

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 two key risks highlighted in the report are continued uncertainty about future local government funding arrangements and the potential financial implications of a disorderly exit from the EU.

This report makes the following recommendations to this Committee:

That the updated risk assessment of the Budget Strategy provided at Appendix A be noted.

Timetable

Meeting	Date
Audit, Governance and Standards Committee	18 March 2019

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). Council agreed a new MTFS covering the period 2019/20 – 2023/24 at its meeting on 12 December 2018. Given uncertainty about the future, the MTFS included projections based on three different scenarios - favourable, neutral and adverse. These indicated that the budget for 2019/20 was close to being balanced in the neutral scenario, given the various assumptions underlying the projections. However, in 2020/21 the budget gap will be significant under both the neutral and adverse scenarios. Savings proposals to reduce the gap were considered by Service Committees in January 2019 and formed part of the budget which was agreed by Council on 27 February 2019.
- 1.3 The two key risks to the Council continue to be changes to the local government funding regime and Brexit.

Changes to Local Government funding regime

- 1.4 Uncertainty about the local government funding regime is captured in the budget risk register under the heading of 'adverse impact from changes in local government funding'. The medium term position from 2020/21 onwards, following the end of the current four year funding settlement, remains unclear. As described in the report on budget risks to the last meeting of this Committee, the government has now given some indications about the architecture of the new system. However, the crucial element, which is the amount of funding to be distributed between local authorities, depends on this year's Spending Review.
- 1.5 Maidstone Council now depends for its revenue income largely on Council Tax and locally-generated fees and charges. However, we do retain a proportion of the business rates that we collect. The exact amount of our share depends on decisions made by central government. It is this element in our income that is most at risk from changes in the local government funding regime.

Brexit

- 1.6 When and how the UK will leave the EU remains unclear at the time of writing. A range of potential outcomes remains possible. For planning purposes, Maidstone Borough Council, following the lead of the Kent Resilience Forum, is continuing to prepare on the basis that there may be a 'no deal' Brexit on 29 March. This has already involved incurring additional

costs, and will certainly involve significant further costs if this outcome materialises. Costs include staff overtime and additional contract costs to maintain key services such as waste collection.

- 1.7 In the longer term, there may be adverse longer term effects on the economy from Brexit, with a knock-on impact for local authorities. This would affect both our costs, with the risk of having to spend more on services like homelessness, and our revenues, with a downturn in the economy affecting income from parking, planning fees and our commercial property holdings.
- 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.

	Risk	Factor considered	Implications for risk profile
D	Planned savings are not delivered	Planned savings / additional income in services including Parking, Planning and Property may not be achievable if there is a Brexit-related downturn in the economy.	Impact – major (no change) Likelihood – possible (increased)
B	Fees and Charges fail to deliver sufficient income	Fees and Charges, which have become an important mainstay of the budget in recent years, may reduce if there is a Brexit-related downturn in the economy.	Impact – major (increased) Likelihood – possible (no change)

- 1.9 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. 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.

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 the budget carries out consultation on the priorities and spending of the council. A Residents' Survey was carried out as part of the consultation on the new Strategic Plan and the updated MTFS 2019/20 – 2023/24.

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.

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	Director of Finance and Business Improvement

	in Appendix A.	
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
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

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.