

Budget Strategy – Risk Assessment Update

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| 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 are two main issues to be noted. (1) As the end of the current four year local government funding settlement approaches, there remains uncertainty about what this will mean in practice for the Council. (2) A disorderly exit from the EU is likely to have financial consequences for the Council; this is now recognised in the Budget Risk Register.

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 | 19 November 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). Consultation is currently taking place with Service Committees on a draft new MTFS covering the period 2019/20 – 2023/24. This will be submitted to Council for approval at its December 2018 meeting, along with the Council's new Strategic Plan. In line with the approach previously adopted, and given uncertainty about the future, MTFS projections have been 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.

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. Whilst the government has signalled an 'end to austerity', the focus for growth in public expenditure in the Chancellor's November 2018 Budget was on the NHS, Defence and Social Services.
- 1.4 There will be a Spending Review in 2019 which will determine the overall resources devoted to local government. Allocation of resources between local authorities then depends on a Fair Funding Review, which is currently being carried out by MHCLG. There are therefore a number of variables that could affect the Council's financial position. Given the other pressures on public expenditure, and given the continuing lack of clarity about the position, this is now recognised as a red risk in the Budget Strategy Risk Register.

Key risk – Brexit

- 1.5 At the time of writing, the UK Government has been unable to agree a Brexit deal with other EU countries. Key UK proposals, including a single market for goods but not services, were rejected by EU leaders at a summit meeting in September. Agreement on transitional arrangements has been hampered by failure to settle a backstop position for Northern Ireland. The

risk of a 'no-deal' Brexit is likely to increase significantly if a settlement is not negotiated by the end of calendar 2018.

- 1.6 The financial impact of a disorderly Brexit for the Council would be two-fold. In the short term, the Council may face increased costs in delivering services, for example if overtime has to be paid to collect refuse because roads are too congested to collect within normal timeframes. The Council would look to recoup these costs from central government, but at this stage we cannot be certain that they would be underwritten.
- 1.7 Secondly, there may be adverse longer term effects on the economy, with a knock-on impact for local authorities. Commentators have suggested that a no-deal Brexit would 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 fall.
- 1.8 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 |
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| H | Adverse impact from changes in local government funding | Continuing uncertainty as the end date of the current four year financial settlement approaches makes this an increased risk. | Impact – major (increased) Likelihood – probable (increased) |
| 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 Likelihood – possible |

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.
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3. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 3.1 Option 2 – It is recommended that the Committee notes the risk assessment.
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4. RISK

- 4.1 Risk is addressed throughout this report so no further commentary is required here.
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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.
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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 | Director of Finance and |

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| | the Council. The future availability of resources to address specific issues is planned through this process. | 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 | <p>Under Section 151 of the Local Government Act 1972 (LGA 1972) the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including securing effective arrangements for treasury management. The Medium Term Financial Strategy demonstrates the Council's commitment to fulfilling its duties under the Act. 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.</p> <p>The Accounts and Audit Regulations 2015 require the Council to have a sound system of control which includes arrangements for the management of risk. This Report is part of those arrangements and is designed to ensure that the appropriate controls are effective.</p> <p>There are no immediate legal implications arising from this report.</p> | Team Leader (Corporate Governance), MKLS |
| Privacy and Data Protection | There are no specific privacy or data protection issues to address. | Team Leader (Corporate Governance), MKLS |
| Equalities | The Council's budgeted expenditure is intended to have a positive impact on the lives of all members of the community through the provision of resources to core services. | Equalities and Corporate Policy Officer |

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| | The implications of changes to services or policy on groups with protected characteristics, as a result of the Budget Strategy, are considered as part of focused Equalities Impact Assessments. | |
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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.