

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. There remains a high overriding risk from uncertainty about the national economic position and the future funding of local government, but recent announcements from government about the 2018/19 Local Government Finance Settlement have provided greater certainty about the position in the short term.

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 January 2018

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.
- 1.3 Given uncertainty about the future, MTFS projections were prepared on the basis of various potential scenarios, representing (a) favourable, (b) neutral and (c) adverse sets of circumstances. All scenarios assumed that budget savings included within the existing MTFS can be delivered.
- 1.4 Budget proposals have now been developed in response to the projections set out in the MTFS and are currently subject to consultation with the Service Committees. Heads of Service were asked to develop proposals both in response to the neutral scenario and to the adverse scenario. 'Neutral scenario' proposals were based on achieving further service efficiencies, increasing income, and investing to generate revenue growth. The 'neutral' budget proposals, if delivered, will ensure that the budget remit of a balanced position for 2018/19 can be secured.
- 1.5 'Adverse scenario' proposals were developed for contingency planning purposes, based on a more radical approach, including service cuts. It is not proposed to explore these options further at this stage, given that the 'neutral' proposals and existing agreed savings proposals are sufficient to meet the budget remit. The 'adverse' budget proposals will be revisited and updated as necessary if it appears that the assumptions on which neutral scenario is based are no longer valid.
- 1.6 The funding context has now been clarified by a government announcement on 19th December 2017 on the 2018/19 local government finance settlement. This confirmed that the settlement for next year will be in line with the previously announced four year settlement 2016/17 – 2019/20. The Secretary of State also said that CLG will 'be looking at fair and affordable options for dealing with Negative RSG'. Maidstone Council is facing £1.6m of negative RSG in 2019/20, so this is very welcome.
- 1.7 In the light of higher than anticipated inflation, the government is giving councils the ability to increase Council Tax by an additional 1% without a local referendum. The Council will have to consider whether we wish to take advantage of this as part of the budget setting process for 2018/19.
- 1.8 Finally, it was announced that Kent & Medway will be a 100% Business Rates pilot area in 2018/19. This will provide a one-off additional amount of

business rates income in 2018/19, provisionally estimated as £640,000. Proposals will be going to Policy & Resources Committee later this month about the budget allocation of this amount.

- 1.9 There have been indications that restrictions may be introduced on local authority borrowing. This followed adverse publicity for substantial borrowing undertaken by a small minority of local councils. Government has consulted on changes to the Prudential Framework, intended to address this. The proposed changes, as circulated for consultation, are not considered so restrictive as to prevent the relatively limited use of prudential borrowing envisaged by Maidstone Borough Council.
- 1.10 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
H	Adverse impact from changes in local government funding	The government has recently provided confirmation of the local government funding position for 2018/19, and has stated that it will look at options for dealing with negative RSG (which severely impacts Maidstone) in 2019/20.	Impact – no change Likelihood – reduced
I	Constraints on Council Tax increases	The government has increased the referendum cap from 2% to 3% in 2018/19. This provides a small measure of greater flexibility should the Council wish to take advantage of this.	Impact – no change Likelihood – reduced
J	Capital programme cannot be funded	The MTFS assumes that the Council will be able to borrow from the PWLB at competitive rates. There has been a threat that controls may be introduced over local authority borrowing. However, recent government consultations and announcements do not indicate a direct impact for Maidstone Council's spending plans.	Impact – no change Likelihood – reduced

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.

3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

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

4. RISK

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

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 Summer 2017 and has informed the Council's response to the financial projections in the updated MTFS. Detailed budget proposals for 2018/19 are currently subject to public consultation and review by the Service Committees.

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 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
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 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

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.