

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

The principal budget risk faced by the Council is a resurgence of Covid-19. The experience of the last financial year shows that this would have a major impact on the Council's finances, although in the event a combination of government grant and the Council's own mitigation measures more than offset the impact of the pandemic last year.

In the medium term, general economic conditions and uncertainty about future funding arrangements for local government bring potential further risks.

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 July 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 consideration of budget risk	Principal Solicitor Contentious and Corporate Governance.

	assessments, development of 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 is intended to have a positive impact enhancing the lives of all members of the community through the provision of resources to core services. Equalities assessments as completed as part of an introduction or change to Policy or Service to ensure a positive impact for the community, achieved through the focus of resources into areas of need, supporting 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

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 Council set a balanced revenue budget for 2021/22 at its meeting on 24th February 2021. Although a deficit of £1.6 million was projected for the year 2021/22, arising primarily from the continued impact of Covid-19, this was covered through a planned transfer from reserves to achieve a balanced position. It is not sustainable to continue drawing on reserves to meet budget deficits, so the Medium Term Financial Strategy agreed by Council includes savings plans which will eliminate the ongoing budget gap by 2023/24.
- 2.3 The final out-turn for 2020/21 was more favourable than expected. Although there was additional unbudgeted expenditure and a significant shortfall in income arising from Covid-19, this was more than offset by central government grant and by measures taken by the Council itself to mitigate spend, leaving an underspend of £1.2 million. Policy and Resources Committee has agreed for the time being to transfer the underspend to General Fund reserves, although £140,000 has been earmarked for expenditure on non-spatial planning policy development.
- 2.4 It should be noted that the underspend for 2020/21 arose from one-off factors. The challenge of balancing the budget for the current year, 2021/22, and subsequent years remains.
- 2.5 At this relatively early stage in the financial year 2021/22 it is too early to project a variance from the forecast out-turn. Although income budgets were reduced to reflect the likely continued impact of Covid-19, at this stage some key income lines, in particular Parking, are failing even to achieve the reduced budgets.

Medium Term Financial Strategy

- 2.6 The Council's Medium Term Financial Strategy is updated each year. Policy and Resources Committee was due to initiate this process for the coming financial year by considering the relevant issues and risks at its meeting on 21st July 2021. The report to Policy and Resources Committee references the budget risk review carried out by this Committee. 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%.
- 2.7 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 is positive for 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.

- 2.8 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.
- 2.9 The MTFS projections will be refined further and will be tested assuming favourable, neutral and adverse scenarios. The adverse scenario, for example, assumes that government measures to stimulate the economy are constrained by the economy's capacity to grow and the need to keep public expenditure under control. Capacity constraints and low economic growth compared with other national economies would lead, in this scenario, to prolonged inflation in excess of the government's 2% target. As a result, there would be minimal growth in Council external income and increased cost pressures would lead to spending cuts in order to ensure that statutory services are maintained.

Delivering the capital budget

- 2.10 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.
- 2.11 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. There is no indication currently that the government will withdraw this facility for local authorities, so long as the lending is not for purely commercial investment purposes.
- 2.12 Our treasury advisers expect Bank Rate to remain at 0.1% for the next couple of years at least, meaning that the current favourable conditions are likely to continue. However, given the possibility of higher inflation and a tightening of monetary policy, the risk to the Council's capacity to borrow to fund its capital programme cannot be entirely eliminated.

External factors

- 2.13 The Covid-19 pandemic shows how vulnerable the Council is to external factors. The corporate risk register therefore now includes risks relating to (a) major emergencies such as a new pandemic and (b) a resurgence of the current Covid-19 pandemic.
- 2.14 Covid-19 impacted directly on the budget in 2020/21 through additional direct costs, loss of Council Tax and Business Rates income, and loss of income from fees, charges and other sources. The corporate risk related to a resurgence of Covid-19 has therefore been mirrored in the Budget Risk Register.

2.15 Another major external risk previously identified was potential adverse financial outcomes from a disorderly Brexit. This risk was downgraded in both the last two iterations of the Budget Risk Register and it is proposed now to remove it altogether.

2.16 However, there is another corporate risk which it is appropriate to reflect in the Budget Risk Register, namely 'IT Security Failure'. Local authorities have been subject to cyber attacks over the past couple of years, and there would almost certainly be significant financial consequences if this was to happen at Maidstone.

2.17 A summary of changes in risk levels is set out below.

	Risk	Factor considered	Implications for risk profile
N	Adverse financial consequences from a disorderly Brexit	New trading arrangements were introduced on 1 st January 2021 without major disruption, although many individual businesses were affected adversely. Traffic management at the Channel ports has been subject to disruption from time to time over the past year, but the direct cause has usually been Covid-19 rather than Brexit. This risk has therefore been removed from the Budget Risk Register.	Removed from Budget Risk Register
Q (new)	IT security failure	A successful cyber attack on the Council would almost certainly have significant financial implications.	Impact – major Likelihood - possible

2.18 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.

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
-

9. BACKGROUND PAPERS

None.