

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

This report provides an update on the budget risks facing the Council. The Council continues to face a high risk arising from uncertainty about the Government's intentions regarding the future funding of local government. There is an emerging risk arising from the potential introduction of restrictions on local authority borrowing, which could affect the Council's ability to fund its capital programme.

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	20 November 2017

Budget Strategy – Risk Assessment Update

1. INTRODUCTION AND BACKGROUND

- 1.1 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.
- 1.2 The key element in the Council's budget strategy is its rolling five year Medium Term Financial Strategy (MTFS). An updated five year MTFS for 2018/19 – 2022/23 was agreed by Council at its meeting on 25th October. The MFS financial projections were updated and rolled forward, taking account of:
 - An assessment of external opportunities and threats
 - Evaluation of existing budget savings in the five year plan
 - Latest emerging information about economic developments and government policy.
- 1.3 The core inflation assumption in the MTFS is 2%, in line with the Bank of England's target. However, recent inflation figures have been significantly higher than this. If this higher inflation rate is sustained, then our assumptions will need to be revisited.
- 1.4 Given uncertainty about the future, the MTFS projections have been prepared on the basis of various potential scenarios, representing (a) favourable, (b) neutral and (c) adverse sets of circumstances. Work is currently under way to prepare budget proposals that respond to the different scenarios.
- 1.5 In the short term, a measure of greater certainty has now been provided by the government's confirmation that the Council Tax referendum limit will be the higher of £5 or 2% in 2018/19. However, in 2019/20 the Council still faces the likelihood that it will have to pay the government 'negative Revenue Support Grant' of £1.6 million. The position for 2020/21 onwards remains very unclear.
- 1.6 There have been indications, in advance of the Chancellor's budget statement on 22 November 2017, that restrictions may be introduced on local authority borrowing. This follows adverse publicity for substantial borrowing undertaken by a small minority of local councils. Depending on the nature of the restrictions, this may affect Maidstone Borough Council's capacity to fund its capital programme.
- 1.7 Performance so far for the current financial year 2017/18 has been broadly in line with budget. There are potential overspends in the areas of temporary accommodation and planning appeals but it looks at this stage as though these can be offset by underspends elsewhere. The implementation of projected increases in Planning Fees has been delayed, but this income

shortfall is more than offset by continued strong performance from parking income.

- 1.8 The risks included in the Budget Risk Register have been reviewed in light of the above developments. A summary of the changes to the risk register is set out below. Appendix A sets out the budget risks in the form of a Risk Matrix and Risk Register.

	Risk	Factor considered	Implications for risk profile
B	Fees and Charges fail to deliver sufficient income	Implementation of a Planning Fee increase (which would have generated additional income of £200,000) was delayed owing to the General Election. This is more than offset by better than budgeted income elsewhere.	Impact – no change Likelihood – reduced
G	Inflation rate predictions underlying MTFS are inaccurate	CPI increase was 3.0% for the year to September 2017. MTFS projections are based on 2.0%.	Impact – no change Likelihood – increased
I	Constraints on Council Tax increases	The government has confirmed a referendum cap of £5 / 2% in 2018/19. The impact of this has been mitigated as the MTFS assumes that Council Tax cannot be increased by any more than this amount.	Impact – reduced Likelihood – no change
J	Capital programme cannot be funded	The MTFS assumes that the Council will be able to borrow from the PWLB at competitive rates. However, it is possible that controls may be introduced over local authority borrowing in the Chancellor’s November 2017 budget.	Impact – no change Likelihood – increased

2. AVAILABLE OPTIONS

- 2.1 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.

- 2.2 Option 2 - The Committee notes the risk assessment set out in this report and makes no further recommendations.
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3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 3.1 Option 2 – It is recommended that the Committee notes the risk assessment.
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4. RISK

- 4.1 Risk is addressed throughout this report so no further commentary is required here.
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5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 Each year the council as part of the development of the MTFS and budget carries out consultation on the priorities and spending of the council.
- 5.2 Public consultation on the budget last year took the form of a short survey. Residents were asked to prioritise ten areas of spending and then to consider whether the spending for those ten areas should remain the same, be reduced or cut altogether. The results of the consultation were set out in reports to the Service Committees on the budget proposals.
- 5.3 A Residents' Survey was undertaken during the Summer and will inform how the Council responds to the financial projections in the updated MTFS. Detailed budget proposals for next year will be subject to public consultation and review by the Service Committees.
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6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 The Audit, Governance and Standards Committee plans to continue keeping the budget risk profile under review at subsequent meetings.
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7. 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	Director of Finance and Business

	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.	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 the MTFS and the strategic revenue projection in the ways set out in this report supports achievement of a balanced budget.	Director of Finance and Business Improvement
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	Director of Finance and Business Improvement

	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.	
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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

9. BACKGROUND PAPERS

None.