

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. Recent government announcements have provided reassurance about the funding position for local government in the short term. However, over the medium term there continues to be uncertainty about funding arrangements. The risk of a disorderly exit from the EU, with the consequent adverse financial consequences, has receded. The increased cost of PWLB borrowing may make it more difficult to fund the 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	18 November 2019

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 the MTFS and the	Director of Finance and Business Improvement

	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

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).

For the current financial year, current projections indicate that a balanced budget position will be achieved. However, there are some areas of budget overspend, notably in the Planning Service, that need to be addressed.

Delivering the capital budget

- 2.3 The capital programme plays a vital part in delivering the Council's corporate objectives and helps to secure revenue income generation. The Council will have to borrow to fund the capital programme, for the first time, this year. The availability of funding is therefore important.
- 2.4 The main source of funding for local authorities has been the Public Works Loan Board. However, on 9th 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%. In the absence of other sources of funding, this could lead to some potential local authority capital investments ceasing to be viable. In practice, there are cheaper sources of borrowing available for short-term loans and it is expected that the market will start to compete more actively for local authority business. In the medium term, it is likely that local authority bonds will become more popular.
- 2.5 For Maidstone Borough Council, the increased cost of PWLB borrowing has had no immediate impact. Our planning assumption for finance costs has been reasonably cautious, at 2.5%. We will in any case investigate options which may be cheaper than the PWLB before borrowing.

External factors

- 2.6 The main source of risk to the Council arises from factors that are outside its direct control. In recent reports, the adverse financial consequences from a disorderly Brexit have been highlighted as a 'red' risk. This is because there would be direct financial costs arising from Brexit that are not fully covered by government grants, and, in the longer term, there may be adverse effects on the UK economy from Brexit.
- 2.7 Although not yet endorsed by parliament, the EU withdrawal agreement negotiated by the government in October may allow the UK to leave the EU on an agreed basis on 31 January 2020. However, there is no guarantee that the General Election will return a parliament that would approve the withdrawal agreement, and in the absence of an agreed alternative approach, there remains the risk of a disorderly Brexit.
- 2.8 The other significant risk in the budget risk register is the potential for an adverse impact from changes in the local government funding regime. 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. 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.

2.9 The government has now announced that it will roll forward the existing local government funding arrangements from 2019/20 to 2020/21, with updating to reflect inflation. However, the implications of any new local government funding regime, effective from 2021/22, remain unclear.

2.10 In summary, whilst the Council has been successful in managing risks over which it has some control locally, it remains subject to further risks arising in the wider economic and political environment.

2.11 The Budget Risk Register has been reviewed in light of developments since it was last reported to members. A summary of the changes to the risk register is set out below.

	Risk	Factor considered	Implications for risk profile
J	Capital Programme cannot be funded	The government has now effectively rationed PWLB borrowing by increasing its cost.	Impact – very significant (no change) Likelihood – moderate (increased)
N	Adverse financial consequences from a disorderly Brexit	The government has negotiated an EU withdrawal agreement but it has yet to be endorsed by parliament.	Impact – major (no change) Likelihood – possible (reduced)
H	Adverse impact from changes in local government funding	There is now more clarity about the position for 2020/21, but the position from 2021/22 remains unclear.	Impact – major (no change) Likelihood – possible (reduced)

2.12 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.

2.13 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 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.