

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 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	14 January 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 is 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. Budget proposals which would help to close this gap are currently under consideration by Service Committees.

Key risk – Changes to Local Government funding regime

- 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 unclear. However, the government has now published two consultation papers on the proposed post 2020/21 funding regime which give some indications about the likely shape of the new system.
- 1.4 The first paper, on Local Authorities' Relative Needs and Resources, outlines the principles for assessing need and allocating resources. The overall amount to be allocated depends on the forthcoming government Spending Review and is therefore unknown at this stage.
- 1.5 Allocations will take into account 'need', most of which is driven by the size of an authority's population, and an authority's capacity to raise income locally through Council Tax. The paper proposes that the relative level of Council Tax is not taken into account, which means that authorities that have historically had a low Council Tax will not be compensated by central government, as at present.
- 1.6 The paper states that 'a significantly high notional council tax level may result in a number of authorities that will be expected to meet their needs entirely through their actual council tax income'. Maidstone may well find itself in this position, as the authority that faced the highest bill of any District for negative Revenue Support Grant. This would mean all the business rates that we currently collect being spent elsewhere (as opposed to around 93%, as at present).

- 1.7 The second paper, on Business Rates Retention Reform, states that the government is responding to councils' wish for greater control over the money that they raise locally. However, it proposes to retain the current system, under which local government's notional share of business rates is redistributed between authorities according to need, with growth above a theoretical baseline retained locally. This means that, in practice, Maidstone only retains around 7% of the business rates that it collects.
- 1.8 The share of growth retained locally will be 75% in future rather than 50%, as now, but given that the additional 25% will be subject to redistribution, this does not mean any real financial gain other than in relation to growth in excess of the baseline.
- 1.9 In summary, early indications are that the trend for Maidstone (along with many other District Councils) towards dependence entirely on Council Tax and self-generated income from fees, charges, etc will continue, with no support from central government, and with minimal benefits from the business rates retention regime. Whilst there may be benefits from greater self-reliance, it also means that the Council is more exposed to volatility in the wider economy. The risk arising from changes in local government funding is therefore considered to remain high.

Key risk – Brexit

- 1.10 At the time of writing, parliament has not voted on the government's Brexit deal. Current indications are that it will not be agreed by parliament, leaving a range of possible outcomes, including either a no-deal Brexit or a postponement of the UK's departure from the EU pending a second referendum.
- 1.11 The financial impact of a disorderly Brexit for the Council would be two-fold. In the short term, disruption to transport would have major implications for service delivery, with staff not being able to travel into work and congestion hampering services like refuse collection. Contingency planning is under way to address these risks, but in any case there would be additional costs including overtime and staff cover for front-facing roles which cannot be filled through homeworking. The Council would look to recoup these costs from central government, but at this stage we do not know whether they will be underwritten.
- 1.12 Secondly, there may be adverse longer term effects on the economy, with a knock-on impact for local authorities. A no-deal Brexit could lead to recession, which would affect the Council in a number of ways: business rates income would fall, with businesses struggling to pay or failing altogether; joblessness would lead to increasing pressure on homelessness budgets; central government funding might be cut if tax receipts fell.
- 1.13 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	Greater dependence on self-generated sources of income, hence greater income volatility.	Impact – major (no change) Likelihood – probable (no change)
N	Adverse financial consequences from a disorderly Brexit	The increased probability of no deal with the EU means that the adverse financial consequences from Brexit are likely to be correspondingly higher.	Impact – major (no change) Likelihood – probable (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 the budget carries out consultation on the priorities and spending of the council.
- 5.2 A Residents' Survey has been 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.
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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	Director of Finance and

	and development of the MTFS and the strategic revenue projection in the ways set out in this report supports achievement of a balanced budget.	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

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.