

Budget Strategy – Risk Assessment Update

Final Decision-Maker	Audit, Governance and Standards Committee
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Classification	Public
Wards affected	All

Executive Summary

Current projections continue to indicate that the Council will remain within budget for the current financial year, with pressures such as the increase in the cost of providing temporary accommodation offset by savings elsewhere.

At the time of writing, the position for subsequent years is very unclear. Apart from the multiple sources of uncertainty in the external environment, particularly the future path of inflation, it is not known at this stage what the impact this Council will see from the measures to be outlined by the Chancellor on 17 November 2022 and the forthcoming local government finance settlement for 2023/24.

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	14 November 2022

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

	the MTFS and the strategic revenue projection in the ways set out in this report supports achievement of a balanced budget.	Business Improvement
Privacy and Data Protection	No implications.	Director of Finance, Resources 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, Resources and Business Improvement
Crime and Disorder	None identified.	Director of Finance, Resources and Business Improvement
Procurement	None identified.	Director of Finance, Resources and Business Improvement
Biodiversity and Climate Change	None identified.	Director of Finance, Resources 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.

Current financial position - Revenue

- 2.2 The Council set a balanced budget for 2022/23, including an additional provision of £1.3 million for the expected impact of higher inflation on the Council's input costs.
- 2.3 Current financial monitoring indicates that a surge in the numbers presenting as homeless and requiring temporary accommodation will give rise to an additional pressure in 2022/23 of around £600,000. Inflationary pressures can be contained within the provision made in the budget and anticipated underspends elsewhere will offset the £600,000 pressure and allow the Council's budget to remain within balance overall.
- 2.4 The Council's balance sheet position remains strong. At the start of the financial year 2022/23, unallocated General Fund reserves amount to £9 million. Short-term investments – cash or equivalent – amounted to £41 million. Long term borrowing remained modest, at £9 million.

Current financial position – Capital

- 2.5 The Council has an ambitious capital programme, amounting to £230 million over five years. This will largely be funded from external sources, so borrowing will increase rapidly from the current low levels. In anticipation of higher interest rates, the Council committed in April 2022 to forward borrowing of £80 million, which will be drawn down between 2024 and 2026. On current expenditure projections, this provides funding for the Council to complete those Housing Programme schemes for which land has already been acquired.
- 2.6 The cost of completing capital projects depends on the pattern of price increases, given that future schemes still have to be tendered. With construction cost inflation in the region of 10%, current projections for scheme costs are unlikely to be achievable and some prioritisation of schemes will be required.
- 2.7 Further site acquisitions will be required in order to deliver the overall 1,000 Affordable Homes Programme, and the cost of finance for these schemes will depend on the future path of interest rates. As an indication of the current volatility in interest rates, long term (50 year) Public Works Loan Board rates have climbed from less than 3% when the Council borrowed forward in April 2022 to 5% in the aftermath of the September 2022 'mini' budget, before falling to around 4% at the time of writing.
- 2.8 In summary, the Council has an ambitious capital programme, for which it has been able to manage funding risk, to an extent, by borrowing forward.

However, the cost of delivering the programme is threatened by the rate of inflation.

Future financial position

- 2.9 The outlook for the UK economy is exceptionally uncertain. Following the initial recovery from the Covid recession, growth has slowed and the economy is likely to move into a recession, continuing into 2023. Growth thereafter will be very weak by historical standards. This reflects global factors including sharp rises in energy prices, but local factors mean that the UK economy is affected more severely and its performance lags behind that of other leading nations. The Bank of England projects negligible growth over the next two years and any subsequent recovery will be modest.
- 2.10 The state of the overall UK economy impacts the Council in numerous ways. It increases pressure on expenditure budgets, notably the cost of providing temporary accommodation (as already described). It also reduces income, if (for example) the volume of activity in the Town Centre falls and car parking income reduces, and if households and businesses have difficulty paying Council Tax and Business Rates. These risks are reflected in the risk register.
- 2.11 Stagnant economic growth will be accompanied, in the short term at least, by high inflation. Currently inflation is around 10% and the Bank of England forecasts that inflation will increase further. The subsequent fall in inflation may be slower and longer than previously thought.
- 2.12 Inflation poses a particular challenge for the Council because, whilst input costs like salaries and contract costs are subject to inflation (and in some cases are explicitly linked to inflation indices), there are constraints on the amount by which income can be increased, in particular the Council Tax referendum limit. This makes inflation one of the top risks for the Council.

Public Finances

- 2.13 The financial markets' response to the 'mini budget' of September 2022 demonstrates that central government cannot address low economic growth without a credible medium term fiscal plan. At the time of writing, details of the government's plans have yet to emerge, but they are likely to involve constraints on public spending. This affects the Council's budgets, because the local authority funding framework set by government is a crucial determinant of the Council's future financial position. Specifically, central government restricts the amount by which Council Tax can be increased through the referendum limit, and it determines the share of business rates that can be retained locally.
- 2.14 Our financial planning seeks to address all the uncertainties described above by considering a number of different scenarios. A draft Medium Term Financial Strategy is currently being considered by the Policy Advisory Committees, which shows a budget gap of £2.5 million for 2023/24 on the most likely scenario, and proposes a number of steps for closing this gap. Given a requirement for budget savings of this level, the Council's ability to

deliver savings constitutes a significant risk. The Council has a good track record in this respect, both in delivering cost savings and in generating additional income, eg from investments such as Lockmeadow and Maidstone House. However, the scale of savings now required is very significant.

External factors

2.15 The Covid-19 pandemic shows how vulnerable the Council is to external factors, although in the event the financial impact of Covid-19 has been mitigated through government support. The budget risk register has recognised this by including a risk entitled 'Financial impact from a resurgence of Covid-19'. In recognition of the fact that risks in this category are often very difficult to foresee, it is proposed to amend the risk description so that it encapsulates similar potential events to Covid-19.

2.16 As already indicated above, the overall performance of the economy impacts both the revenue budget and the capital programme. Rather than including this as a single generic risk, the risk register lists the ways in which this could impact the Council, eg failure to contain expenditure within agreed budgets, fees and charges fail to deliver sufficient income, etc.

2.17 In light of the risks described above, the following changes are proposed to the budget risk register.

Ref	Risk	Factor considered	Implications for risk profile
D	Planned savings are not delivered	The scale of the budget gap in 2023/24 will challenge the Council's capacity to deliver savings and/or increase income.	Impact – major (no change) Likelihood – possible (increased)
J	Capital programme cannot be funded	Interest rate risk and the high level of inflation mean that prioritisation of capital schemes will be necessary.	Impact – very substantial (increased) Likelihood – probable (increased)
P	Financial impact from major emergencies such as Covid-19 (amended description)	Covid-19 risks are increasingly being managed but other emergencies in this category may arise.	Impact – very substantial (no change) Likelihood – possible (no change)

2.18 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.

2.19 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.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 Option 2 – It is recommended that the Committee notes the risk assessment.

5. RISK

5.1 Risk is addressed throughout this report, so no further commentary is required here.

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 is under way for the 2023/24 budget and the results will be reported to Members as part of the budget setting process.

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.

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.