

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 overall risk environment remains broadly as reported at the previous meeting of the Committee. Quarterly reporting of projected business income by the Kent & Medway Business Rates Pilot provides a greater degree of reassurance that it will generate the predicted level of growth.

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	17 September 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). The current MTFS for 2018/19 – 2022/23 is currently being updated, in parallel with development of the Council's new five year Strategic Plan, with a view to presenting a new MTFS to Council at its December 2018 meeting. In line with the approach previously adopted, and given uncertainty about the future, MTFS projections will be prepared on the basis of various potential scenarios. These include the Council's likely financial position depending on the government's funding regime for local authorities (eg favourable, neutral, adverse) and the Council's appetite for growth. This in turn depends on its stance on, for example, increasing Council Tax, and expanding the capital programme to generate further income generating opportunities.
- 1.3 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 very unclear. However, there is now greater certainty about the position for next year following the government's announcement in July of a technical consultation on the 2019/20 local authority financial settlement. The key points for Maidstone amongst the proposals on which consultation is taking place are as follows.
 - The 2019/20 settlement will be in line with the four year settlement originally announced in 2016/17.
 - The government has indicated an 'initial preference' for removing all negative RSG payable by local authorities. This would mean a one-off saving of £1.6 million for Maidstone in 2019/20 as compared with our current MTFS projections.
 - The government is minded to set a Council Tax referendum limit of 3%.
 - For payments after 2020, the government will explore how to use New Homes Bonus to incentivise housing growth, eg by linking it to the Housing Delivery Test.
- 1.4 The proposal in relation to negative RSG is particularly welcome. If the one-off saving of £1.6 million is held in reserve and used to cushion the

impact of any negative changes in 2020/21, then this will reduce the level of risk faced by the authority.

- 1.5 The wider economic environment remains very uncertain. Previous reports on budget risks have highlighted our exposure to fluctuations in business rates income, with around 35% of the Council's business rates income coming from the retail sector, which is particularly exposed to economic fluctuations and general trends in consumer behaviour.
- 1.6 In addition to the direct impact of any reduction in business rates income, we would risk losing the projected benefits from participation in the Kent and Medway Business Rates Pilot. Monitoring for the first quarter of 2018/19 indicates that the projected business rates growth for Maidstone and the pilot area as a whole are as follows.

Projected retained business rates income for 18/19 as at 30.6.08

	NDR1 projection	Latest projection	Variance
	£000	£000	
Maidstone	22,627	22,366	-1.15%
Total Kent & Medway	319,581	320,504	0.29%

Although Maidstone Borough is now projecting a slightly slower growth figure than in its NDR1 (January 2018) projections, the overall picture for the business rates pilot area is more positive, and this is what will determine our eventual allocation from the pilot proceeds.

- 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 the government's consultation on the 2019/20 settlement indicates the potential for slightly reduced risk in the short term.	Impact – no change Likelihood - reduced
M	Business Rates pool / pilot fails to generate sufficient growth	Business rates income is now projected to be slightly lower than forecast for 2018/19 in Maidstone but the overall position for the Kent & Medway area is more positive.	Impact – no change Likelihood – reduced

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 the budget carries out consultation on the priorities and spending of the council.
- 5.2 A Residents' Survey will be carried out as part of the consultation on the new Strategic Plan and the updated MTFS 2019/20 – 2023/24. Individual budget proposals will be 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-	Director of Finance and Business

	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.	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 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	Director of Finance and Business Improvement

	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.	
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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

9. BACKGROUND PAPERS

None.