

## **Appendix 5 – Risk and Financial Resilience**

### **Financial Risks, Resilience**

A key driver in the budget strategy and MTFP framework is the need to manage the Council's general and financial risks, its financial resilience and performance. The Chief Financial Officer is required to report to the Council on the robustness and sustainability of the estimates in the budget report, and on the adequacy of the reserves and balances. The council is required to take these comments into account when making its budget and council tax decisions.

The Chief Financial Officer has assessed the balance of risk and the associated mitigating actions, as set out in this Appendix and considers, on this basis, that the budget for 2024/25 is robust. This is based on the overall level of savings and service level options being delivered, the maintenance of appropriate earmarked reserves for material risks and action being taken to manage social care / housing price and demand over the medium term.

The council continues to face significant budget pressures, especially across its demand driven budgets and the longer-term impact of COVID and the Cost-of-Living crisis continues to materialise. Current forecasts indicate these have been mitigated during this year at a council wide level with the use of underspending from the capital financing budget which was pre-funded for the current capital programme borrowing costs and has continued to be delayed. This one-off contingency will reduce substantially in 2024/25 from the current level and again in 2025/26 as the programme is completed. Additional funding has been allocated for children's social care and housing services in the Cabinet's 2024/25 budget recommendation. Addressing the rising pressures in social care and housing are therefore key issues for the future sustainability of the Council's finances in the medium-term.

### **Risk**

The Council maintains a corporate risk register, which is regularly reviewed by the Corporate Management Team and Cabinet, as well as the Governance & Audit Committee from a procedural / risk management framework viewpoint. The Council's budget strategy and MTFP framework needs to reflect risks and incorporate appropriate financial mitigation, where required.

The Quarter 2 Corporate Risk Register identifies 15 risks that are considered to have a significant impact on the achievement of the Council's objectives and legal obligations. Overall, 9 of these risks are severe. There are several risks identified in the risk register that to fully mitigate would be unaffordable. In these cases, the risk is identified, and the Council needs to consider and assess how best to mitigate and continue lobbying WG to provide more funding in these areas, as these risks are not unique to Newport.

Four current risks with significant uncertainty are (i) stability of social services providers, (ii) pressures on adult services (iii) pressure on delivery of children services and (iv) pressure on housing and homelessness services. A number of budget investments /pressures are included in the Cabinet's recommended budget which directly impact positively on some current risks in the corporate risk register:

## Appendix 5 – Risk and Financial Resilience

RISK	DRAFT BUDGET
Demand for education Additional Learning Needs / Special Education Needs support	budget pressure included in the Cabinet budget
Education out of county placements	
School Finance / cost pressures	no savings included for schools in the Cabinet budget  funding of increased school pupil numbers in the budget
Pressure on housing and homelessness	budget pressure included in the Cabinet budget
Stability of social care providers	budget inflation fully funded to maintain at least a living wage level to care providers' staff in the Cabinet budget
Pressure on adult services	
Pressure on delivery of children's service	budget inflation fully funded to maintain at least a living wage level to care providers' staff in the Cabinet budget  budget pressure for increased demand and investment in the safeguarding hub included in the Cabinet budget
Welsh Government net zero carbon target by 2030	The budget saving for reduced energy costs for 2024/25 allows for the retention of a £500k budget which will be used as a source of match funding where external funding bodies, such as WG, require the Council to contribute towards net zero projects that are predominantly grant funded.

Outside of the risk register, and as noted in the budget report e, there are also other key issues and risks which members attention needs to be drawn too:

- Uncertainty on the adequacy of funding for the employers increased pension contribution for teachers.
- A risk regarding the 2024/25 pay awards, should the final awards exceed the provision contained within the proposed budget.
- Uncertainty related to grant transfers into the final settlement and the amalgamation of current grants.
- Likely continuation of overspending in housing services on homelessness provision and demand management in 2024/25 before their transformation plan takes full effect in the following year and continuing increase in demand on social care services.
- Delivery of the current 2023/24 financial year savings is not yet complete (£1,031k) and there are outstanding elements of previous year savings also outstanding (£105k).

The HoF is required to independently assess and report; to Council, on the adequacy of the budget (and Council Tax level as an integral part of this) and reserves in the context of the financial issues and risks facing the Council. The assessment of the risks mentioned here and how we plan and utilise the above options are key to this.

## Appendix 5 – Risk and Financial Resilience

### Financial Resilience

A robust view is taken in managing budget risks and protecting the financial health of the Council. In that respect, the Council's financial resilience is a key consideration. It is recognised that the current environment remains challenging and brings significant risks that have been outlined in this appendix and on the council's Risk Register. As a result of this, risks need to be carefully balanced, and an assessment made about which risks have such certainty they can currently be planned for, and for any remaining risks, the levels of reserves and General Fund Balances are such that they can be mitigated in the immediate future should the need arise in year.

In the context of this, the budget has the following areas of mitigation which will be required to support the budget challenges and risks set out above.

- (i) existing revenue contingency budget £1.373m which will rise to £1.6m with these budget proposals.
- (ii) existing revenue budgets not yet committed (capital financing budget), and which are set aside to manage revenue budget risks in the short-term at c£2.2m.
- (iii) specific reserves earmarked for uncertainty on pay costs increase at £1.4m.
- (iv) specific school reserves forecast at c£10m.
- (v) investment in revenue budgets to mitigate risks on an ongoing basis.

As regards reserves, the level of Earmarked Reserves has been reviewed and is appropriate for the risks faced Key headlines from the above list include:

- Earmarked Reserves: Although the Council's reserves have increased in recent years, nearly all of these are earmarked for specific purposes. However, as a last resort they do provide some mitigation but use of them means that the original purpose would be affected and/or would result in a budget pressure to build those reserves up again, as well as delaying the identification of recurring mitigation for the identified budget gap. The Council has a specific risk to deal with the inherent uncertainty of pay budgets at £1.4m

The budget recommended requires an annual £400k of reserve funding in Children Services to fund emergency placements budget provision for two years, as they develop and then implement their transformation plan. It is recommended that the following reserves are re-purposed for this:

- General Investment Risk Reserve (£200k)
  - COVID Risk Reserve (£420k)
  - COVID Reserve (£180k)
- Revenue Contingency budget & General Reserves: The (i) contingency base budget and other (ii) specific risk reserves held by the Council are taken into consideration when assessing the level of the general reserve and help to mitigate the risk to the Council. The general reserve is now too low relative to the size of the Council's budget which has increased significantly over the last 5 years as WG funding increased. The general reserves are however, in some respects, a 'blunt tool' to manage risk as they would be required to be increased again straight away if used. In that sense, setting deliverable budgets, managing budgets robustly and having a meaningful level of revenue budget contingency is more effective.

The final budget proposals here include a budget proposal to increase the level of the Council's budget contingency to £1.6m (from c£1.3m) and this will need to be

## Appendix 5 – Risk and Financial Resilience

kept under review in future years. The Head of Finance considers this a required budget investment to manage the increasingly challenging demands on the Council's budgets and medium-term funding outlook. Supplementing it will be the Council's non-committed element of its capital financing budget for 2024/25 at nearly c£3m. This is temporary only and is reducing each year as the capital programme is completed but will provide, for example, mitigation for continued increasing demand in housing and children's services for the 2024/25 financial year whilst their transformation plans are implemented. Given the above comments, the Council's general reserves can be maintained at current levels due to the overall level of reserves which, in the last resort, provide more than adequate financial mitigation, albeit with resulting impacts as noted above.

- School budgets- Reserves: The position in relation to school reserves improved after the Covid period and funds built up over those years are now being spent not only on initiatives which gave rise to the increased WG funding over that period but also to delay making budget savings which were required as part of the 2023/24 budget. The forecast net spends against school budgets this year will see reserve balances reduce to c£10m by the end of this financial year. It is important to note that school reserves can only be used by each individual school and not generally by the Council.
- The Council is investing significantly in Children's Services and Housing at c£4.1m. beyond inflationary increases. This will provide some mitigation for current demand levels.

The Council is developing a strategic transformation programme and the necessary governance arrangements to review and deliver it and has its 'transformation fund' (previously invest to save) reserve to fund the one-off cost of change. The programme is integral to developing ongoing financial sustainability whilst also ensuring key services can be delivered.

The combination of the centrally held Contingencies, Earmarked Reserves and General Fund Balances together are adequate when assessed against the balance of identified risk for next year.

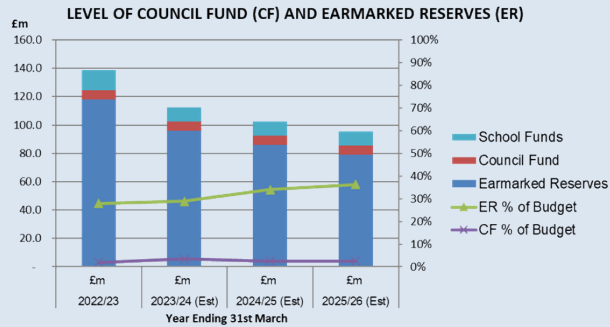
The Chief Financial Officer's conclusion therefore is that the proposed revenue budget for 2024/25 is robust based on the criteria set out above and that the budget is sustainable in the short term, but it clearly exposed to a higher level of risk in the medium term due to its already low cost of service provision / low funding, on-going demand in social care and housing services together with a high degree of uncertainty remaining over the next Spending Review period following a general election. However, through a combination of the centrally held Contingencies, Earmarked Reserves and General Fund balances together, the budget provides adequate protection against the risks identified in this report

# Appendix 5 – Risk and Financial Resilience

## Appendix 5 - Financial Resilience

The following tables, charts and figures give an indication of the financial resilience of the Council as per the Statement of Accounts

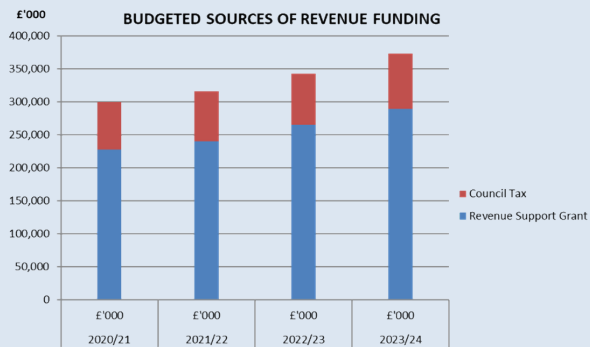
### Level of Council Fund (CF) and Earmarked Reserves (ER)



### Budgeted Sources of Funding

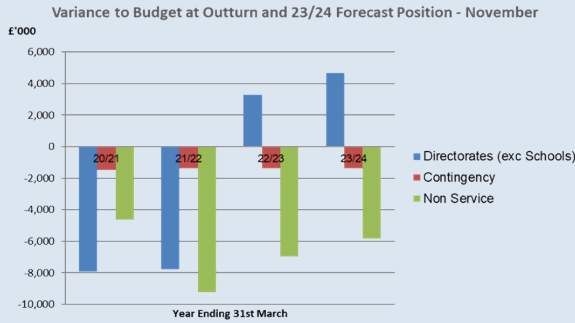
Total Revenue Funding	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Revenue Support Grant	228,077	240,796	265,612	289,522
Council Tax	72,193	75,134	77,400	84,154
<b>Total</b>	<b>300,270</b>	<b>315,930</b>	<b>343,012</b>	<b>373,676</b>

### Budgeted Revenue Funding Split

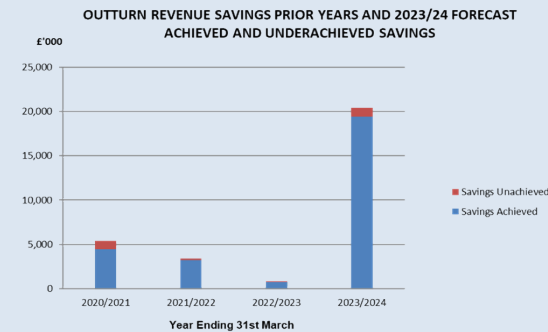


The figures below shows the outturn position for the prior 3 years for Revenue and the forecast position for 23/24

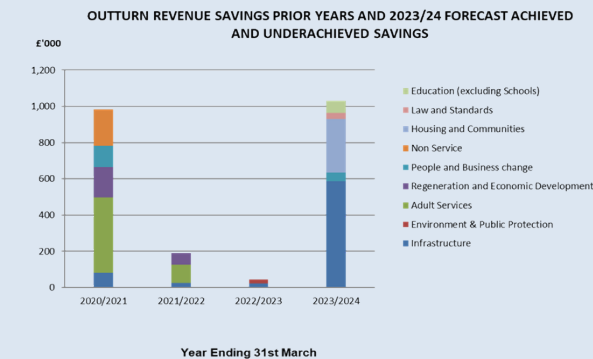
### Revenue Outturn and 23/24 Forecast Position - November



### Revenue Savings Achieved and Unachieved



### Analysis of Unachieved Savings



The table below shows the forecast position for Capital.

### 2023/24 Capital Forecast Position - November

Services	Capital Expenditure 2023/24					
	23/24 Budget approved November Cabinet	Additions / Amendments	23/24 Budget to be approved January Cabinet	Forecast	Slippage	Over / Underspend
Education	36,394	137	36,531	34,364	(2,205)	38
Environment & Public Protection	11,918	602	12,520	11,896	(656)	32
Housing & Communities	104	0	104	104	0	0
People, Policy & Transformation	3,817	23	3,840	3,407	(236)	(197)
Prevention & Inclusion	3,111	558	3,669	3,736	77	(10)
Regeneration & Economic Development	19,326	60	19,386	13,417	(5,794)	(174)
Social Services	2,410	200	2,610	2,568	(42)	0
Infrastructure	10,114	176	10,291	9,901	(288)	(102)
Non Service	3,140	0	3,140	3,140	0	0
<b>Total Budget</b>	<b>90,333</b>	<b>1,756</b>	<b>92,089</b>	<b>82,532</b>	<b>(9,143)</b>	<b>(413)</b>

The tables below show the Medium Term Financial Plan (MTFP) and the risks facing the Council.

### MTFP Scenario

	2024/25 £'000	2025/26 £'000	2026/27 £'000	Total £'000
Financial Pressures	30,246	24,334	20,775	75,355
Funding Uplift	(17,941)	(460)	(500)	(18,901)
Budget Requirement Reduction	12,305	23,874	20,275	56,454
Increase in Ctax / tax base / premiums	(7,054)	(2,958)	(3,076)	(13,088)
Reserve transfers	429	165	0	594
Savings	(5,680)	(231)	274	(5,637)
<b>Budget Gap</b>	<b>0</b>	<b>20,850</b>	<b>17,473</b>	<b>38,323</b>

### Capital Expenditure & Need to borrow

The table below is the Council's liability benchmark which compares the Authority's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. It is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making.

	31.3.23 Actual £m	31.3.24 Estimate £m	31.3.25 Forecast £m	31.3.26 Forecast £m	31.3.27 Forecast £m
Loans CFR	234.7	244.9	258.7	254.5	245.1
Less: Balance sheet resources	-140.5	-114	-103.8	-96.8	-93.8
<b>Net loans requirement</b>	<b>94.2</b>	<b>130.9</b>	<b>154.9</b>	<b>157.7</b>	<b>151.4</b>
Plus: Liquidity allowance	10	10	10	10	10.0
<b>Liability benchmark</b>	<b>104.2</b>	<b>140.9</b>	<b>164.9</b>	<b>167.7</b>	<b>161.4</b>