

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 indicate that the Council will remain within budget for the current financial year. With the need to agree a budget for 2023/24 in February 2023, the focus of this report therefore moves to the position for 2023/24 and subsequent years.

The Provisional Local Government Finance Settlement for 2023/24, announced on 19 December 2022, sets the overall funding context for next year's budget. This provides assurance that the Council can set a balanced budget for 2023/24, provided that the Council adopts £1.1 million of savings proposals put forward by officers, and increases Council Tax up to the referendum threshold, ie by 3%.

Looking further forward, the position remains challenging, given uncertainty about the future path of inflation and local government funding. In particular, building price increases put delivery of the capital programme at risk.

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 January 2023

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, Resources 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.

Revenue budget – current year

- 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. Current financial monitoring indicates that we will remain within budget for the year. The main risk is the surge in numbers presenting as homeless and requiring temporary accommodation. This was estimated in the most recent quarterly monitoring reports as giving rise to an additional pressure in 2022/23 of around £600,000. Anticipated underspends elsewhere offset the £600,000 pressure and allowed the Council's budget to remain within balance overall.
- 2.3 The Council's balance sheet position remains strong. At the start of the financial year 2022/23, unallocated General Fund reserves amounted to £9 million. Short-term investments – cash or equivalent – amounted to £41 million. Long term borrowing remained modest, at £9 million.

Revenue budget – 2023/24 and subsequent years

- 2.4 In rolling forward the Medium Term Financial Strategy to cover the five years 2023/24 to 2027/28, scenario planning indicated that in the core scenario there would be a budget gap of £2.5 million in 2023/24, mainly owing to the impact of inflation on the Council's costs, with a steadily increasing budget gap in subsequent years.
- 2.5 Subsequent work to develop savings proposals has mitigated this position. Furthermore, government announcements in the form of the Chancellor's Autumn Statement on 17 November 2022 and the Provisional Local Government Finance Settlement of 19 December 2022 have helped to clarify the financial context.
- 2.6 The key elements of new information arising from these were as follows.
- The Council Tax referendum limit will be increased from 2% to 3%.
 - Although business rates will be frozen in 2023-24, rather than increasing by inflation as in the past, local authorities will be fully compensated for the loss of the inflationary increase.
 - It is proposed to create a new one-off Funding Guarantee, which will ensure that all authorities see at least a 3% increase in their Core Spending Power, before any decision they make about organisational efficiencies, use of reserves, and council tax levels. The Funding Guarantee is worth £2.6 million for Maidstone Borough Council and will

have the effect of compensating the authority for a fall in income from New Homes Bonus.

Whilst New Homes Bonus has always been used at Maidstone in the past to fund the capital programme, rather than the revenue budget, the Funding Guarantee means that the Council will continue to be able to set aside funding to provide the housing subsidy inherent within the 1,000 Affordable Homes Programme.

- 2.7 Having developed savings proposals amounting to £1.1 million for 2023/24, and having factored in information about the funding context for 2023/24 from the Chancellor's Autumn Statement and the Provisional Local Government Finance Settlement, it is now expected that proposals for a balanced budget can be submitted to Council in February 2023. Looking further forward, the position remains challenging, given uncertainty about the future path of inflation and local government funding.

Capital programme

- 2.8 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.
- 2.9 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.
- 2.10 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 4% - 4.5% at the time of writing.
- 2.11 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

- 2.12 The outlook for the UK economy will be very challenging over the next two years. 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. 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.

- 2.13 Stagnant economic growth will be accompanied, in the short term at least, by high inflation. The future path of inflation is unclear but there is risk that it may remain elevated for longer than mainstream projections currently indicate.
- 2.14 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.

Other 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 was mitigated through government support. The budget risk register includes an item entitled 'Financial impact from major emergencies such as Covid-19' to recognise such risks.
- 2.16 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
H	Adverse impact from changes in local government funding	The provisional local government finance settlement for 2023/24 provides some assurance about the position in the short term.	Impact – major (no change) Likelihood – possible (reduced)
I	Constraints on Council Tax increases	The increase in the Council Tax referendum limit to 3% has mitigated this risk to some extent, but the referendum limit remains well below the rate of inflation.	Impact – major (reduced) Likelihood – probable (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.