

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 government's announcement of the Provisional Local Government Finance Settlement on 20 December 2019 provided confirmation of announcements made before the General Election and gave confidence that the Council can set a balanced budget for 2020/21. However, over the medium term there continues to be uncertainty about funding arrangements. The risk of a disorderly exit from the EU in the short term has receded but there remains a risk that new trading arrangements with the EU will not be agreed by December 2020.

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	13 January 2020

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

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)
- costs of litigation exceed budgeted provision.

The last item is a new addition to the budget risk register. The Council is often engaged in litigation and generally the costs of any award against the Council and associated costs of legal advice can be met from within budgets. However, it is prudent to acknowledge the risk that provisions may not in fact be sufficient to cover all likely costs.

Notwithstanding the above risks, for the current financial year 2019/20, projections indicate that a balanced budget position will be achieved.

- 2.3 The Council agreed a Medium Term Financial Strategy for 2020/21 to 2024/25 at its meeting on 18 December 2019. It also agreed the principle of increasing Council Tax in line with inflation. Given the other assumptions included within the MTFS, and following announcement of the Provisional Local Government Funding Settlement on 20 December 2019, this means that the Council will be able to set a balanced budget for 2020/21.
- 2.4 The Provisional Local Government Funding Settlement gave no further indications about funding arrangements for 2021/22 and subsequent years. 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, and will depend on the overall post-2021/22 funding regime. 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. The position for 2021/22 onwards therefore remains very unclear.

Delivering the capital budget

- 2.5 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.
- 2.6 The main source of funding for local authorities has been the Public Works Loan Board. However, in 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%. As a result, very few local authorities have borrowed from the PWLB since then.
- 2.7 Whilst other sources of funding than the PWLB remain available, HM Treasury's readiness effectively to cease funding local authority capital expenditure may indicate a lack of support for local authority investment which would put at risk our capital programme.

External factors

- 2.8 In reports over the past year, the adverse financial consequences from a disorderly Brexit were highlighted as a 'red' risk.
- 2.9 The UK is now expected to leave the EU on an agreed basis on 31 January 2020. However, future trading arrangements with the EU are still to be agreed and there remains a risk of disruption if this has not happened by the government's deadline of 31 December 2020.
- 2.10 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
N	Adverse financial consequences from a disorderly Brexit	The UK is expected to leave the EU on an agreed basis on 31 January 2020 but there remains a risk of disruption if new trading arrangements are not agreed by 31 December 2020.	Impact – moderate (reduced) Likelihood – possible (no change)
H	Adverse impact from changes in local government funding	The Provisional Local Government Finance Settlement has provided clarity about the position for 2020/21, but the position from 2021/22 remains unclear.	Impact – moderate (reduced) Likelihood – possible (no change)
O	Litigation costs exceed budgeted provisions	The Council is often engaged in litigation and generally the costs of any award against the Council and associated costs of legal advice can be met from within budgets. However, it is prudent to acknowledge the risk that provisions may not in fact be sufficient to cover all likely costs.	Impact – major (new) Likelihood – unlikely (new)

- 2.11 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.

2.12 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.

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 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.

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.