

**To the Chair and Members of the  
AUDIT COMMITTEE**

**STRATEGIC BUDGET RISK MANAGEMENT**

**EXECUTIVE SUMMARY**

1. This report provides an in-depth picture of how the budget risks are managed, reviewed and reported, following consideration of the Strategic Risk Report Mapping Report to the Audit Committee on 17<sup>th</sup> August, 2016.

**EXEMPT REPORT**

2. Not applicable.

**RECOMMENDATIONS**

3. The Audit Committee is asked to note and comment on the report.

**WHAT DOES THIS MEAN FOR THE CITIZENS OF DONCASTER?**

4. The embedding of robust risk management arrangements within the Council incorporating the management of strategic risks creates an environment in which we can successfully meet our objectives to deliver Doncaster's priorities and the Mayoral Priorities Outcome Framework.

**BACKGROUND**

5. At the Audit Committee meeting on 17<sup>th</sup> August, 2016 Members requested a 'deep dive' review on the strategic risks in relation to the budget.
6. The strategic budget risks are regularly reviewed and recorded on the Covalent Performance Management System including progress against all mitigating actions. They are then reported to Finance & Corporate Services (and L&O CYPS for the Trust), Directors, Executive Board, Cabinet and Overview and Scrutiny as part of the quarterly Finance & Performance Improvement report. The strategic budget risks are also reported quarterly to the Audit Committee. The strategic budget risks reported in the Finance and Performance Improvement Report for Q2 are detailed at Appendix A and include:
  - a. As a result of the decision for the UK to leave the European Union there is increased uncertainty across a number of policy and

funding areas that could lead to disruptions in funding and/or projects locally in Doncaster. This is being managed as part of the budget setting and monitoring processes (reported in the Finance and Performance Improvement report).

- b. Failure by the Council and the Trust to agree and set a realistic annual budget target. This risk is managed as part of the annual contract review and overall budget setting process, which is detailed below. The annual review report has been submitted to the Secretary of State for Education and further work will be undertaken to agree future contract variations per the contract. The Children's Trust budget will be considered at an Overview and Scrutiny Management Committee meeting in February 2017.
- c. Failure to achieve the budget targets for 2016/17 and 17/18. This risk will be monitored and reported through the budget setting process, detailed below.
- d. Failure to set robust assumptions on pensions deficit recovery and future contribution rate for the 2016 valuation. This risk will be monitored and reported through the budget setting process, detailed below.

These risks will be updated and reported in the Finance & Performance Improvement report for quarter 3 in accordance with the monitoring timetable (Cabinet 28th February, 2017).

7. As part of the budget setting process the key risks to the budget are identified and actions to be undertaken to mitigate the risks considered. These risks are included in the budget report approved by Council under the risks and assumptions section of the main report and specific appendices including the review of reserves and risk matrix. The risk matrix for the 2016/17 budget is provided at Appendix B, this will be reviewed and updated for the 2017/18 budget. The key risks identified and reported in the Mayors budget proposals for 2017/18 include:

- a. Increasing expenditure in Adult Social Care; including managing higher numbers in long-term residential care; supporting people to live at home independently combined with further shift in costs to social care as service users are no longer assessed as having continuing health care needs. Demographics and impact on increasing pressures on services remains a risk. This risk will be monitored and reported through the budget monitoring process (Finance & Performance Improvement report) and specific monitoring arrangements for the Adults Transformation e.g. Adults Improvement Meeting.
- b. Possible non-delivery or delayed delivery of key projects/savings. This risk will be monitored and reported through the budget monitoring process (Finance & Performance Improvement report) and individual monitoring arrangements for specific projects e.g. DN17 challenge meetings, Assets Steering Group etc.
- c. Although the Council is on the multi-year settlement for 2017/18 to 2019/20 there are at least three major local government funding streams which are outside the offer and are vulnerable in 2019/20 - Public Health Grant, Improved Better Care Fund and New Homes Bonus. This risk will be monitored through the budget setting process.
- d. There is uncertainty regarding the potential impact from the April 2017 Business Rates Revaluation and potential impact of future Business Rate appeals. This risk will be monitored and reported through the budget setting process, and actions have been identified to mitigate the risk e.g. £0.9m pressure included for potential increased costs/reduced income, earmarked reserve set-aside and regular updates on the legislation.
- e. The Local Government Finance reforms which took effect from 1st April 2013 namely Business Rate Retention and the Localisation of Council Tax Support have meant that local government finances are much more vulnerable when a recession occurs. Whilst a safety net is in place for a significant reduction in Business Rates (7.5% below a baseline figure set each year by central Government), there could be a decrease in Business Rates income below the safety net. And there is no similar protection in place for Council Tax income, therefore the income the Council receives could reduce due to the economy. This risk is monitored and reported through the budget monitoring process (Finance and Performance Improvement Report).

## **OPTIONS CONSIDERED**

8. No other options have been considered.

## **REASONS FOR RECOMMENDED OPTION**

9. Given the potential implications it is important that all budget risks are appropriately managed.

## IMPACT ON THE COUNCIL'S KEY OUTCOMES

10. These are detailed in the table below: -

	<b>Outcomes</b>	<b>Implications</b>
	<p>All people in Doncaster benefit from a thriving and resilient economy.</p> <ul style="list-style-type: none"> <li>• <i>Mayoral Priority: Creating Jobs and Housing</i></li> <li>• <i>Mayoral Priority: Be a strong voice for our veterans</i></li> <li>• <i>Mayoral Priority: Protecting Doncaster's vital services</i></li> </ul>	<p>This report covers the risks associated with the Council budget therefore it impacts on all the outcomes.</p>
	<p>People live safe, healthy, active and independent lives.</p> <ul style="list-style-type: none"> <li>• <i>Mayoral Priority: Safeguarding our Communities</i></li> <li>• <i>Mayoral Priority: Bringing down the cost of living</i></li> </ul>	
	<p>People in Doncaster benefit from a high quality built and natural environment.</p> <ul style="list-style-type: none"> <li>• <i>Mayoral Priority: Creating Jobs and Housing</i></li> <li>• <i>Mayoral Priority: Safeguarding our Communities</i></li> <li>• <i>Mayoral Priority: Bringing down the cost of living</i></li> </ul>	
	<p>All families thrive.</p> <ul style="list-style-type: none"> <li>• <i>Mayoral Priority: Protecting Doncaster's vital services</i></li> </ul>	
	<p>Council services are modern and value for money.</p>	
	<p>Working with our partners we will provide strong leadership and governance.</p>	

## RISKS AND ASSUMPTIONS

11. The council's strategic risk register is reviewed and updated on a quarterly basis and each service has formally documented its key risks and the actions taken to mitigate those risks in service plans

## LEGAL IMPLICATIONS

12. There are no specific legal implications from the recommendations in this report. All legal implications are considered as part of the budget setting and monitoring processes.

## **FINANCIAL IMPLICATIONS**

13. There are no specific financial implications related to the contents of this report. All Financial implications are considered during the budget setting and monitoring processes.

## **HUMAN RESOURCES IMPLICATIONS**

14. There are no specific Human Resources implications related to the contents of this report. Any HR implications are considered as part of the budget setting process and highlighted in the relevant reports.

## **TECHNOLOGY IMPLICATIONS**

15. There are no specific Technology implications related to the contents of this report. Any technology implications are considered as part of the budget setting process and highlighted in the relevant reports.

## **EQUALITY IMPLICATIONS**

16. This report has no specific equality implications. The Council considers and has due regard to the Public Sector Equality Duty (PSED) when developing and implementing the council's Medium Term Financial Forecast (MTFF).

## **CONSULTATION**

17. Consultation on the budget risks has taken place with Service Managers, Directors and Members as part of the budget setting process or Finance & Performance Improvement Report.

## **BACKGROUND PAPERS**

18. Strategic Risk Report Mapping – Audit Committee 17th August, 2016  
Budget reports – Council 1st March, 2016  
Quarterly Finance & Performance Reports – Cabinet 29th November, 2016

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**Budget Strategic Risks in Quarterly Performance Monitoring Reports**

As a result of the decision for the UK to leave the European Union there is increased uncertainty across a number of policy and funding areas that could lead to disruptions in funding and/or projects locally in Doncaster.

Current Risk	CURRENT POSITION	Target Risk
<p><b>16</b></p> <p>Likelihood</p> <p>Impact</p>	<p>There still remains a certain degree of uncertainty regarding the impact of the UK exiting the European Union. Article 50 of the Lisbon treaty is to be triggered before the end of March 2017 leading to a two year negotiating period prior to a formal exit from the union. The Chancellor Philip Hammond has pledged that local areas with existing EU funding agreements signed off by the time we exit the EU would receive replacement funding and it is likely that a 'repeal' act that would enshrine EU law into UK law may be part of the next parliamentary session. It is estimated that around half of the regulations applicable to local government originate from the EU.</p> <p>There remain some significant issues relating to the value of sterling and the uncertainty of EU national workers and their status after the two year negotiating period, particularly for businesses with high proportion of their staff from EU countries.</p> <p><b>MITIGATING ACTIONS</b></p> <p>The potential disruption of exiting the EU may impact on a number of areas of council business. We continue to discuss this with colleagues across our partnerships both locally and nationally working with the LGA who have 5 priority areas; Local government's position post-Brexit EU funding Developing a new legal base for local government Community cohesion Place-based impact</p> <p>We will need to be agile enough to respond as new information is provided and as opportunities become available, lobby government on the things that matter most to us.</p> <p><b>TARGET RISK SCORE: Impact 3 X Likelihood 2 = 6</b></p>	<p><b>6</b></p> <p>Likelihood</p> <p>Impact</p>

**Failure by the Council and the Trust to agree and set a realistic annual budget target**

**Damian Allen**

Current Risk	CURRENT POSITION:	Target Risk
<p><b>15</b></p> <p>Likelihood</p> <p>Impact</p>	<p>The Trust have reported a quarter 2 variance of £3.4m overspend which is mainly on placements and have requested a £2.7m contract variation for changing in activity. Further actions are required to understand the sustainable operating model for 2017/18 onwards and any options to reduce the potential forecast overspend for 2016/17.</p> <p><b>MITIGATING ACTIONS</b></p> <p>Discussions will progress as part of the annual review process to understand the pressures and options for savings to mitigate. The Trust is continuing to identify options to release pressure on the forecast outturn for 2016/17 and 2017/18 onwards.</p> <p><b>TARGET RISK SCORE: Impact 5 X Likelihood 2 = 10</b></p>	<p><b>10</b></p> <p>Likelihood</p> <p>Impact</p>

Failure to achieve the budget targets for 2016/17 and 17/18.

**9**

**Simon Wiles**

Failure to set robust assumptions on pensions deficit recovery and future contribution rate for the 2016 valuation

**6**

**Simon Wiles**

## Appendix B

Risk Matrix			ORIGINAL RISK			CURRENT RISK			
Id No.	Risk Heading	Implication	Probability (pick from list)	Impact (pick from list)	Overall risk level	Mitigating Actions	Current probability	Current Impact	Current Overall Risk
BS 1.01	Cost Reductions	The financial plan assumes that all cost reduction proposals can be implemented in the identified financial year. If cost reductions are not achieved, the risk of an in year overspend is increased and this will put pressure on revenue reserves. The delivery of savings becomes more difficult each year and flexibility needs to be built into the proposals to allow for some slippage in delivery.	Likely	Critical	20	Cost reduction proposals have been worked up in detail by responsible managers and H.R. advisers and quantified by financial advisers. Proposals will be closely monitored in year as part of the financial management process. Contingency funding has been included in the proposals to provide some funding for potential slippage in the projects. Prudent figures have been included for the savings.	Possible	Critical	15
BS 1.02	Grant Settlement 2017/18	Grant settlement for 2017/18 may be worse than currently anticipated; including Public Health Grant which is undergoing year on year reductions for the period 2016/17 – 2019/20).	Likely	Critical	20	Retention of a flexible budget process which is capable of dealing with a worse than forecast settlement. Keeping abreast of changes from central government. Regularly report changes in an updated financial plan.	Possible	Critical	15
BS 1.03	Budget Pressures	The financial plan assumes that existing budget anomalies, either where base budget is inadequate or income targets proven unrealistic are addressed as part of the budget proposals. If they are not addressed, the risk of in year overspending is increased. Financial risks associated with the implementation of the Care Act 2014 and Continuing Health Care Funding. There is a risk that the transfer to the Children's Trust will result in additional costs for the Council.	Possible	Major	12	Identification of budget anomalies as part of the financial management process. Where necessary, funding made available as part of setting in year budget. Keeping up to date on best practice and robust monitoring of costs as part of performance management framework Adequate monitoring arrangements for Children's Trust in place	Unlikely	Major	8
BS 1.04	Level of General Reserves	The financial plan assumes that general reserves and contingency funding identified are sufficient.	Possible	Major	12	Risk assessment of General Reserves undertaken annually. General reserves are increased where possible. Close monitoring of reserves, contingency funding and potential liabilities. Review of provisions undertaken. One-off funding identified.	Possible	Significant	9
BS 1.05	Business Rates Retention	Risk that retained business rates collection will be below budget and appeals will be greater than expected causing the collection fund to run into a deficit, impacting on the funding available to the Council. There is a significant risk that the 2017 Business Rates Revaluation will be implemented and adversely impact on the Council. This risk will increase assuming the Government's plans to increase Business Rate Retention to 100% by 2020 are implemented.	Possible	Critical	15	Close monitoring of the appeals and collection rates and central Government announcements	Possible	Major	12
BS 1.06	Council Tax Collection	There is a risk that council tax collection will be less than budget and the collection fund will run into a deficit – impact on the funding available to the Council.	Possible	Major	12	Prudent view on the Council Tax base calculation. Close monitoring of the actual collection rates – reported quarterly in the finance and performance report	Unlikely	Significant	6