

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. Looking further ahead, there are a number of risks that will be reflected in the updated Medium Term Financial Strategy, notably inflation remaining above the government's long term target and uncertainty about future local government funding arrangements.

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	15 November 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 second quarter of 2021/22 are due to be reported to Service Committees in the next Committee cycle. At present, indications are that the Council will remain within budget overall, although there are a number of offsetting overspends and underspends. A potential area of concern, already flagged up previously, is the shortfall in business rates collections against target.

Spending Review 2021

- 2.3 The Chancellor announced a three year Spending Review on 27 October. This included real terms growth in Council Spending Power (the government's preferred measure) over the next three years. It should be noted that the calculation of Council Spending Power assumes that local authorities will increase Council Tax by the maximum permissible without a referendum, which in Maidstone's case is a 2% increase.
- 2.4 Details of the impact of this overall increase for individual authorities remain to be announced in the Local Government Finance Settlement, which is due in December. A potential issue for Maidstone is that an 'across the board' increase in funding for Councils would use the current basis of assessing funding requirements, which in 2019/20 indicated that the Council would have to pay negative Revenue Support Grant (RSG) to government, rather than receiving Revenue Support Grant from the government. The first element of any increase in funding could therefore simply be used to reverse negative RSG, giving no benefit to the Council. The Council is lobbying DLUHC to address this anomaly.
- 2.5 Although the Spending Review covered three years (2022/23 to 2024/25), it is not clear whether this will translate into a three year local government funding settlement. Local authorities benefited from the certainty offered by the four year settlement between 2016/17 and 2109/20, even though this was a period of reductions in funding, and it is hoped that similar certainty can be provided for the next three years.
- 2.6 The Chancellor's announcements included various capital funds (£300m grant funding to unlock brownfield sites, £1.5bn to regenerate unused land, UK Shared Prosperity Fund £2.6bn, Levelling-Up Fund £4.8bn. The Council will take every opportunity to bid from these funds in order to leverage its own capital expenditure.

Medium Term Financial Strategy

- 2.7 The budget position for future years is addressed in the Council's Medium Term Financial Strategy (MTFS). A first draft of the updated MTFS will be going to Policy and Resources Committee at its meeting on 24th November 2021. The MTFS will seek to address the various areas of uncertainty that the Council faces, both in relation to the overall economic outlook, and

specifically higher inflation, and the lack of information about the future arrangements for local government funding.

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 Bank Rate is now expected to rise over the next year. However, at this stage, longer term rates remain stable and borrowing costs remain within the Council's 2% budgeted level. The Council has taken a first tranche of PWLB borrowing and will continue to borrow in line with capital funding requirements.
- 2.11 A potential 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 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.

2.15 Given the relatively short period of time since the previous report to Committee, and the absence of major changes in the risk factors identified, no changes to risk levels are reflected in the attached appendix.

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.
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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 will be completed for the 2022/23 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.