

Appendix E: Risk Deep Dive – Inflation

Cause

Continued inflation against a non-inflation linked (cash flat) devolution settlement affecting the Combined Authority’s ability to deliver.

Effect

- a) inflation on core running costs will cause them to exceed the £8m annual revenue Gainshare allocation.
- b) inflation impact on programme delivery results in CPCA’s buying power decreasing over time due to inflation. As this continues it will impact on our capacity to deliver our strategic objectives without alternative funding being identified.
- c) inflation is a live issue for CPCA delivery partners, and they may be less likely to take on the inflation risks in fixed contracts.

Risk Score

SCORING			
	INHERENT	RESIDUAL	TARGET
Impact:	4 - Major	3 - Moderate	2 - Minor
Likelihood:	4 - Likely	3 - Possible	3 - Possible
Priority:	21 - Very High	13 - Medium	8 - Medium

Controls and Mitigations

- Lobby government to highlight CPCA position and the need for a more sustainable funding solution. Identify fiscal levers to be explored for CPCA alongside Government.
- Project delivery - enter into fixed price contracts, i.e. transferring inflationary risk to contractors.
- Project delivery delays mitigated by active project management to minimise slippage and/or review project scope/value engineer costs.
- Budget and project managers consider the impact of inflation on their budgets each year as part of the development of the Medium-Term Financial Plan.
- £2.4m inflation reserve to be used when/if needed to cover revenue inflation risk.
- External inflationary drivers are considered for CPCA budget setting during annual MTFP development, the two key areas are inflation linked contracts for subsidised bus services and the national pay award for local government employees.

Actions

Work has been undertaken to identify inflationary pressures on budgets over Summer 2024 and this has been fed into the Medium-Term Financial Plan which was published for consultation in November 2024.

Last Review Comments

September CPI was 1.7% so the magnitude of the immediate risk is reducing, however the long-term fundamental risk of buying power eroding due to inflation and its cumulative impact remains. CPCA has advised MHCLG of capacity and funding issues and highlighted this risk. While no immediate funding solution was included in the autumn budget, there was a commitment to build mayoral capacity and, longer term, the CPCA alongside others is working with Government to feed into the multi-year funding settlement and devolution white paper, with an aim to achieve a sustainable funding solution.

The residual risk sitting higher than target reflects that the CPCA's long terms ambition is to have a sustainable funding settlement which adjusts in-line with inflation or other growth metrics – this is outside the CPCA's direct control and therefore the mitigating actions (outside of further efficiencies and use of reserves) cannot reduce this risk to the target level alone.