

# Audit Committee

23rd March 2023



<b>Title</b>	The Council's risk exposure to wider externalities and impact
<b>Purpose of the report</b>	To Note
<b>Report Author</b>	Punita Talwar, Internal Audit Manager
<b>Ward(s) Affected</b>	All Wards
<b>Exempt</b>	No
<b>Exemption Reason</b>	N/A
<b>Corporate Priority</b>	This report and risk assessment outlines the Council's risk exposure to wider externalities impacting the effective delivery of all corporate priorities (CARES). Community Affordable housing Recovery Environment Service delivery
<b>Recommendations</b>	The Audit Committee is asked to: (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) that are the focus of this report include the macroeconomic environment and geopolitical uncertainty – some explanation and definition of this terminology is given at Appendix A on the cover page. (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)
<b>Reason for Recommendation</b>	<b>The Audit Committee need to consider the risks being presented in this report relating to the macroeconomic environment and geopolitical uncertainties.</b>

## 1. Summary of the report

- 1.1 This update 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 (Appendix A) as previously reported to the Audit Committee and have referred to the direction of travel for assessed risks on the opening page of the Appendix.

## 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. There has been no movement (direction of travel) in terms of the assessment of specific risks across the three broad risk categories referred to at para 1.1, and risks remain ranked/positioned as reported in our previous review of November 2022.

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. Economists indicate little or no growth for the UK economy over the next three years, forecasting the economy will contract during 2023. On 2 February 2023 the Bank of England has raised interest rates (bank rate) to 4% in seeking to tame soaring inflation. Undoubtedly, accelerating borrowing costs combined with the Cost-of-Living crises present financial strain to Spelthorne residents, households, landlords and businesses. Inevitably this has led to increased demand on Council services coinciding with the Council's evolving financial position as it remains significantly adversely impacted by wider externalities. 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. As already reported at the last review, 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 including collaborative approaches with a view to alleviating (not overcoming) some of the paramount external challenges and pressures, whilst recognising the limitations in doing so. These are elaborated further under section 2.3 below.

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- Economic Activity and Prosperity - Mostly Amber RAG rated risks**

Many of the risks previously reported remain relevant. Some key points have therefore been drawn out, along with further developments and issues to report.

The continued impact of the macroeconomic environment remains highly significant for the Council and its communities as elaborated under para 2.2. and at Appendix A. The potential for increased level of business failures remains across Spelthorne because of ongoing wider economic instability (sustained inflationary pressures 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. Despite the challenging environment the collection rates for 2022/23 Business Rates and Council Tax as at January 2023 are slightly improved on last year (referred to at Appendix A), and the collection fund remains closely monitored.

Forecasts for increased unemployment rates during 2023 are likely to adversely impact local economic prosperity and living standards. The socio-economic impact arising from rising unemployment and other challenges includes greater occurrence of anti-social behaviour, crime, and fraudulent activity, again adding greater pressure to Council services and impacting community safety.

The Council relies on and collaborates with wider public services (such as Healthcare) in effectively meeting community needs to deliver services holistically. Industrial action across much of the public sector is contributing to labour shortages and could impact delivery/quality of public services to local communities.

Whilst recognising the overarching effects and long term uncertainty of the macroeconomic environment and geo political factors, over which the Council has little control or influence, there are several controls and mitigation measures being applied at a local level under risk category A, with a view to mitigating the impact on the borough of Spelthorne. The final draft of the Economic Prosperity strategy (2023 – 2028) was approved and adopted by the Economic Development committee on 12 January 2023. Other measures include a government approved Shared Prosperity Fund Investment Plan incorporating a range of projects to support economic regeneration, a Town Centres and Shopping Parades strategy (approved January 2023), refocusing the Skills and Employment hub to address current need and ongoing support to businesses through the incubator.

**(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. The Household Support Fund Phase 3 scheme was approved by CWHC in January with £244k of funds being distributed to households in need across the Borough.

In December 2022 DLUHC issued a statement of principles making clear that there will be no business rates reset or fair funding review outcome until after the general election. This gives councils some short-term funding certainty until 2025. The Local Government funding settlement announced just before Christmas 2022 was more generous than anticipated with the Council benefitting from a new £1.5m Core Spending Power, 3% increase guarantee grant and a small amount of Revenue Support Grant (£91k) for the first time since 2016/17.

The Outline Budget report of January 2023 to CPRC for 2023/24 to 2026/27 provides updated medium term budget projections, anticipated budget deficits and sets out options for refreshed medium term financial strategy. A draft balanced budget for 2023/24 is being put forward to CPRC and Council in February 2023 for approval, and a fully refreshed reserves strategy will also be reported to CPRC in February.

Quantifying the impact of delayed property development schemes and accelerated construction inflation on the Council's budgetary position remains pivotal, as well as outlining mitigating actions moving forward in delivering the Council's core priorities and housing programme. The issue tackling accumulating capitalized costs and risk of abortive costs of £9m being written off to Revenue was addressed at ECM on 2<sup>nd</sup> February which agreed a new strategic approach to ensure the housing delivery pipeline remains viable for the Council and Knowle Green Estates. This includes maximizing Homes England grant support for affordable and keyworker units, a capital injection into KGE, retaining Thameside and Benwell on Spelthorne's balance sheet for private rental and bringing forward Tothill regeneration scheme.

In continuing to manage the Council's risk exposure relating to commercial investment assets, a review of sinking fund methodology, policy and strategy has been undertaken. Corporate Policy and Resources Committee approved the Sinking Funds strategy on 28 November 2022. Outline and detailed budget modelling highlights a significant dip in investment asset income in 2023-24 which will be offset by use of £6m of sinking funds reserves.

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

The issues reported previously remain relevant in terms of ongoing financial pressures and the worsening Cost of Living Crisis felt by households and landlords presenting greater demands for social housing. In response to rising interest rates on mortgages some landlords are selling their properties rather than renting them out, further reducing housing supply in the private rented market. This is at a time of high demand for privately rented accommodation for families moving on from temporary accommodation as well as addressing needs for more sustained accommodation to Afghan and Ukrainian refugees.

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. A report regarding the Council's interest in seeking £1.26m capital grant from Government to assist in the cost of acquiring 8 homes for refugees (longer term intention to use to accommodate any residents based on need) is being put forward to CPRC on 20 February 2023 for approval. Family Support and Housing Options are seeking to identify any suitable properties in the privately rented market to support move on for Afghan refugees staying in the Bridging Hotel under the Find Your Own accommodation 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. Food shortages and increased costs create ongoing reliance on community provision such as foodbanks, and the Council supports this facility.

The Council commissioned an additional service through Look Ahead to support families moving into privately rented sector to assist with settling in the property and improve tenancy sustainability.

The Household Support Fund Phase 3 also referred to at para 2.3B is due to be distributed by the end of March 2023.

### **Options analysis and proposal**

2.4 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:

Option 2 - To recommend amendments to the revised risk assessment at Appendix A

### **3. Financial implications**

3.1 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 heightened 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.

#### **4. Risk considerations**

4.1 Please refer to commentary at para 2.2. 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. Procurement considerations**

5.1 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.

#### **6. Legal considerations**

6.1 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.

#### **7. Other considerations**

7.1 The Council is addressing the recommendations from the Peer review undertaken by the LGA in November 2022 and identifying where it can influence local actions and control measures as part of continuous improvement.

#### **8. Equality and Diversity**

8.1 Risk category C 'Housing and Communities' refers to ways in which Spelthorne provides housing and wider support in addressing varying community needs and responding to the evolving challenges presented. Provision of collaborative services in supporting the local economy is referred to at risk category A 'Economic Activity and Prosperity'.

#### **9. Sustainability/Climate Change Implications**

9.1 There are no further implications to highlight, separate to those in the Corporate Risk Register which is also on the Audit Committee agenda.

#### **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**

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### **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)**