

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 continue to be inherent risks from uncertainty about the national economic position and the future funding of local government. Locally, the Council is increasing the level of capital investment, so risks around funding and management of the capital programme will have a greater impact.

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	19 March 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.
- 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. The revenue budget, as adopted, was based on the neutral scenario.
- 1.4 'Adverse scenario' proposals were developed for contingency planning purposes, based on a more radical approach, including service cuts. 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will be revisited and updated as necessary if it appears that the assumptions on which neutral scenario is based are no longer valid.
- 1.5 The main elements of uncertainty arise from potential changes to the local government funding regime after 2020 and the general economic climate. The government is undertaking a Fair Funding Review, which addresses how resources will be distributed between local authorities after 2020. There are severe pressures on County Councils and Unitary Authorities, which are responsible for adults' and children's social services. This was illustrated by the recent difficulties faced by Northamptonshire County Council in setting a balanced budget.
- 1.6 This poses the risk that there may be a rebalancing of resources away from District Councils in 2020 in favour of Unitaries and upper tier authorities, notwithstanding the fact that shire districts will have experienced average spending power cuts of 25%, compared to 15% for unitaries and 1% for county councils between 2010/11 and 2019/20.
- 1.7 The wider economic climate impacts the Council in particular 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. A major downturn in High Street trading could have a significant impact for the Council, reducing the level of business rates collected and the opportunities to benefit from business rates growth through the business rates retention pilot.

- 1.8 Council adopted an expanded capital programme at its meeting on 7th March 2018. The overall five year programme is now worth £75 million, as compared to £60 million previously. Next year budgeted expenditure is £27 million as compared with projected actual expenditure of £14 million in the current financial year. The Council has already recognised a risk around the availability of funding for the capital programme, and there has been no recent indication that the availability of borrowing for the capital programme is under threat, so there is no change in the likelihood of this risk materialising. However, the increasing size of the capital programme and its importance in delivering the Council's strategic objectives mean that the impact of an inability to fund the capital programme will be significantly greater in future.
- 1.9 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
J	Capital programme cannot be funded	There has been no recent indication that the availability of borrowing for the capital programme is under threat. However, the increasing size of the capital programme means that the impact of an inability to fund the capital programme would be greater in future.	Impact - increased Likelihood - no change
L	Collection targets for Council Tax and Business Rates missed	Business rates income depends on the financial strength of ratepayers. The commercial sector, particularly retail, is vulnerable to a downturn in the economy and to changes in consumer shopping habits.	Impact – no change Likelihood – increased
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	Director of Finance and Business Improvement

	the allocation of resources to all objectives of the strategic plan.	
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	Director of Finance and Business Improvement

	achieve this through the focus of resources into areas of need as identified in the Council's strategic priorities.	
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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.