

Budget Strategy – Risk Assessment Update

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

Executive Summary

Current monitoring indicates that in year financial performance in 2021/22 remains in line with budget. However, the report notes increased risks of a shortfall in business rates income and from higher inflation.

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

Meeting	Date
Audit, Governance and Standards Committee	28 September 2021

Budget Strategy – Risk Assessment Update

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	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
Cross Cutting Objectives	The cross cutting objectives are reflected in the MTFS and the budget.	Director of Finance and Business Improvement
Risk Management	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
Financial	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
Staffing	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
Legal	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.	
Privacy and Data Protection	No implications.	Director of Finance and Business Improvement
Equalities	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
Public Health	None identified.	Director of Finance and Business Improvement
Crime and Disorder	None identified.	Director of Finance and Business Improvement
Procurement	None identified.	Director of Finance and Business Improvement
Biodiversity and Climate Change	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 Details of the Council's financial performance for the first quarter of 2021/22 has recently been reported to Policy & Resources Committee. At this stage, the Council is holding significant amounts of grant received from central government, so income is well ahead of expenditure in cash terms. It should be noted that, while government grants to local authorities to address Covid-19 have been relatively generous, no reliance can be placed on receiving further one-off support, so it will be important to deploy these grants effectively without incurring long term commitments.
- 2.3 Projections to the end of the 2021/22 financial year indicate that there will be a small underspend (£144,000) against the £20 million net revenue budget. This projected underspend represents a combination of overspends and failure to achieve income budgets in a number of areas, including parking and corporate property income, offset by underspends in other areas.
- 2.4 A potential area of concern is the shortfall, for the first quarter of 2021/22, in business rates collections against target (28% versus 31%). Business rates relief for businesses in the retail, hospitality and leisure sectors has been reduced with effect from 1 July 2021, so there is a risk that this collection performance will deteriorate further. As well as affecting core business rates income, this would have a knock-on impact for the Council's income from the Kent business rates pool.

Medium Term Financial Strategy

- 2.5 The budget position for future years is addressed in the Council's Medium Term Financial Strategy, which is updated each year. Policy and Resources Committee initiated this process for the coming financial year by considering the relevant issues and risks at its meeting on 21st July 2021. Strategic revenue projections were presented to the Committee, showing the forecast position assuming (a) continued Council Tax increases at 2% and (b) 0%, ie a Council Tax freeze. These showed that, in both scenarios, a balanced budget can be delivered in 2022/23, given current assumptions, but a continued freeze would lead to a rapidly increasing deficit, given that inflation is projected to be in line with the government's target of 2%.
- 2.6 The relatively favourable forecast in the short term, of a balanced budget in 2022/23, arises because it is now assumed that the government will roll forward the existing local government funding settlement. This benefits Maidstone, as we will continue to receive a share of the amount by which business rates have grown in excess of inflation since the introduction of the current funding regime. In 2022/23 it is estimated that this will be worth £1.164 million to the Council. It had been feared that there would be a business rates baseline reset, meaning that we would have lost this amount.

- 2.7 There is still likely to be a business rates reset, and the implementation of a 'Fair Funding Review', in 2023/24. For this reason, the longer term projections are less favourable.

Delivering the capital budget

- 2.8 The capital programme plays a vital part in delivering the Council's corporate objectives. The Council borrowed to fund the capital programme for the first time last year. The availability of funding is therefore essential to delivery of the programme.
- 2.9 At present, funding for the capital programme is readily available at very low cost. In the short term, funding is available through the market in borrowing and lending between local authorities. Longer term funding is available from the Public Works Loan Board (PWLB). There is no indication that the government will withdraw this facility for local authorities, so long as the lending is not for purely commercial investment purposes.
- 2.10 Our treasury advisers expect Bank Rate to remain at 0.1% throughout the rest of 2021/22 and 2022/23. However, the rise in CPI inflation to 3.2% in August 2021 increases the likelihood of an earlier tightening of monetary policy. Whilst this would not in itself threaten the funding of the capital programme, it would make funding more expensive and would make investment projects with marginal financial benefit less attractive.
- 2.11 A further risk to the capital budget is the impact of inflation and supply blockages. Whilst there is scope to absorb overspends at an individual project level by transferring resources within the overall capital budget envelope, in the end these pressures mean that the capital programme will deliver less than originally anticipated.

External factors

- 2.12 The Covid-19 pandemic shows how vulnerable the Council is to external factors. The corporate risk register includes risks relating to (a) major emergencies such as a new pandemic and (b) a resurgence of the current Covid-19 pandemic and this has been mirrored in the Budget Risk Register.
- 2.13 As already indicated above in relation to the capital programme, inflation poses a risk to the Council's budget over the medium term. The neutral MTFs revenue projections assume that the Bank of England will be able to deliver its 2% inflation target over the medium term. If this target is exceeded, it will have an impact, particularly if the Council Tax referendum limit remains at 2%, thus constraining the Council's ability to pass on increases in input costs
- 2.14 A summary of changes in risk levels is set out below.

	Risk	Factor considered	Implications for risk profile
G	Inflation rate predictions in the MTFS are inaccurate	MTFS revenue projections assume that the Bank of England will be able to deliver its 2% inflation target over the medium term. There is an increased risk that this target will be missed.	Impact – major (increased) Likelihood – probable (increased)
M	Business rates pool	A possible shortfall in business rates collections would have a knock-on impact for the Council's income from the Kent business rates pool.	Impact – moderate (increased) Likelihood – probable (increased)

2.15 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. The information is also set out in the form of a bar chart.

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

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.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

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

5. RISK

5.1 Risk is addressed throughout this report so no further commentary is required here.

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 will be completed for the 2021/22 budget and the results will be reported to Service Committees as part of the budget setting process.

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.

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.