

Budget Strategy Risks

Summary

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

Likelihood	5					
	4			L,M		
	3		B	G	H	
	2		E	C,F	A,D	J
	1		I,K			
		1	2	3	4	5
		Impact				

- A. Failure to contain expenditure within agreed budgets
- B. Fees and Charges fail to deliver sufficient income
- C. Commercialisation fails to deliver additional income
- D. Planned savings are not delivered
- E. Shared services fail to meet budget
- F. Council holds insufficient balances
- G. Inflation rate predictions underlying MTFS are inaccurate
- H. Adverse impact from changes in local government funding
- I. Constraints on council tax increases
- J. Capital programme cannot be funded
- K. Increased complexity of government regulation
- L. Collection targets for Council Tax and Business Rates missed
- M. Business Rates pool / pilot fails to generate sufficient growth

Budget Strategy Risk Register 2017/18

The following risk register sets out the key risks to the budget strategy 2017/18 onwards. 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 2017/18. - 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 in excess of £16 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. 	2	3	6
C	<p>Commercialisation fails to deliver additional income</p> <p>The commercial activities currently being delivered and projected in the MTFs do not</p>	<p>The medium term financial strategy includes a contribution from commercial opportunities, so any shortfall would have an impact on the overall strategy.</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 	3	2	6

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	deliver the expected level of income.	Income generation from commercial activities supports the revenue budget and is required in order to pay back capital investment.	<p>available to cover short term losses.</p> <ul style="list-style-type: none"> - Individual risks associated with specific projects within commercialisation strategy will be assessed, both as part of the project appraisal process and during the course of delivering the projects. - Decision made to outsource the management of the Mote Park Café from Spring 2018. 			
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>	<ul style="list-style-type: none"> - 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. - Savings proposals are separately identified and monitored in the Council's general ledger. - The ability to achieve the targeted savings is reported quarterly to Corporate Leadership Team and to Service Committees. 	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

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
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F	<p>Insufficient Balances 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 £2 million.</p> <p>- At the beginning of the 2018/19 financial year unallocated General Fund balances stood at £7 million.</p>	3	2	6
G	<p>Inflation rate predications underlying MTFS are inaccurate Actual levels are significantly above or below prediction</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>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.</p>	<p>- Allowances for inflation are developed from three key threads:</p> <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>	3	3	9
H	<p>Adverse impact from changes in local government funding Unexpected shocks lead to changes in Local Government funding. Government strategy fails to address economic challenges, such as those which could arise from Brexit.</p>	<p>The Council will no longer receive Revenue Support Grant (RSG) after 2016/17 and will be subject to 'negative RSG' in 2019/20. The government has now announced that it will look at options for dealing with negative RSG.</p>	<p>- The Medium Term Financial Strategy to 2022/23 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	3	12
I	<p>Constraints on council tax increases The limit on Council Tax increases means that the Council must manage expenditure pressures even if these potentially give rise to</p>	<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>	<p>- Planning for the budget 2018/19 was based on a £4.95 (2.06%) increase, as agreed by Policy and Resources Committee at its meeting on 25 July 2017 and by full Council at its meeting on 25</p>	2	1	2

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	cost increases greater than 2% per annum.		<p>October 2017.</p> <p>- The Government increased the referendum cap for 2018/19 from £4.95 / 2% to 3% and this was reflected in the Council Tax level actually set.</p>			
J	<p>Capital Programme cannot be funded 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"> ○ New Homes Bonus ○ Capital Grants ○ Prudential borrowing ○ Developer contributions (£106) <p>A reduction in this funding will mean that future schemes cannot be delivered.</p>	<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> <p>- 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.</p>	5	2	10
K	<p>Increased complexity of government regulation Complexity of financial and other regulations along with increasing delays in providing guidance reduce the ability of the Council to identify risks at an early stage.</p>	<p>On a small number of occasions the financial consequences of future events are likely to be significant. Failure to provide adequate warning would leave the council little time to prepare through the medium term financial strategy.</p> <p>In general these events bring consequences to other agencies and external relationships.</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	1	2
L	<p>Business Rates & Council Tax collection 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>- 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</p>	3	4	12

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
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		<p>Business rates due are in excess of £60 million for 2017/18.</p> <p>Council tax due is in excess of £80 million per annum.</p>	<p>discounts, etc.</p> <p>- Nonetheless, increasingly difficult trading conditions for some businesses may lead to a deterioration in collection performance.</p>			
M	<p>Business Rates pool (17/18) / pilot (18/19)</p> <p>Changes to rateable value (RV) or instability of business rates growth within the pool/pilot may not generate projected levels of income</p>	<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>	<p>- The pool (pilot wef 18/19) is monitored quarterly Kent wide and Maidstone is the administering authority. The projected benefit of pool increased from £5.1m to £7.5m in 2017/18.</p> <p>- The Council applied successfully with other Kent authorities to take part in a 100% Business Rates Retention pilot in 2018/19. This will mean Kent & Medway retaining a further £25m of business rates growth.</p> <p>- Provisions have been made when projecting business rates income for bad debts and losses on appeal so any loss of income would relate to the excess over the provisions already made.</p>	3	4	12

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 punishable by imprisonment or significant fines	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	litigation expected, but defensible Breaches of law punishable by 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	Complaint likely, litigation possible Breaches of regs or standards	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	Unlikely to cause complaint Breaches of local procedures	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	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 (2)	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