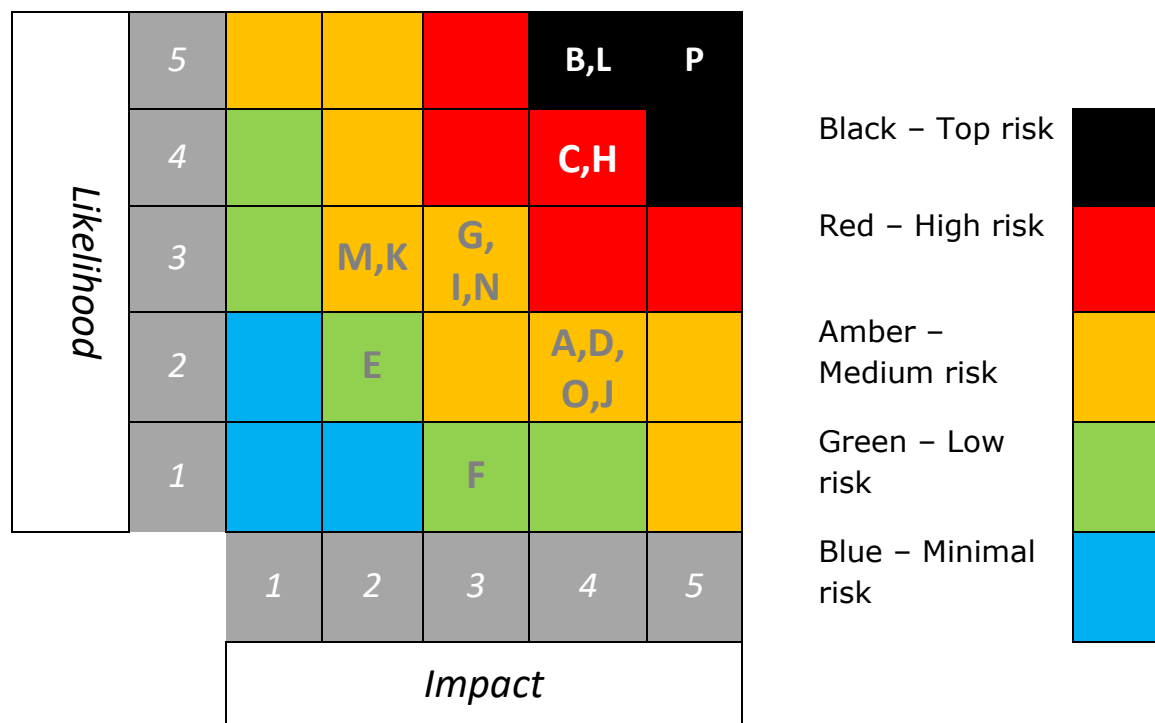


Budget Strategy Risks

The risk matrix below provides a summary of the key budget risks. The risk register that follows provides more detail.

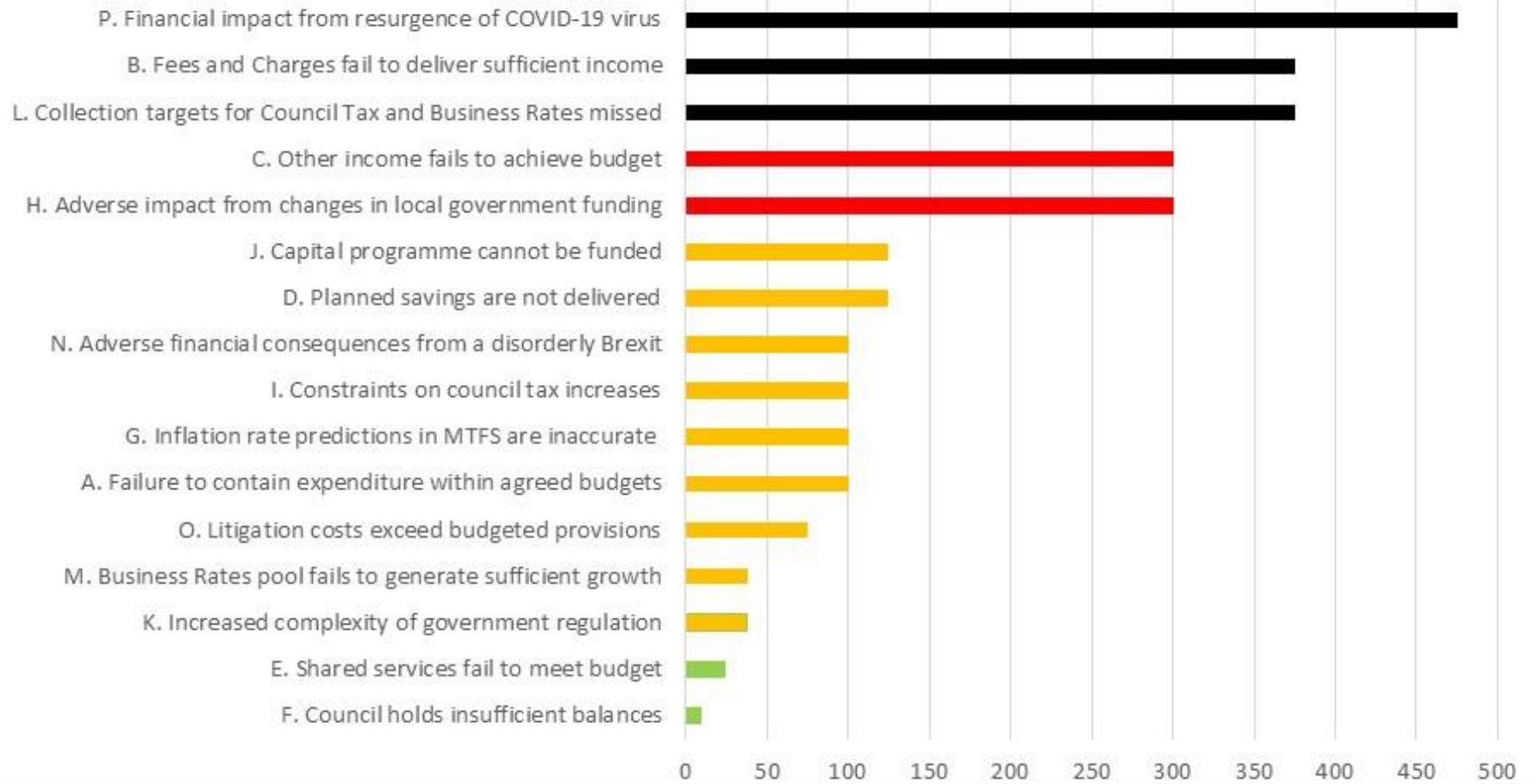


| | |
|---|--|
| A. Failure to contain expenditure within agreed budgets | I. Constraints on council tax increases |
| B. Fees and Charges fail to deliver sufficient income | J. Capital programme cannot be funded |
| C. Other income fails to achieve budget | K. Increased complexity of government regulation |
| D. Planned savings are not delivered | L. Collection targets for Council Tax and Business Rates missed |
| E. Shared services fail to meet budget | M. Business Rates pool fails to generate sufficient growth |
| F. Council holds insufficient balances | N. Adverse financial consequences from a disorderly Brexit |
| G. Inflation rate predictions in MTFS are inaccurate | O. Litigation costs exceed budgeted provisions |
| H. Adverse impact from changes in local government funding | P. Financial impact from a resurgence of Covid-19 |

The budget risks may be ranked, based on the scores shown below, as follows:

| Risk | Ranking | Financial impact (in any one financial year) | | | | |
|---|---------|--|---------------|-----------------------|-----------------|------------------|
| | | Lower £000 | Upper £000 | Mid- point £000 | Likelihood % | Weighted £000 |
| P. Financial impact from resurgence of COVID-19 virus | 1 | 250 | 750 | 500 | 95 | 475 |
| B. Fees and Charges fail to deliver sufficient income | 2= | 200 | 600 | 400 | 95 | 380 |
| L. Collection targets for Council Tax and Business Rates missed | 2= | 200 | 600 | 400 | 95 | 380 |
| C. Other income fails to achieve budget | 4= | 200 | 600 | 400 | 75 | 300 |
| H. Adverse impact from changes in local government funding | 4= | 100 | 900 | 400 | 75 | 300 |
| J. Capital programme cannot be funded | 6= | 250 | 750 | 500 | 25 | 125 |
| D. Planned savings are not delivered | 6= | 250 | 750 | 500 | 25 | 125 |
| A. Failure to contain expenditure within agreed budgets | 8= | 200 | 600 | 400 | 25 | 100 |
| N. Adverse financial consequences from a disorderly Brexit | 8= | 100 | 300 | 200 | 50 | 100 |
| G. Inflation rate predictions in MTFs are inaccurate | 8= | 100 | 300 | 200 | 50 | 100 |
| I. Constraints on council tax increases | 8= | 100 | 300 | 200 | 50 | 100 |
| O. Litigation costs exceed budgeted provisions | 12 | 100 | 500 | 300 | 25 | 75 |
| M. Business Rates pool fails to generate sufficient growth | 13= | 50 | 100 | 75 | 50 | 38 |
| K. Increased complexity of government regulation | 13= | 50 | 100 | 75 | 50 | 38 |
| E. Shared services fail to meet budget | 15 | 50 | 150 | 100 | 25 | 25 |
| F. Council holds insufficient balances | 16 | 100 | 300 | 200 | 5 | 10 |

Chart - Budget risks



Budget Strategy Risk Register

The following risk register sets out the key risks to the budget strategy. The register sets out the consequences of each risk and the existing controls in place.

| Ref | Risk (title & full description) | Consequences | Key Existing Controls | Overall Risk rating | | |
|-----|---|--|---|---------------------|---|----|
| | | | | I | L | Σ |
| A | <p>Failure to contain expenditure within agreed budgets</p> <p>The Council overspends overall against its agreed budget for the year</p> | <p>Failure to meet the budget makes it more likely that the Council will have to rely on short term expedients to balance the budget from year to year, rather than following a coherent long term strategy.</p> | <ul style="list-style-type: none"> - Embedded and well established budget setting process - Medium Term Financial Strategy - Balanced budget agreed by Council for 2021/22. - Strong controls over expenditure and established process for recovering from overspends | 4 | 2 | 8 |
| B | <p>Fees & Charges fail to deliver sufficient income</p> <p>Fee charging services may be affected if there is a downturn in the economy, resulting in Fees and Charges failing to deliver the expected level of income.</p> | <p>The total value of all Council income from fees and charges is around £20 million. A loss of income for service budgets will require restrictions on expenditure levels and delivery of all objectives may not be met.</p> | <ul style="list-style-type: none"> - Fees and charges are reviewed each year, paying careful attention to the relevant market conditions - Where the Council is operating in a competitive market, the aim is to ensure price sensitivity does not lead to a loss of income. - Procedures are in place to ensure that fees and charges are billed promptly (or in advance) and that collection is maximised. | 4 | 5 | 20 |
| C | <p>Other income fails to achieve budget</p> <p>In addition to fees and charges, the Council relies on other income from capital investment, which may not deliver the expected level of income.</p> | <p>The medium term financial strategy includes a contribution from investment opportunities, so any shortfall would have an impact on the overall strategy.</p> <p>Income generation from investment activities supports the revenue budget and is required in order to pay back capital investment.</p> | <ul style="list-style-type: none"> - The Council set aside a provision of £0.5m against losses from activities that do not deliver. This provision is cash limited but available to cover short term losses. - Individual risks associated with specific projects within the capital strategy will be assessed, both as part of the project | 4 | 4 | 16 |

| Ref | Risk (title & full description) | Consequences | Key Existing Controls | Overall Risk rating | | |
|-----|--|--|--|---------------------|---|---|
| | | | | I | L | Σ |
| | | | appraisal process and during the course of delivering the projects. | | | |
| D | <p>Planned savings are not delivered</p> <p>Failure to deliver savings and / or failure to monitor savings means that the Council cannot deliver a balanced budget</p> | <p>The level of saving required to achieve a balanced budget is significant and non-delivery of these savings will have a major consequence on managing financial viability of the organisation.</p> <p>Not achieving savings will impact the overall delivery of the Medium Term Financial Strategy and would require appropriate action, which might include the suspension of some Council services, redundancies, etc.</p> | <p>- The risks associated with delivery of savings proposed in the current Medium Term Financial Strategy have been reviewed as part of the budget setting process.</p> <p>- Savings proposals are separately identified and monitored in the Council's general ledger.</p> <p>- The ability to achieve the targeted savings is monitored quarterly in budget monitoring reports to the Corporate Leadership Team and to Service Committees.</p> | 4 | 2 | 8 |
| E | <p>Shared Services</p> <p>Shared services, which are not entirely under the Council's control, fail to perform within budgeted levels.</p> | <p>Failure of a shared service to manage within the existing budget will have the same consequences as for any overspending budget, ie it would require appropriate action, which might include the suspension of some Council services, redundancies, etc.</p> | <p>The arrangements governing shared services include a number of controls that minimise the risk of budget overspends and service failure, including quarterly reporting to a Shared Service Board comprising representatives of the authorities involved. The shared services are required to report regularly on financial performance and key indicators.</p> | 2 | 2 | 4 |
| F | <p>Insufficient Balances</p> <p>Minimum balance is insufficient to cover unexpected events</p> <p>OR</p> <p>Minimum balances exceed the real need and resources are held without identified purpose with low investment returns</p> | <p>Additional resources would be needed which would result in immediate budget reductions or use of earmarked reserves.</p> <p>The Council would not gain best value from its resources as Investment returns are low in the current market.</p> | <p>- The Council has set a lower limit below which General Fund balances cannot fall of £4 million.</p> <p>- At the beginning of the 2020/21 financial year unallocated General Fund reserves stood at £7.8 million.</p> | 3 | 1 | 3 |
| G | <p>Inflation rate predications in MTFS are inaccurate</p> | <p>Unexpected rises will create an unbudgeted drain upon resources and the Council may not achieve its objectives without calling upon balances.</p> | <p>- Allowances for inflation are developed from three key threads:</p> | 3 | 3 | 9 |

| Ref | Risk (title & full description) | Consequences | Key Existing Controls | Overall Risk rating | | |
|-----|--|--|---|---------------------|---|----|
| | | | | I | L | Σ |
| | Actual levels are significantly above or below prediction | Services have supported the budget strategy through savings. Levels below those expected would result in an increase in balances or unused resources that could be used to achieve strategic priorities. | <ul style="list-style-type: none"> ○ The advice and knowledge of professional employees ○ The data available from national projections ○ An assessment of past experience both locally and nationally <p>- MTFS inflation projections are based on the government's 2% inflation target.</p> | | | |
| H | <p>Adverse impact from changes in local government funding</p> <p>The financial implications of the new local government funding regime, now unlikely to be introduced until 2022/23, remain unclear.</p> | The Council no longer receives Revenue Support Grant (RSG), but the amount of Business Rates that it retains depends on the funding regime set by central government. | <p>- The Medium Term Financial Strategy to 2024/25 includes an adverse scenario which allows for a significant impact on the Council's resources,</p> <p>- The Council has developed other sources of income to ensure it can maximise its resources while dealing with the consequences of government strategy.</p> | 4 | 4 | 16 |
| I | <p>Constraints on council tax increases</p> <p>The limit on Council Tax increases means that the Council must manage expenditure pressures even if these potentially give rise to cost increases greater than the referendum limit.</p> | The limit on Council Tax increases means that additional pressures, such as those arising from providing temporary accommodation, have to be absorbed by making savings elsewhere. | <p>- The budget for 2020/21 incorporates a Council Tax increase of 2%.</p> <p>- Budget planning is based around the assumption of ongoing 2% increases in subsequent years.</p> | 3 | 3 | 9 |
| J | <p>Capital Programme cannot be funded</p> <p>Reduction or total loss of funding sources means that the capital programme cannot be delivered</p> | <p>The main sources of funding are:</p> <ul style="list-style-type: none"> ○ Internal borrowing ○ PWLB borrowing ○ New Homes Bonus ○ Capital Grants ○ Developer contributions (\$106) | <p>- Council has been able to fund the capital programme without recourse to borrowing so far,</p> <p>- Council has confirmed in the past that borrowing is acceptable if it meets the prudential criteria.</p> | 4 | 2 | 8 |

| Ref | Risk (title & full description) | Consequences | Key Existing Controls | Overall Risk rating | | |
|-----|---|---|---|---------------------|---|----|
| | | | | I | L | Σ |
| | | A reduction in this funding will mean that future schemes cannot be delivered. | - Local authorities continue to be able to access borrowing at relatively low cost through the Public Works Loan Board but there is a risk that this may be subject to restrictions in future. | | | |
| K | <p>Increased volume and complexity of government regulation</p> <p>Covid-19 and the range of government support for local authorities and the community have led to a rapid increase in the volume and complexity of reporting and regulation.</p> | <p>Scaling up administrative resources to address the increased volume and complexity of reporting and regulation may divert attention from other priorities.</p> <p>Ultimately, failure to comply with new regulatory requirements could pose financial and reputational risk for the Council.</p> | <p>- The Council has formal procedures for monitoring new legislation, consultations and policy / guidance documents.</p> <p>- Our relationships with organisations such as the Council's external auditor provide access to additional knowledge regarding relevant future events.</p> | 2 | 3 | 6 |
| L | <p>Business Rates & Council Tax collection</p> <p>Council fails to maintain collection targets for business rates and council tax</p> | <p>Failure to achieve collection targets will reduce the level of key resources to ensure a balanced budget. This will mean further cuts in other budgets or the cost of financing outgoing cash flow to other agencies in relation to taxes not yet collected.</p> <p>Business rates amount to around £60 million in 2020/21 and Council Tax due amounts to around £110 million.</p> | <p>- The Council has a good track record of business rates and Council Tax collection.</p> <p>- Steps are taken to maximise collection rates, such as active debt collection, continual review of discounts, etc.</p> <p>- Nonetheless, Covid-19 is leading to a reduction in collection rates.</p> | 4 | 5 | 20 |
| M | <p>Business Rates pool</p> <p>Changes to rateable value (RV) or instability of business rates growth within the pool may not generate projected levels of income</p> | Changes in RV or instability in growth will result in a reduction in income from business rates and a potential consequence for the Council. | <p>- The pool is monitored quarterly Kent wide and Maidstone is the administering authority. The projected benefit of the pool across Kent as a whole is projected to be around £10m in 2020/21.</p> <p>- Provisions have been made when projecting business rates income for bad debts and losses on</p> | 2 | 3 | 6 |

| Ref | Risk (title & full description) | Consequences | Key Existing Controls | Overall Risk rating | | |
|-----|---|--|---|---------------------|---|----|
| | | | | I | L | Σ |
| | | | appeal so any loss of income would relate to the excess over the provisions already made. | | | |
| N | Adverse financial consequences from a disorderly Brexit. A trade deal has now been agreed with the EU but risks remain of disruption to traffic and unfavourable economic impacts, particularly for exporters. | Short term - Increased costs in delivering services, eg arising from traffic congestion Medium term/ long term – Slower economic growth owing to loss of markets for exporters. | - Thorough preparation for Brexit, with an officer Brexit business continuity planning group to co-ordinate our response and liaise with other Kent authorities | 3 | 3 | 9 |
| O | Litigation costs exceed budgeted provisions. The Council is often engaged in litigation and generally the costs of any award against the Council and associated costs of legal advice can be met from within budgets. However, it is prudent to acknowledge the risk that provisions may not in fact be sufficient to cover all likely costs. | Costs in excess of budget would require a drawing on reserves and the identification of savings in subsequent years in order to replenish the level of reserves. | - Corporate Leadership Team is updated regularly on outstanding legal cases. - Appropriate professional advice is taken at all times. | 4 | 2 | 8 |
| P | Financial impact from a resurgence of COVID-19 A resurgence of the pandemic would see similar impact to those experienced in the first wave, eg reduction in fees and charges income arising from lower levels of economic activity and the effect of a broad reduction in economic growth on public finances. | In the short term the Council would need to draw on reserves to cover the financial costs, but in the longer term savings would be required to replenish reserves. | - Senior officer group mobilised to address short term impacts - Mitigations to be developed over longer term | 5 | 5 | 25 |

Impact & Likelihood Scales

RISK IMPACT

| Level | Service risk | Reputation Risk | H&S | Legal Risk | Financial Risk | En'ment Risk |
|-------------------|---|---|--|--|---|---|
| Catas-trophic (5) | Ongoing failure to provide an adequate service | Perceived as failing authority requiring intervention | Responsible for death | Litigation almost certain and difficult to defend. Breaches of law | Uncontrollable financial loss or overspend over £500k | Permanent, major environmental or public health damage |
| Major (4) | Failure to deliver Council priorities Poor service. Disrupted 5 days+ | Significant adverse national publicity | Fails to prevent death, causes extensive perm injuries or LT sick | punishable by imprisonment or significant fines | Financial loss or overspend greater than £250k | Long term major public health or environmental incident (1yr+) |
| Moderate (3) | Unsatisfactory performance Service disrupted/ stopped 3-5 days | Adverse national publicity or significant adverse local publicity | Fails to prevent extensive, permanent injuries or LT sickness | Litigation expected, but defensible Breaches of law punishable by fines | Financial loss or overspend greater than £50k | Medium term major public health or environmental incident (up to 1yr) |
| Minor (2) | Marginal reduction in performance Service disrupted/ stopped 1-2 days | Minor adverse local publicity | Medical treatment required, potential long term injury or sickness | Complaint likely, litigation possible Breaches of regs or standards | Financial loss or overspend greater than £10k | Short term public health or environmental incident (weeks) |
| Minimal (1) | No significant service impact Service disruption up to 1 day | Unlikely to cause adverse publicity | First aid level injuries | Unlikely to cause complaint Breaches of local procedures | Financial loss or overspend under £10k | Environmental incident with no lasting detrimental effect |

RISK LIKELIHOOD

| Type | Probability | Detail description |
|--------------------|-------------|---|
| Almost certain (5) | 90%+ | Without action is likely to occur; frequent similar occurrences in local government/Council history |
| Probable (4) | 60%-90% | Strong possibility; similar occurrences known often in local government/Council history |
| Possible (3) | 40%-60% | Might occur; similar occurrences experienced in local government/Council history |
| Unlikely (2) | 10%-40% | Not expected; rare but not unheard of occurrence in local government/Council history |
| Rare (1) | 0%-10% | Very unlikely to occur; no recent similar instances in local government/Council history |