

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

As reported at the last meeting of the Committee, Covid-19 has had a major impact on the Council's financial position. The position has not changed significantly since July 2020, except that the likelihood of a rapid economic recovery appears to have receded still further. There is an increased risk of a disruptive transition to new trading arrangements with the EU on 31 December.

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	16 November 2020

Budget Strategy – Risk Assessment Update

1. 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
Cross Cutting Objectives	The cross cutting objectives are reflected in the MTFS and the budget.	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 and development of	Director of Finance and Business Improvement

	the MTFS and the strategic revenue projection in the ways set out in this report supports achievement of a balanced budget.	
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
Public Health	None identified.	Director of Finance and Business Improvement
Crime and Disorder	None identified.	Director of Finance and Business Improvement
Procurement	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.

Delivering the revenue budget

2.2 The Council set a balanced revenue budget for 2020/21 at its meeting on 26th February 2020. The position has changed completely since then as a result of the Covid-19 pandemic. The Council has:

- incurred substantial additional expenditure, in particular as a result of accommodating homeless people and establishing a community hub
- suffered a reduction in Council Tax and Business Tax receipts
- lost substantial income in areas such as parking.

This will give rise to a very substantial overspend against the original budget. With a new lockdown having recently come into effect, it is difficult to forecast the outcome for the year with any degree of certainty, but the impact of Covid-19 is likely to be in excess of £7 million, against an overall net annual revenue budget for the Council of around £20 million.

2.3 The deficit has been mitigated by government grants and actions that the Council has taken at its own initiative. We have received £2.5 million in four tranches of unringfenced Covid-19 local authority funding. We are also eligible to claim reimbursement for 75% of lost sales, fees and charges above a minimum threshold. We have so far claimed £1 million in respect of the first 4 months of 2020/21. The combined effect of these grants, together with cost mitigation measures carried out on our own initiative, will still leave the Council facing a substantial deficit, which will have to be covered from reserves. The Council had unallocated General Fund reserves of £8.8 million as at 31 March 2020, so we have the capacity to absorb the deficit, albeit at the expense of reduced resilience to future financial shocks.

2021/22 Budget and Medium Term Financial Strategy

2.4 The impact of Covid-19 will be long-lasting, so from a budget viewpoint, consideration will also need to be given to the impact on future years. Current projections indicate that, given neutral forecasts, the Council will face a £3 million budget gap in 2021/22. This poses a major challenge and it is unlikely that the whole of the gap can be filled in one year, which means further drawings on reserves to as savings are developed and implemented.

2.5 The position is further complicated by the lack of clarity about future funding of local government. A new funding settlement had been promised following the end of the four year settlement that came to an end in 2019/20. This was postponed for one year, owing to Brexit, and will now be postponed for a further year because the Chancellor of the Exchequer plans only to announce plans for the one year in his Autumn Spending Review.

2.6 The uncertainty about funding future funding arrangements makes long term planning very difficult. Whilst the Council seeks at all times to build financial resilience and minimise risk, many of the key financial variables, including the permitted level of Council Tax increase and our share of business rates, are set by central government. If the government is unable to provide any certainty about its future plans, the Council is prevented

from planning with confidence and risks losing opportunities to invest in public services.

Delivering the capital budget

- 2.7 The capital programme plays a vital part in delivering the Council's corporate objectives. The Council has borrowed to fund the capital programme, for the first time, this year. The availability of funding is therefore important.
- 2.8 The cost of the capital programme is spread over the lifetime of investments, so it has not been as directly affected by Covid-19 related pressures. However, there are revenue consequences to the capital programme. The cost of borrowing is factored into the revenue budget, along with a Minimum Revenue Provision which spreads the cost of loan repayment over the lifetime of an asset.
- 2.9 The capital programme for 2020/21 has been reviewed in the light of the Covid-19 pandemic. The majority of projects in the current programme are either already under way, are required for health and safety reasons, or must be carried out to meet contractual commitments. However, it is proposed that a number of projects are deferred to 2021/22, which will have the effect of reducing the in-year revenue costs of capital expenditure.

External factors

- 2.10 The Covid-19 pandemic shows how vulnerable the Council is to external factors. The corporate risk register therefore now includes new risks relating to (a) major emergencies such as a new pandemic and (b) a resurgence of the current Covid-19 pandemic.
- 2.11 Covid-19 impacts directly on the budget as set out in paragraph 2.2 above, ie through additional direct costs, loss of Council Tax and Business Rates income, and loss of income from parking and commercial activities. The impact of the second wave of Covid-19 has been to increase the risk to the budget and this is reflected in updates to the Budget Risk Register.
- 2.12 The other major external risk is potential adverse financial outcomes from a disorderly Brexit. Whilst the UK has now left the EU, future trading arrangements with the EU are still to be agreed and there remains a risk of disruption if this has not happened by the government's deadline of 31 December 2020. This will affect the Council in two ways: directly, owing to disruption at the Channel ports having a knock-on effect in the rest of Kent; and indirectly, because of the overall impact on the economy. With the 31 December deadline approaching, little progress has been made in negotiations with the EU and the risk of a disruptive transition has increased.
- 2.13 The Budget Risk Register has been reviewed in light of developments since it was last reported to members. A summary of the changes to the risk register is set out below.

	Risk	Factor considered	Implications for risk profile
B	Fees and charges fail to deliver sufficient income	Fees and charges, particularly from Parking, recovered somewhat in Q2 of 20/21. However, the resurgence of Covid-19 has demonstrated the risk to this recovery.	Impact – major (no change) Likelihood – almost certain (increased)
C	Commercialisation fails to deliver additional income	The Council’s main source of commercial income is from its property portfolio, which generates gross income of around £4 million per annum. This has been put at increased risk by the continuing economic slowdown arising from Covid-19.	Impact – major (increased) Likelihood – probable (increased)
L	Business Rates and Council Tax collection fails to achieve target	Currently Business Rates income is 4.4% and Council Tax income is 4.2% behind the levels collected at this point last year. With five months of the year remaining it will be very difficult to achieve collection targets.	Impact – major (no change) Likelihood – almost certain (increased)
P	Financial impact from a resurgence of Covid-19	Latest developments unfortunately indicate an increased likelihood of the risk materialising.	Impact – major (no change) Likelihood – almost certain (increased)

2.14 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. The information is also set out in the form of a bar chart.

2.15 Members are invited to consider further risks or to propose varying the impact or likelihood of any risks.

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 will be completed for the 2021/22 budget and the results will be reported to Service Committees as part of the budget setting process.
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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.