

**Budget Strategy – Risk Assessment Update**

<b>Final Decision-Maker</b>	Audit, Governance and Standards Committee
<b>Lead Head of Service/Lead Director</b>	Mark Green, Director of Finance and Business Improvement
<b>Lead Officer and Report Author</b>	Mark Green, Director of Finance and Business Improvement
<b>Classification</b>	Public
<b>Wards affected</b>	All

**Executive Summary**

This report provides an update on the budget risks facing the Council. The two principal budget risks continue to be uncertainty about future local government funding arrangements and the potential financial consequences 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**

<b>Meeting</b>	<b>Date</b>
Audit, Governance and Standards Committee	30 July 2019

# Budget Strategy – Risk Assessment Update

## 1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
<b>Impact on Corporate Priorities</b>	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
<b>Cross Cutting Objectives</b>	The cross cutting objectives are reflected in the MTFS and the budget.	Director of Finance and Business Improvement
<b>Risk Management</b>	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
<b>Financial</b>	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
<b>Staffing</b>	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
<b>Legal</b>	The Council has a statutory obligation to set a balanced budget and development of the MTFS. The update	Team Leader (Corporate Governance), MKLS

	on the budget risks facing the Council set out in this report supports achievement of a balanced budget.	
<b>Privacy and Data Protection</b>	No implications.	Director of Finance and Business Improvement
<b>Equalities</b>	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
<b>Public Health</b>	None identified.	Director of Finance and Business Improvement
<b>Crime and Disorder</b>	None identified.	Director of Finance and Business Improvement
<b>Procurement</b>	None identified.	Director of Finance and Business Improvement

## 2. INTRODUCTION AND BACKGROUND

2.1 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.

2.2 Key issues to be considered in reviewing the budget risk profile are as follows:

- Current financial performance

- The wider economy and the potential impact of Brexit
- Local authority funding regime.

### **Current financial performance**

- 2.3 The financial out-turn for the year ended 2018/19 is reported elsewhere on the agenda. The Council is in a relatively strong financial position, with growing revenues, a surplus for the year as compared with the budget, and usable reserves up from £12.4 million to £15.1 million by the end of the financial year. The Council's dependence on external funding continues to reduce, with 93% of Council revenue now generated locally. No significant budget variances have been identified so far for the 2019/20 financial year.

### **The wider economy and Brexit**

- 2.4 The outlook for the wider UK economy is uncertain. UK growth is lagging behind that of other major economies. The prospect of a no-deal Brexit is depressing the exchange rate, which increases key input costs such as fuel. The Council is exposed to the wider economy in other ways, with around £20 million of our revenues coming from fees and charges such as parking income, which would be adversely affected by a downturn. Collection of business rates and council tax also risk being affected and the cost of delivering services such as homelessness could increase.
- 2.5 In the short term, there would be a direct financial cost from a disorderly Brexit. Preparations for a 'no deal' Brexit in the Spring involved additional costs, and further such costs will be incurred in the run up to the likely revised Brexit date of 31 October 2019. Although the government notified us of a £35,000 grant to cover Brexit costs in January 2019, this is the same amount that was provided for most other District Councils, so paid no attention to our proximity to the Channel ports, and falls far short of our estimated likely costs.

### **Local Government funding regime**

- 2.6 Uncertainty about local government funding is captured in the budget risk register under the heading of 'adverse impact from changes in local government funding'. Although we are now largely dependent on locally generated resources, the amount of business rates that we are allowed to retain at a local level is a key variable in budget setting. There is also a risk that negative Revenue Support Grant, which was due to be levied on the Council in 2019/20 before political pressure forced it to be withdrawn, may be resurrected, even if in another guise.
- 2.7 The current local government funding arrangements are expected to be rolled forward into 2020/21, given that other priorities are likely to prevent the government implementing a new funding regime, as originally planned. However, there are a number of variables that are still uncertain even within the existing arrangements, including the Council Tax referendum limit, the Business Rates baseline (which determines the level of Business Rates that we retain locally), future specific grants, and the potential for the Council to suffer negative Revenue Support Grant.

2.8 In summary, it can be seen that the Council has been successful in managing risks over which it has some control locally, but it remains subject to further risks arising in the wider economic and political environment. The Budget Risk Register has been reviewed in light of developments since it was last reported to members and a summary of the changes to the risk register is set out below.

	Risk	Factor considered	Implications for risk profile
D	Planned savings are not delivered	The budget for 2019/20 reflects a significant level of planned savings - £1.2 million. However, the Council continues to have a good track record in delivering budget savings.	Impact – major (no change) Likelihood – unlikely (reduced)
F	Insufficient balances	Usable reserves increased from £12.4 million to £15.1 million by the end of the 2018/19 financial year. This represents around one third of annual revenues and is considered to be adequate.	Impact – major (no change) Likelihood – unlikely (reduced)
I	Constraints on Council Tax increases	The MTFs assumes annual Council Tax increases of 2% per annum. Council Tax is a key source of income for the authority, so continued uncertainty about referendum limits poses a risk.	Impact – moderate (increased) Likelihood – possible (increased)
M	Business rates pool does not generate projected level of income	For 2019/20 MBC no longer benefits from 100% business rates retention, with the former pool arrangements, which generate a lesser benefit, being reinstated.	Impact – minor (reduced) Likelihood – possible (no change)

2.9 Appendix A sets out the budget risks in the form of a Risk Matrix and Risk Register. Additionally, at the Committee's request, the possible monetary impact of the risks has been indicated. Note that it is very difficult to quantify the financial impact of risks in precise terms. The information is provided simply to give an indication of the order of the risks' financial magnitude.

### 3. AVAILABLE OPTIONS

3.1 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.

- 3.2 Option 2 - The Committee notes the risk assessment set out in this report and makes no further recommendations.
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#### **4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS**

- 4.1 Option 2 – It is recommended that the Committee notes the risk assessment.
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#### **5. RISK**

- 5.1 Risk is addressed throughout this report so no further commentary is required here.
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#### **6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK**

- 6.1 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. A Residents' Survey was carried out as part of the consultation on the new Strategic Plan and the updated MTFS 2019/20 – 2023/24.
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#### **7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION**

- 7.1 The Audit, Governance and Standards Committee plans to continue keeping the budget risk profile under review at subsequent meetings.
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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.