

Budget Strategy – Risk Assessment Update

Final Decision-Maker	Audit, Governance and Standards Committee
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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 longstanding risk about the future funding of local government remains and if anything is greater than hitherto. Early indicators suggest that broader economic factors may have an impact on business rates income.

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	30 July 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 and formed the basis for the detailed budget for 2018/19 that was agreed by Council at its meeting on 7th March 2018. 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. The revenue budget, as adopted, was based on the neutral scenario.
- 1.3 Policy and Resources Committee agreed an approach to updating the MTFS for the five years 2019/20 – 2023/24 at its meeting on 27 June 2018. Given continuing uncertainty about the position at the end of the current four year local government funding settlement in 2020, the scenario planning approach will be adopted again in the new MTFS. The new MTFS is due to be agreed by Council in December 2018.
- 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'. This is a longstanding risk, but there have been a number of indications over the past few months that it should be given even greater weight in the risk register.
 - The appointment of commissioners to take over management of Northamptonshire County Council has highlighted the risks faced in particular by local authorities with social services responsibilities. Whilst Maidstone Borough Council does not come into this category, additional support for social services authorities may be at the expense of district authorities.
 - The National Audit Office's most recent report on the financial sustainability of local authorities was pessimistic about the lack of a long-term financial plan for the sector that includes sufficient funding to address specific service pressures and secure its future financial sustainability.
 - The position for local authorities after 2020 remains unclear. The government has said that it plans to increase the amount of business rates retained by local government from 50% to 75%, but in practice the amounts that individual authorities receive will depend on the findings of a 'Fair Funding Review', designed to allocate resources to

those areas of greatest need. The overall amounts to be allocated as part of the Fair Funding Review are also subject to a planned Spending Review covering all government departments in 2019. It is therefore difficult to predict with any degree of accuracy what the funding position will be from 2020.

- The government has committed to increasing expenditure on the NHS. Although the overall picture for spending plans and taxation will not become clear until the Chancellor's Autumn budget statement, increases in NHS expenditure may come at the expense of other areas of public expenditure such as local government spending.

1.5 The wider economic climate contributes to the degree of risk faced by the authority. The latest economic indicators are unfavourable, with retail sales falling in June. The turbulent political climate has led to the pound falling in value, which affects retail prices and is likely to dampen growth still further. Whilst government tax receipts have recently been better than expected, in the long run a slowing economy will impact the public finances and thus the amount of money available for local government.

1.6 The wider economic environment also affects the Council through our exposure to fluctuations in business rates income. Around 35% of the Council's business rates income comes from the retail sector, which is particularly exposed to economic fluctuations and general trends in consumer behaviour. An indicator that gives some cause for concern is the level of business rates income locally, which is now projected to be 1.25% less than forecast in January 2018, although it is still above the level assumed for the purposes of the Business Rates Retention Pilot. A major contributor to this is the increase in the number of empty business premises from 296 to 351.

1.7 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	This is a longstanding risk but recent developments in the local government sector and in the broader context of public expenditure sector have increased the level of risk.	Impact – no change Likelihood – increased
L	Collection targets for Council Tax and Business Rates missed	Business rates income is now projected to be slightly lower than forecast for 2018/19 and may be further threatened by any slowdown in growth.	Impact – no change Likelihood – increased

	Risk	Factor considered	Implications for risk profile
M	Business Rates pool / pilot fails to generate sufficient growth	As above.	Impact – no change Likelihood – increased

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 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 were widely publicised and have been subject to 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.

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	Director of Finance and Business Improvement

	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

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.