

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. This next section looks at these issues and identifies how they are dealt with, whilst considering how they influence the Council's 2025/26 budget and medium-term projections.

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. This was explained and set out in detail for the Cabinet's final budget in February and is summarised here now.

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, 8 of these risks are severe and, in many cases, link with the issues set out within the economic context and earlier sections of this report. 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.

The table below details the budget investments/pressures included in this draft budget which have a direct and positive impact on the specific risks identified within the corporate risk register

Corporate Risk Register and the draft budget

RISK	DRAFT BUDGET
Demand for education Additional Learning Needs / Special Education Needs support	Budget pressures included in the draft budget
Education out of county placements	
School Finance / cost pressures	No savings included for schools in the draft budget Budget inflation for pay fully funded to afford the 2024/25 pay award and estimated award for 2025/26 Funding of increased school pupil numbers in the draft budget
Pressure on housing and homelessness	Budget pressure included in the draft budget

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Newport Council's Property Estate	Budget pressure included in the draft budget
Stability of social care providers / Pressure on Adult services	Budget inflation fully funded to maintain at least a living wage level to care providers staff in the draft budget Budgetary provision, at a Council wide level, made for increased National Insurance employer costs
Pressure on delivery of children's service / Eliminate Profit from Social Care	Budget inflation fully funded to maintain at least a living wage level to care providers staff in the draft budget Investment of £1.871m to allow the service area to establish increased in-house provision in compliance with Welsh Government's Eliminate policy.

Outside of the risk register, and as noted in this report above, there are also other key issues and risks which the Council's attention needs to be drawn too:

- Uncertainty on the adequacy of funding for the employers increased national Insurance costs for the Council's directly employed staff. The final Cabinet recommended budget includes a £277k mitigation for this, representing 6% of the expected value.
- Uncertainty on the extent to which the Council's key partnerships / suppliers will be able to absorb their own increasing Employers National Insurance costs and any resulting unavoidable costs passed through to the Council, over and above budgetary provision made for this.
- The usual uncertainty related to grant transfers into the final settlement and the amalgamation of current grants.
- Potential continuation of overspending in housing services on homelessness provision and Children's placements costs in 2025/26 before their transformation plans takes full effect.

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 to manage the risks are key to this.

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 and Appendix 5 shows the current 'snapshot' of the key data and information showing an overview of the health of the Council. The following are key considerations for the Head of Finance in fulfilling his section 151 officer responsibilities in this regard and for Council's consideration when finalising the budget and considering how reserves are utilised and use made of the current un-earmarked reserves which are the prior year underspending reserve :

- Close monitoring of a number of key indicators relevant to financial resilience:
 - The relatively low Council funding due to low Council Tax

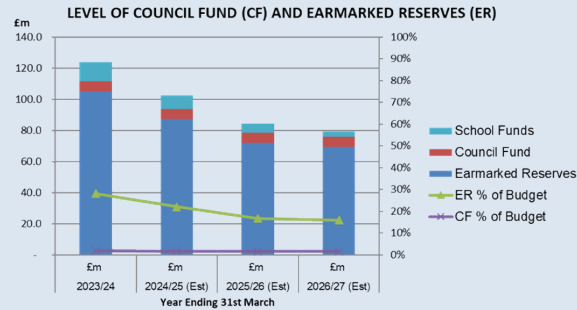
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- A growing 'Capital Financing Requirement' and 'Liability Benchmark' which measures the Council's underlying need for borrowing.
- A relatively large internal borrowing position in the context of a high-interest rate environment, diminishing cash reserves and reserves
- *Earmarked & General Reserves:* Earmarked reserves are forecast to reduce by £21.4m in 2024/25 to £102.4m (projected earmarked reserves are detailed in Appendix 5a). While this is still relatively high, nearly all are earmarked for specific purposes and those used for risk are specific to particular risks / issues. However, as a last resort they can provide one-off mitigation within the budget, albeit at the expense of their original purpose and potentially increase pressure on future budgets as the reserve used may need to be replenished. These reserves are currently forecasted to reduce significantly and at a fast rate over the current and next year or two, which is a key factor.
- *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. Reserves are also reducing at a fast rate over the next year or two which also reduces the mitigation provided by reserves in their totality / in general. The Cabinet and Council needs to increase general reserves over the short to medium term but for 2025/26, this can be managed 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 finances:* The school reserves position improved over the Covid period; however, the forecast overspend against school budgets this year will see them reduce to c£9m by the end of 2024/25. Although this is partly due to one-off expenditure items, the level of recurring pressures within the secondary and special school sectors is a concern.
- *Current budget savings & demands on the revenue budget:* The Council has identified and continues to monitor budget reductions of c£5m in 2024/25 and whilst delays in delivery is evident, the budget proposals here will reinstate some of the budgets affected by non-delivery of savings. This needs to be viewed within the context of continued significant demands which are faced by service areas, namely children's social care and homelessness, which have been highlighted throughout the year as part of the budget monitoring process. Mitigation for these has been provided by contingencies and non-service underspends to date but the ability for this to continue is reducing significantly for 2025/26 and onwards.
- *Employers National Insurance contributions:* As detailed above, the UK Autumn Budget included changes to employer national insurance contributions. Funding for these changes is yet to be confirmed, and the draft budget assumption of full funding from the WG is a concern. The cost of this to the Council's key suppliers is also an unavoidable concern and whilst some budgetary provision has been made for this; it can only be an estimate, and suppliers will need to absorb these costs as much as they can.

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

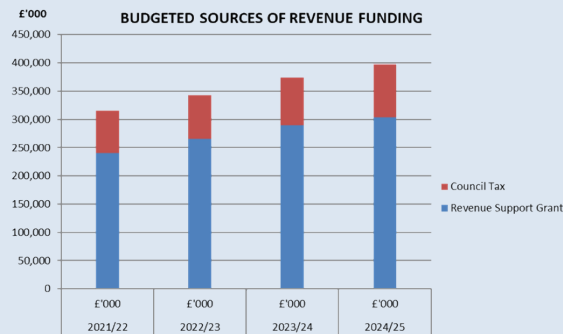
Level of Council Fund (CF) and Earmarked Reserves (ER)



Budgeted Sources of Funding

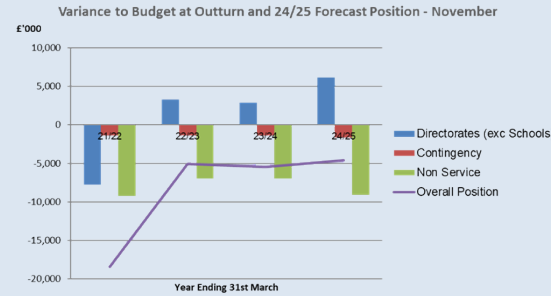
	2021/22 €'000	2022/23 €'000	2023/24 €'000	2024/25 €'000
Total Revenue Funding				
Revenue Support Grant	240,796	265,612	289,522	304,045
Council Tax	75,134	77,400	84,154	92,561
Total	315,930	343,012	373,676	396,606

Budgeted Revenue Funding Split



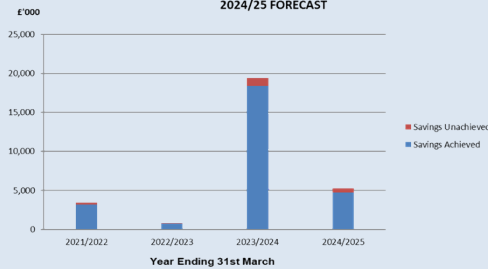
The figures below shows the outturn position for the prior 3 years for Revenue and the forecast position for 24/25

Revenue Outturn and 24/25 Forecast Position - November



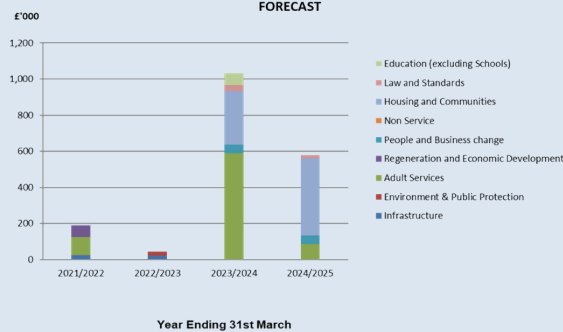
Revenue Savings Achieved and Unachieved

ACHIEVED AND UNDERACHIEVED SAVINGS AT PRIOR YEARS OUTTURN AND 2024/25 FORECAST



Analysis of Unachieved Savings

UNACHIEVED REVENUE SAVINGS AT PRIOR YEARS OUTTURN AND 2024/25 FORECAST



The table below shows the forecast position for Capital.

2024/25 Capital Forecast Position - November

Services	Capital Expenditure 2024/25						
	24/25 Budget approved November Cabinet	Additions / Amendments	Reprofile	24/25 Budget to be approved January Cabinet	Forecast	Slippage	Over / Underspend
Education	30,788	(350)	3,903	34,342	28,907	(5,435)	0
Environment & Public Protection	15,857	66	(250)	15,674	15,321	(353)	(20)
Housing & Communities	105	0	0	105	72	(33)	0
People, Policy & Transformation	3,920	0	0	3,920	3,462	(458)	0
Prevention & Inclusion	2,731	0	0	2,731	2,711	0	(20)
Regeneration & Economic Development	20,159	251	0	20,401	17,054	(3,326)	0
Social Services	1,376	61	0	1,436	1,446	10	0
Infrastructure	10,534	375	0	10,899	11,160	260	(9)
Non Service	2,091	0	0	2,091	505	(1,586)	0
Total	87,543	403	3,653	91,599	80,658	(10,971)	(49)

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

MTFP Scenario

	2025/26 €'000	2026/27 €'000	2027/28 €'000	Total €'000
Financial Pressures	38,282	16,228	16,686	71,196
Funding Uplift	(26,408)	(4,305)	(6,643)	(37,356)
Budget Requirement Reduction	11,874	11,923	10,043	33,840
Increase in Ctax / tax base	(5,859)	(3,459)	(3,597)	(12,915)
Reserve transfers	(1,706)	1,579	557	430
Savings	(4,928)	(915)	0	(5,843)
Budget Gap	(619)	9,128	7,003	15,512

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.

	31.3.24 Actual €m	31.3.25 Forecast €m	31.3.26 Indicative €m	31.3.27 Indicative €m	31.3.28 Indicative €m
Loans CFR	246.0	245.3	248.7	245.0	241.7
Less: Balance sheet resources	(119.0)	(102.4)	(85.6)	(82.2)	(78.7)
Net loans requirement	127.0	142.9	163.1	162.9	163.0
Plus: Liquidity allowance	10.0	10.0	10.0	10.0	10.0
Liability benchmark	137.0	152.9	164.9	167.7	167.7