of 17 November will provide further plans for sustainability of public finances with expectation of cuts on public spending and tax rises. It is therefore important to continue to recognise that Spelthorne's risk mitigation measures may be limited in their effectiveness due to significant evolving externalities beyond the control of the council. There are many activities that the Council cannot directly control/mitigate/influence given many of its operations form part of and remain influenced by the global/national environment. Given all of this, there appear to be no simple fixes or solutions to many of the complex

externally driven risks identified and the Council continues to explore and apply local controls and mitigating actions with a view to alleviating (not overcoming) some of the paramount external challenges and pressures, whilst recognising the limitations in doing so.

- 2.3 Key risks, issues and developments to highlight from the refreshed risk assessment are set out below at 2.3 (a) to 2.3 (c). It should be acknowledged that the majority of risks and issues raised in this section reflect those already reported in the separate Corporate Risk Register, specifically focussing here on three broad areas i.e., the Council's economic prosperity, financial position (sustainability and resilience), and Housing/supporting Communities.

(a) Risk Category A- Economy- Mostly Amber RAG rated risks

The refreshed economic risks set out in the risk assessment including the macroeconomic environment, elevated inflationary pressures, Cost-of-Living crisis, increased borrowing costs and market volatility continue to have a significant impact on Council operations, revenue streams, finances and budgetary position, as well as continued strain on households and local communities. These are explained further under section 2.3 (b and c). The socio-economic impact arising from these challenges includes greater occurrence of anti-social behaviour, crime, and fraudulent activity, again adding greater pressure to Council services and impacting community safety.

There is the potential for increased level of business failures across Spelthorne because of wider economic instability (very high inflation, surging prices arising from the supply chain and accelerating interest rates/borrowing) with the need to pass on increased costs to the consumer. This not only impacts economic prosperity of the borough but also affects collections rates for business rate income (lost income where businesses cease trading and operational businesses inevitably face greater challenges in paying bills), with reduced levels impacting Council finances and services available.

Whilst Council actions aim to support businesses and the local economy (as set out here and in the following paragraph), these actions alone can only have a limited impact due to the overarching effects and long term uncertainty of the macroeconomic environment, market volatility and geo political factors over which the Council has incredibly little influence. The adverse economic forecast in terms of recession and bleak economic outlook for growth adds greater challenge and pressure going forward.

Whilst the national economic picture remains bleak, the measures that the Economic Development team have taken to influence Spelthorne's position in areas that the authority can exert some control and therefore to mitigate the impact on the borough has led to most of the assessed risks in this section as being currently rated as amber, with the one red rated risk reflective of the national economic picture.

There are several controls and mitigation measures in place and being progressed. The final draft of the Economic Prosperity strategy (2023 – 2028) was considered by the Economic Development committee on 29 September 2022 and will go back to Committee on 12 January 2023 for final adoption. The strategy incorporates a detailed action plan detailing performance management measures in anticipating outcomes. Other measures include a Shared Prosperity Fund Investment Plan submitted to government in August 2022 highlighting local priorities and projects to assist with economic regeneration, a Town Centre strategy and action plan, and approved frontloading of the Shared Prosperity Fund scheme to ensure that projects can be delivered at the earliest opportunity in meeting need rather than waiting for government funding to come forward in 2024/25. In addition there have been several measures to improve resilience, support and training for local businesses, as well as promoting accessibility into employment.

(b) Financial Position (Sustainability and Resilience)– risk category B Red RAG rated risks

The risks set out in this section including the impact of the macroeconomic environment, elevated inflationary pressures, Cost-of-Living crisis, significantly increased PWLB borrowing rates/costs, market volatility and geopolitical factors continue to have a significant impact on the Council's budgetary position and finances, with the potential for adverse effects in delivering sustainable services to communities. This coincides with greater ongoing demands placed on Councils Services as the significant financial constraints arising from the Cost-of-living Crisis being felt across local businesses, communities and households continue to accelerate need for greater support from the Council. There are likely to be further financial pressures across the public sector and local councils on the assumption of significant cuts to public spending by the government (note earlier reference to the Chancellor's forthcoming Autumn Statement of 17 November which will provide further plans for sustainability of public finances in addressing the estimated £40bn Fiscal shortfall).

Construction costs (materials, fuel, shipping and labour) continue to accelerate, and prior delays to scheme progression remain relevant, adversely impacting the overall cost, and financial viability of residential property development schemes. This has led to further assessments to determine how the authority should proceed in supporting delivery of the Housing Delivery Programme and development targets. Some of the options being explored are set out in the risk assessment and include pursuing grant funding to partly fund residential development schemes and changing the tenure mix of schemes to reduce the level of long term borrowing required. Whilst these mitigating factors are being explored, the authority is not yet in a position to confirm measures taken, and therefore the associated risks set out above remain relevant.

We have previously reported measures being taken to reduce the budget deficit such as the Inflationary pressure contingency reserve to assist with the predicted budget deficit. In addition, the Cashable Savings working group has already highlighted efficiency savings for the authority. Further steps are being taken to tighten the 2023/24 budget process currently underway.

Fortnightly monitoring of Business Rates and Council Tax collection rates continues as part of monitoring the effect of the Cost-of-Living crisis on the collection fund. In addition, there is a potential risk of income reduction across other Council revenue streams such as Planning and Building Control if applications decrease so this will need to be monitored.

In continuing to manage the Council's risk exposure relating to commercial investment assets, a review of sinking fund methodology and strategy is being undertaken with a draft policy prepared, to be reported to Corporate Policy and Resources on 28 November 2022.

The Outline Budget report will provide updated medium term budget projections and set out options for refreshed medium term financial strategy. This to be considered alongside the refreshed Reserves Strategy.

(C) Housing and Communities – risk category C - Red and Amber RAG rated risks

Please refer to the issues highlighted at 2.3 (A & B) above as they are relevant for this section.

Financial pressures felt by households and landlords present greater threat of eviction if rents and mortgages can no longer be afforded. The worsening Cost of Living Crisis could therefore lead to increased levels of homelessness and greater demands for social housing, adding increased pressure to the Housing service.

The £35m Property Acquisition scheme to purchase and manage readymade properties through Knowle Green Estates (KGE) in addressing affordable housing need has been significantly impacted by increased PWLB borrowing rates. The Council is therefore discussing with Homes England potential for some grant support towards funding this scheme.

Council services and other voluntary/charitable organisations continue to offer help and support to Afghan Families and refugees from Ukraine, under the government funded assistance scheme.

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

Some of the other local control measures being taken by Spelthorne to support its communities during the Cost-of-Living crisis as well as migrant communities are set out below :

(i)The Council has expanded the capacity of the Citizens Advice to provide free advice and support to vulnerable clients and families. However, it is

recognised that even with the expanded capacity, there is still unmet demand for free and reliable advice in the community.

(ii) Migrant families are being supported into privately rented accommodation with rent in advance and deposit payment funded externally by the Home Office.

(iii) The Energy rebate scheme to support households with increased Cost of Living (specifically high gas and electricity bills) has with all mandatory allocations now processed.

(iv) The Household Support Fund (Phase 3) will be issued between November and March.

3. Options analysis and proposal

- 3.1 In the context of the Council's risk exposure to wider externalities and impact, the revised risk assessment at Appendix A is an accurate reflection of the relevant risks affecting the Authority, based on consultation with Managers and assessment of risk and controls in operation. Option 1 (Preferred option) - To consider the contents of the risk assessment including any new or expanded risk categories, current control actions, current mitigating actions and further actions set out in the last column underway or for perusal. To continue to take necessary actions going forward in response to the significant issues raised in this report and as detailed in the risk assessment. Or:
- 3.2 Option 2 - To recommend amendments to the revised risk assessment at Appendix A

4. Financial implications

- 4.1 There are major implications for the Council's finances and budgetary position arising from all the broad risk categories discussed under section 2.3 above. This is of course because of the ongoing major inflationary pressures compounded by the Cost-of-Living Crisis, increased cost of borrowing, high interest rates, accelerating costs of major development schemes due to construction inflation and ongoing adverse financial impact of scheme delays. Some of the local control measures underway or being explored by the Council in delivering corporate priorities are highlighted under para 2.3.

5. Risk considerations

- 5.1 The Council's Risk Exposure to wider externalities impacts the effective achievement of corporate priorities. At Appendix A three broad relevant risk categories are set out (risk category A – Economic activity and prosperity, risk category B – Council's Financial Position (Sustainability & Resilience), risk category C – Housing and Communities). Under each broad category specific risks and implications are identified and articulated, as well as the current controls and current mitigation measures in place to alleviate these risks. Taken together, current controls and current mitigating actions represent ways of managing risk. Further mitigating actions planned or underway in alleviating identified risks are set out in the last column.

- 5.2 To reiterate important commentary under para 2.2 above, there are no simple fixes or solutions to many of the complex risks identified in this risk assessment. The Council continues to explore and apply local controls and mitigating actions with a view to alleviating (not overcoming) some of the paramount external challenges and pressures being faced, whilst recognising the limitations in doing so.

6. Procurement considerations

- 6.1 Any procurement considerations relating to the risk categories on the risk assessment should be identified by the respective Risk Owners and lead officers and are likely to form part of separate reporting/communications.

7. Legal considerations

- 7.1 Risks facing the Council arising from external factors as identified on the risk assessment may impact the Council's ability to deliver priorities and statutory obligations in addressing community needs. For example delivery of the Housing Delivery Programme in meeting affordable housing provision and wider housing need.

8. Other considerations

- 8.1 As previously reported, as part of the forthcoming LGA Corporate Peer review taking place in November 2022, this process will provide continued direction and insight in supporting the Council to address its significant strategic risks within the challenging external environment, considering overlapping themes around sustainability, developments, housing, supporting communities and finances.

9. Equality and Diversity

- 9.1 Under the government funded assistance scheme Spelthorne continue to provide support to Afghan Families and to refugees from Ukraine, including being financially supported into privately rented accommodation. Dedicated support workers continue to assist these families and communities settle into a new environment and advise on how they can access relevant services and facilities.

10. Sustainability/Climate Change Implications

- 10.1 There are no further implications to highlight, separate to those in the Corporate Risk Register.

11. Timetable for implementation

- 11.1 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).

12. Contact

- 12.1 Internal Audit Manager, Punita Talwar. P.talwar@spelthorne.gov.uk
01784 446454

Background papers: Economic News sources

Appendices:

Appendix A –The Councils risk exposure to wider externalities and impact – Risk Assessment . (Please note this includes (i) level of assessed risk i.e. Red/Amber/Green - RAG status of each specific risk identified (ii) Numerical risk scores for likelihood and impact of each risk identified)