

**Agenda Item No:** 4  
**Report To:** Overview and Scrutiny Committee  
**Date:** 27<sup>th</sup> January 2015  
**Report Title:** Report of Budget Scrutiny Task Group  
**Report Author:** Senior Scrutiny Officer



<b>Summary:</b>	The Overview and Scrutiny Budget Scrutiny Task Group has scrutinised the Council's draft 2015/16 budget and regards it as achievable.
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**Key Decision:** NO

**Affected Wards:**

**Recommendations:** 1. **The O&S Committee recommends that the Cabinet:**

- **Be advised that the O&S Committee regards the Council's draft 2015/16 budget as achievable**
- **Endorses the Risk Matrices and the risks identified within them, particularly noting those that fall in the shaded part of the matrix**

**Policy Overview:** Under the Council's Constitution the O&S Committee has a duty to scrutinise the Council's draft Revenue and Capital Budgets.

**Financial Implications:** As noted in the report

**Risk Assessment** N/A

**Equalities Impact Assessment** N/A

**Other Material Implications:** As noted in the report.

**Exemption Clauses:** N/A

**Background Papers:** All individual services draft 2015/16 budgets

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## Summary

Achieving a balanced budget is a fundamental requirement for the Council. The Council's provisional draft budget for 2015/16 was presented to the Cabinet on 4<sup>th</sup> December 2014. This budget was built against a backdrop of continued economic austerity measures, which are likely to deepen further, and an increasing cost base due to inflationary pressures.

The provisional draft budget presented to the Cabinet was then submitted to the Overview and Scrutiny Committee's Budget Scrutiny Task Group for formal scrutiny.

When the draft budget was being prepared the Government's Autumn Budget statement had yet to be announced and so the draft budget was prepared using the Government's provisional figures which were published, for consultation, in the summer. Details of the settlement grant figures had also not been announced.

It was considered that whatever the result of the election in May 2015, the incoming Government would be likely to keep to the current administration's 2015/16 funding proposals, i.e. that there would not be an emergency budget with changed priorities, but of course there was no guarantee of that.

The Council's draft budget allowed for a £0.9m reduction in formula grant and assumed a freeze in Council tax. A 2.2% increase in rents was also assumed in the draft Housing Revenue Budget.

This draft budget was scrutinised by the Overview and Scrutiny Budget Scrutiny Task Group over a series of meetings. The Task Group met on five occasions and at each meeting Members asked the relevant Officers to give the Group an overview of their service, the risks and uncertainties facing them, what savings they had achieved, and their proposed service developments.

The table attached to this report highlights the areas that the Task Group considered could be a risk to the 2015/16 budget and places them in a Risk Matrix which shows the potential likelihood of the event occurring and the material impact it would have on the Council if it were to occur. The Risk Matrix is separated into Financial risk and Operational (i.e. service quality) risk. Risks of high probability or materiality (in the shaded area of the matrix) could impact on the 2015/16 Budget and would require careful monitoring during the year.

The Minutes of the meetings are available to Members and should be read in conjunction with this report for more information.

The 2015/16 budget is for the fifth year of the Council's 5 year business plan. Recommendations for delivering the remaining priorities of the final two years of this plan were agreed in October 2013 when the Cabinet adopted the 'Focus 2013 – 15: the Corporate Plan and supporting Financial Plans' paper.

By the end of the Budget Scrutiny process the Task Group had not raised any issues that caused it to be concerned that the Budget for 2015/16 would not be achievable and were encouraged to know that financial position of the Council was being regularly monitored. However, it was acknowledged that the financial position in subsequent years was going to be increasingly challenging.

Julia Vink  
Senior Scrutiny Officer

## Report of the Chairman of the Budget Scrutiny Task Group

I would like to thank Cllr's Mortimer, Apps, Burgess and Cllr Mrs. Martin for their support in the scrutiny of the Budget for 2015-2016. In addition, I would like to thank Officers for their support in guiding Members through the Budget Scrutiny process.

Heads of Department and their Budget Managers have presented their Draft Budgets to the Scrutiny Task Group. Members have scrutinized Budget plans in detail and have analysed risks. The report and risk matrix is presented to Members for consideration.

This year's Budget has been formed under difficult circumstances. Government austerity has seen real terms cuts in government grants to the authority due to the failure to eradicate the national Budget deficit.

The Council's spending power has been reduced by 3.7%. Without New Homes Bonus, the Council's spending power would have been reduced by 5.6%. The Council is becoming more dependent on New Homes Bonus as a source of revenue. Therefore it is the view of the Budget Task Group that this source of revenue should be used in a prudent manner.

Last year the Task Group highlighted inflation as a risk to the Council and measures have been taken to mitigate that risk. It is important to maintain a focus on ensuring inflation does not pose a risk to the Council over the course of this Budget.

On top of the 15% savings, which departments achieved in 2014-2015, departments have been asked to make additional savings over the course of the next financial year. Real risks exist to service delivery, council performance and to public perception of the authority as a result of continued budget reductions.

As the Council experiences further Budget reductions its dependency on the voluntary and community sector will increase. Thanks should be given to all those bodies who have worked with and supported the Council in the delivery of this years Budget and to those who will support the delivery of this Budget.

Under this Budget, Council Tax will be frozen for 2015-16. This will mean that the loss of revenue will mean the base budget is lower. Over the course of this year's Budget, additional savings will have to be made, or a Council Tax increase of up to 2% will have to be considered for 2016-17.

The Task Group would like to thank all Cabinet Members who attended the respective meetings of the Group to report on their Budgets.

Brendan Chilton  
Chair, Budget Scrutiny Task Group

Financial Risks to the Council				
Materiality	High >£500,000	9.2	4.1, 7.3	7.1
	Medium £100,000– £500,000	3.2, 9.1	3.1, 4.2, 4.3, 4.4, 5.1, 5.2, 7.4	3.12
	Low <£100,000	1.1, 2.3, 2.4, 3.3, 3.4, 3.5, 3.7, 3.8, 3.10, 3.11, 6.3, 7.5, 8.1, 9.3, 9.4, 10.1, 10.2, 10.3	3.9	
		Low	Medium	High
	Probability			

Operational Risks to the Council				
Materiality	High			2.2, 7.2
	Medium	5.3, 6.1	1.5, 2.1, 3.6,	
	Low	1.2, 1.6, 5.5, 5.4, 5.5, 6.2, 7.6, 8.2, 10.4	1.3, 1.4 3.13, 10.5	
		Low	Medium	High
	Probability			

## Risks and Uncertainties 2015-16

8 <sup>th</sup> December 2014 Legal & Democratic		Risk – High/Low Financial/Operational
1.1	Legal Income for 2015/16 remains a risk for the same reasons as in 2014/15: the number of large scale planning applications submitted is outside council's control, level of cost recovery may be affected if there is negotiation of reduced recharge rates or caps in specific cases.	Financial Low Materiality Low Probability
1.2	Level of major project work requiring significant legal support continues to be high. Reserves will fund additional legal resources to maintain support. Pressure on Property & Projects team due to increased corporate focus on income generating and social housing property acquisition work.	Operational Low Materiality Low Probability
1.3	National roll-out of Individual Electoral Registration (IER) has presented huge challenges for Electoral Services team. Team re-structured to meet challenges ahead. Some government funding made available for transitional work – risk that this may be insufficient as most recent Register is result of partial canvass only.	Operational Low Materiality Medium Probability
1.4	The three elections to be held on the same day in May 2015 will present a real test for the new registration system. Verification and count processes compressed into two very long sessions :- Thurs night/Friday morning and Friday afternoon/evening will also be challenging.	Operational Low Materiality Medium Probability
1.5	Community governance – major programme of boundary review and possible urban parishing will require sensitive handling and resourcing across both Corporate and Democratic Services.	Operational Medium Materiality Medium Probability
1.6	Removal of Deputy Monitoring Officer post reduces resource available to support Monitoring Officer - experience and skill within legal team provides resilience.	Operational Low Materiality Low Probability

8 <sup>th</sup> December 2014 Culture and the Environment		Risk – High/Low Financial/Operational
2.1	Project list for 2015/16 – risk that with such a long list of projects that some may not be achievable.*	Operational Medium Materiality Medium Probability
2.2	Where project funding comes from external partners – risk that partners may default or reduce their contributions. Particular concern re large projects.	Operational High Materiality High Probability
2.3	Tourism Action Plan and Land Management Improvement Plan – details will need to be finalised for February budget setting. Adequate financial resources will need to be allocated.	Financial Low Materiality Low Probability
2.4	CHP efficiencies – risk that further efficiencies for 2015/16 may not be achieved.	Financial Low Materiality Low Probability

15 <sup>th</sup> December 2014 Community & Housing - General Fund		Risk – High/Low Financial/Operational
3.1	Rising house prices have resulted in previously rented properties being sold making the acquisition of PSL properties in the borough more difficult and placing pressure on the service with the risk of a reduction in contribution level	Financial Medium Materiality Medium Probability
3.2	B&B demand being managed with the help of Christchurch House (ABC B&B facility). Always risk that demand could increase.	Financial Medium Materiality Low Probability
3.3	Monitoring centre. Achieving predicted income potential risk for 2015/16 but income generated since new post holder appointed currently on course.	Financial Low Materiality Low Probability
3.4	Car parking income on slight upward trend. Free parking scheme puts pressure on service if necessary to fund discounts from base budget. Development of Dover Place will reduce parking income but impact will depend on the progress of the development.	Financial Low Materiality Low Probability
3.5	Potential expansion of T-Cat following review early in 2015	Financial Low Materiality Low Probability
3.6	On street parking schemes and increasing overnight lorry parking may increase demand for parking enforcement. Risk also associated with the transfer in of engineering services, and the dependence on other stakeholders e.g. KCC in terms of resourcing and policy changes.	Operational Medium Materiality Medium Probability
3.7	Risk associated with fluctuating demand for car parking and licensing. Additional risk as government can make changes to statutory fees and charges,	Financial Low Materiality Low Probability
3.8	Increasing involvement in Supporting Families, Domestic Abuse, and Health & Wellbeing may reduce resources available for other priorities. Interdependency influences level of risk as does possible changes to Kent community safety and changes to current funding streams.	Financial Low Materiality Low Probability
3.9	Universal credit will affect income streams, but unlikely to become an issue until it kicks in for all family types (post 2015/16)	Financial Low Materiality Medium Probability
3.10	Price of Pest control contract may increase after retendering.	Financial Low Materiality Low Probability
3.11	Garden waste customer numbers may not meet budget target – but drive to encourage renewal by Direct Debit should assist.	Financial Low Materiality Low Probability



3.12	Occupancy of Civic Centre, International House and other property in portfolio – need to find suitable occupants to generate income.	Financial Medium Materiality High Probability
3.13	Current resources may reduce capacity to deliver new initiatives.	Operational Low Materiality Medium Probability

15 <sup>th</sup> December 2014 Community & Housing - HRA		Risk – High/Low Financial/Operational
4.1	New Build and Sheltered remodelling costs influenced by cost inflation increasing material and labour costs. Impact and potential costs will be subject of a report to Members.	Financial High Materiality Medium Probability
4.2	Government formula limits rent rise to CPI + 1%, for 215/16 = 2.2% which is less than the assumption built into the recent HRA business plan and limits the amount of additional money available for agreed HRA capital programmes. Low inflation will have a material impact on the ability of the HRA to fund/finance new capital programmes. This will affect the whole social housing sector.	Financial Medium Materiality Medium Probability
4.3	Admin costs – employee costs have risen in 2014/15 and are forecast to rise again in 2015/16. A review on how to contain this growth is underway. Rise in costs and reducing income levels (see 4.2 above) will further squeeze the amount of money available for new and existing capital projects in the HRA.	Financial Medium Materiality Medium Probability
4.4	Welfare reform continues to be a risk going into the future, but current rent collections remain high and arrears levels have reduced.	Financial Medium Materiality Medium Probability

17 <sup>th</sup> December 2014 Planning & Development		Risk – High/Low Financial/Operational
5.1	Fee income fluctuations are a significant risk as fee income is a large part of the unit's budget. Income levels are closely monitored and increases in workload balanced against available staff resources across fee dependant services. Steps to refine and slim down processes help focus resources to priority areas and to staff who can handle caseload effectively at the lowest pro rata cost.	Financial Medium Materiality Medium Probability
5.2	Speculative housing applications in advance of the new local plan pose a risk of large scale appeals and concomitant costs.	Financial Medium Materiality Medium Probability Operational Low Materiality Low Probability
5.3	The 'Big 8' projects will place pressure on the quality of day-to-day service that can be delivered.	Operational Medium Materiality Low Probability
5.4	Increased numbers of planning applications arising from increased economic activity will place further burden on staff to handle applications. Additional fee income may allow addition of temporary staff to deal with peaks; however, long term, the successful approach of 'home growing' of junior staff will provide more suitably qualified staff and should be continued.	Operational Low Materiality Low Probability
5.5	It is hoped that support to Economic Development function in 2015/16 will involve a funding a graduate/assistant position for the team. Funding for this has yet to be agreed.	Operational Low Materiality Low Probability

17 <sup>th</sup> December 2014 Communications and Technology		Risk – High/Low Financial/Operational
6.1	Continuing uncertainty & difficulty in achieving compliance with PSN Code of Connection.	Operational Medium Materiality Low Probability
6.2	Migration to new KPSN supplier and changes to ongoing support arrangements.	Operational Low Materiality Low Probability
6.3	Revisions to IT infrastructure and associated licensing may require significant additional investment.	Financial Low Materiality Low Probability

6 <sup>th</sup> January 2015 Finance		Risk – High/Low Financial/Operational
7.1	Drastic reductions in funding from central government & uncertain future for local government. Will need to be monitored as part of MTFP planning process.	Financial High Materiality High Probability
7.2	Universal Credit – will be administered by DWP, details of council's role in supporting delivery of UC still awaited, therefore uncertainty about job security for staff. Need for review of Council tax support scheme to ensure appropriateness of working within area where there is a combination of UC and non-UC claimants.	Operational High Materiality High Probability
7.3	Maintaining and delivering growth in business rates – and thus revenue to council. Ensuring council receives full compensation for loss of business rate revenue due to central government reduction in business rate increase.	Financial Medium Materiality Medium Probability
7.4	Successful business rates appeals may affect amount of NNDR council retains. Provision to be increased to cover the level of back dated appeals, if insufficient will be a revenue hit. Some risks associated with pooling business rates – will need to be monitored.	Financial Medium Materiality Medium Probability
7.5	Need to secure major preceptor funding for administration of local Council Tax support scheme. Currently £125K is contributed but 2015/16 is last year of agreement.	Financial Low Materiality Low Probability
7.6	Level of adequate support for corporate projects place strain on team's ability to maintain core functions.	Operational Low Materiality Low Probability

6 <sup>th</sup> January 2015 Corporate, Strategy, Personnel & Audit		Risk – High/Low Financial/Operational
8.1	Staff for elections are now required to be paid through the council's payroll system which will create an extra pressure in May – and, as ABC have taken on the payroll for Shepway DC, there may be additional pressure if we agree to take on their elections payroll too.	Financial Low Materiality Low Probability
8.2	Demands on the team to support corporate change projects will create a challenge to the provision of the day-to-day service.	Operational Low Materiality Low Probability

6 <sup>th</sup> January 2015 Capital Charges and Net Interest		Risk – High/Low Financial/Operational
9.1	The estimated interest is based on the assumption that the base rate will rise in 2015/16 and therefore any significant delays in rises could impact on the achievement of this budget.	Financial Medium Materiality Low Probability
9.2	Legislation prohibits central government bailing out banks, so the burden of re-financing a failing institution will fall upon unsecured investors – which could include council deposits. The council will mitigate this risk by diversifying investments into more 'secured' vehicles, but this will reduce returns.	Financial High Materiality Low Probability
9.3	The Council's aspirations for strategic acquisitions and Capital projects will require capital investment. If capital investment is sought from internal reserves then the core investment balance will be reduced and overall interest on investments will reduce, the need for short term borrowing for cash flow purposes could also increase, which could add pressure to the 'Interest Paid' budget.	Financial Low Materiality Low Probability
9.4	Restructuring opportunities for the borrowing to buy out the HRA subsidy will be monitored but as this borrowing was at a discounted rate these are unlikely to occur.	Financial Low Materiality Low Probability

6 <sup>th</sup> January 2015 General Fund		Risk – High/Low Financial/Operational
	None	

13 <sup>th</sup> January 2015 Capital and Repairs and Renewals		Risk – High/Low Financial/Operational
10.1	Capital financing – availability of financing through revenue resources will become more important as capital resources are not being replenished due to low level of sales both in General Fund and HRA.	Financial Low Materiality Low Probability
10.2	General Fund capital receipts are extremely limited (virtually de-minimis) and will not continue to fund the capital programme in future. To ensure buildings continue to be maintained, borrowing of £500,000 has been built into the revenue budget from 2013/14 onwards to fund these works.	Financial Low Materiality Low Probability
10.3	Revenue commitments – on going costs of capital projects are assessed and included in medium term financial plan and annual budget. If projects are progressed without consideration of on-going costs pressures could build up for future years' revenue budgets.	Financial Low Materiality Low Probability
10.4	Staff capacity within services – additional capital projects work can add short term pressure to a department which may, in some cases, add pressure to the revenue budget.	Operational Low Materiality Low Probability
10.5	Debt cap (HRA) – following HRA reform there is room within the HRA business plan to invest in new housing and sheltered redevelopments. However the debt cap limits the amount the council can borrow to fund major works and the Housing programme must take the impact on the debt cap into account.	Operational Low Materiality Low Probability