

**Budget Strategy – Risk Assessment Update**

<b>Final Decision-Maker</b>	Audit, Governance and Standards Committee
<b>Lead Head of Service/Lead Director</b>	Mark Green, Director of Finance and Business Improvement
<b>Lead Officer and Report Author</b>	Mark Green, Director of Finance and Business Improvement
<b>Classification</b>	Public
<b>Wards affected</b>	All

**Executive Summary**

This report provides an update on the budget risks facing the Council. A small underspend is projected for the current financial year (2019/20) and a balanced budget has now been set for the forthcoming financial year. However, in the absence of information from the government about future funding arrangements for local government there continues to be uncertainty over the medium term.

Although the Council has no direct responsibility for public health or health care, there is a potential financial impact of the COVID-19 virus which has been recognised in the budget risk register.

**This report makes the following recommendations to this Committee:**

That the Audit Governance and Standards Committee notes the updated risk assessment of the Budget Strategy provided at Appendix A.

**Timetable**

<b>Meeting</b>	<b>Date</b>
Audit, Governance and Standards Committee	16 March 2020

# Budget Strategy – Risk Assessment Update

## 1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
<b>Impact on Corporate Priorities</b>	The Medium Term Financial Strategy and the budget are a re-statement in financial terms of the priorities set out in the strategic plan. They reflect the Council's decisions on the allocation of resources to all objectives of the strategic plan.	Director of Finance and Business Improvement
<b>Cross Cutting Objectives</b>	The cross cutting objectives are reflected in the MTFS and the budget.	Director of Finance and Business Improvement
<b>Risk Management</b>	Matching resources to priorities in the context of the significant pressure on the Council's resources is a major strategic risk. Specific risks are set out in Appendix A.	Director of Finance and Business Improvement
<b>Financial</b>	The budget strategy and the MTFS impact upon all activities of the Council. The future availability of resources to address specific issues is planned through this process.	Director of Finance and Business Improvement
<b>Staffing</b>	The process of developing the budget strategy will identify the level of resources available for staffing over the medium term.	Director of Finance and Business Improvement
<b>Legal</b>	The Council has a statutory obligation to set a balanced budget and development of	Director of Finance and Business Improvement

	the MTFS and the strategic revenue projection in the ways set out in this report supports achievement of a balanced budget.	
<b>Privacy and Data Protection</b>	No implications.	Director of Finance and Business Improvement
<b>Equalities</b>	The Council's budgeted expenditure will have a positive impact as it will enhance the lives of all members of the community through the provision of resources to core services. In addition it will affect particular groups within the community. It will achieve this through the focus of resources into areas of need as identified in the Council's strategic priorities.	Director of Finance and Business Improvement
<b>Public Health</b>	None identified.	Director of Finance and Business Improvement
<b>Crime and Disorder</b>	None identified.	Director of Finance and Business Improvement
<b>Procurement</b>	None identified.	Director of Finance and Business Improvement

## **2. INTRODUCTION AND BACKGROUND**

2.1 The remit of the Audit Governance and Standards Committee includes consideration of risk. Members have requested that the Budget Risk Matrix and Risk Register be updated and reported to each meeting of the Committee, so that it continues to be fully briefed on factors likely to affect the Council's budget position.

### **Delivering the revenue budget**

2.2 The immediate risks to delivering the revenue budget include:

- failure to contain expenditure within agreed budgets
- failure to deliver planned savings
- shortfall in fees and charges against budgeted income
- failure of commercial initiatives (eg property investment, income generating activities in parks)
- costs of litigation exceed budgeted provision.

Notwithstanding the above risks, for the current financial year 2019/20, projections indicate that there will be a small underspend against the budget.

- 2.3 The Council agreed a balanced budget for the financial year 2020/21 at its meeting on 26 February 2020. Given the Council's track record of delivering against budget, this provides a reasonable level of assurance about the position for the coming year.
- 2.4 The government has provided no detailed information at authority level about funding for 2021/22 and subsequent years. Although Maidstone Borough Council is now largely dependent on locally generated resources, the amount of business rates that we are allowed to retain at a local level is a key variable in budget setting, and will depend on the overall post-2021/22 funding regime. There is also a risk that negative Revenue Support Grant, which was due to be levied on the Council in 2019/20 before political pressure forced it to be withdrawn, may be resurrected, even if in another guise. The position for 2021/22 onwards therefore remains very unclear.

### **Delivering the capital budget**

- 2.5 The capital programme plays a vital part in delivering the Council's corporate objectives and helps to secure revenue income generation. The Council has borrowed to fund the capital programme, for the first time, this year. The availability of funding is therefore important.
- 2.6 The main source of funding for local authorities has been the Public Works Loan Board. However, in October 2019, the PWLB's rates were increased for all loans, such that the 50 year maturity rate went up from 1.8% to 2.8%. As a result, very few local authorities have borrowed from the PWLB since then.
- 2.7 Whilst other sources of funding than the PWLB remain available, HM Treasury's readiness effectively to cease funding local authority capital expenditure may indicate a lack of support for local authority investment which would put at risk our capital programme.

### **External factors**

- 2.8 The adverse financial consequences from a disorderly Brexit have formerly been highlighted as a 'red' risk. Whilst the UK has now left the EU, future trading arrangements with the EU are still to be agreed and there remains a risk of disruption if this has not happened by the government's deadline of 31 December 2020. This therefore remains as a moderate risk in the budget risk register.

2.9 The spread of the novel Coronavirus COVID-19 poses a threat at a number of different levels. As this report is concerned specifically with budget risks, the issue here is about the impact on Maidstone Borough Council's finances. As a district council, we are not directly responsible for public health or providing health care in individual cases. There may nevertheless be indirect effects for the Council, such as the following:

- disruption to service delivery owing to staff absence (it has been estimated that up to 20% of the population could be affected)
- reduction in fees and charges income arising from lower levels of economic activity
- effect of a broad reduction in economic growth on public finances.

In recognition of this, a new budget risk 'Financial impact from spread of COVID-19 virus' has been added to the budget risk register. The impact is assessed as moderate, in the context of the Council's overall financial position, and the likelihood as possible. This assessment is provisional and will need to be reviewed as events unfold.

2.10 No other changes are proposed to the budget risk register.

2.11 Appendix A sets out the budget risks in the form of a Risk Matrix and Risk Register. Additionally, at the Committee's request, the possible monetary impact of the risks has been indicated. Note that it is very difficult to quantify the financial impact of risks in precise terms. The information is provided simply to give an indication of the order of the risks' financial magnitude.

2.12 Members are invited to consider further risks or to propose varying the impact or likelihood of any risks.

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### **3. AVAILABLE OPTIONS**

3.1 Option 1 - The Committee may wish to consider further risks not detailed in Appendix A or vary the impact or likelihood of any risks. This may impact the Council's service planning and/or be reflected in the developing Medium Term Financial Strategy.

3.2 Option 2 - The Committee notes the risk assessment set out in this report and makes no further recommendations.

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### **4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS**

4.1 Option 2 – It is recommended that the Committee notes the risk assessment.

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## **5. RISK**

- 5.1 Risk is addressed throughout this report so no further commentary is required here.
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## **6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK**

- 6.1 Each year the council as part of the development of the MTFS and the budget carries out consultation on the priorities and spending of the council. A Residents' Survey has just been completed for the 2020/21 budget and the results will be reported to Service Committees as part of the budget setting process.
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## **7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION**

- 7.1 The Audit, Governance and Standards Committee plans to continue keeping the budget risk profile under review at subsequent meetings.
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## **8. REPORT APPENDICES**

The following document is to be published with this report and forms part of the report:

- Appendix A: Budget Strategy Risks
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## **9. BACKGROUND PAPERS**

None.