

Budget Strategy – Risk Assessment Update

Final Decision-Maker	Audit, Governance and Standards Committee
Lead Head of Service/Lead Director	Mark Green, Director of Finance, Resources and Business Improvement
Lead Officer and Report Author	Mark Green, Director of Finance, Resources and Business Improvement
Classification	Public
Wards affected	All

Executive Summary

As the financial year end for 2022/23 approaches, there is a reasonable level of confidence that the Council will remain within budget for the year. Looking forward to 2023/24, Council set a balanced budget for the year at its meeting on 22nd February 2023. However, there are a number of significant risks that the Council faces in continuing to deliver its strategic priorities within the budget framework:

- There are a number of significant service pressures, notably the Council's obligation to provide temporary accommodation. Whilst the budget allows for current levels of demand continuing over the medium term, there is a risk that expenditure could increase still further.
- £700,000 of ongoing new revenue budget expenditure in 2023/24 has been funded from one-off sources, which creates further pressure to deliver savings in future years.
- The Council has an ambitious capital programme. Capital investment is subject to a high degree of risk, arising from the volatility of input prices and the inherent risk associated with construction projects. Additional costs will make it more difficult to fund the capital programme.
- The long delayed 'fair funding settlement' by the government, whilst now unlikely to be implemented before the next General Election, may impact Maidstone adversely.

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	13 March 2023

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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.

Current position

- 2.2 Current financial monitoring indicates that we will remain within budget for the 2022/23 financial 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 £735,000. Anticipated underspends elsewhere offset the £735,000 pressure and are expected to allow the Council's budget to remain within balance overall.
- 2.3 The Council's balance sheet position remains strong. Estimated unallocated General Fund reserves at 31 March 2023 are expected to amount to £11 million. The Council's liabilities include long term borrowing of just £5 million.

Future position – 2023/24 and subsequent years

- 2.4 The Council set a balanced budget for the financial year 2023/24 at its meeting on 22 February 2023. In the report that I am required to give on the budget proposals in accordance with Section 25 of the Local Government Act 2003, commenting on the robustness of the financial estimates and the adequacy of the Council's reserves, I drew members' attention to a number of different risks facing the Council, notably the following.

Growth pressures

- 2.5 The budget reflects potential additional expenditure and income shortfalls to the extent that these are known currently, so (for example) an allowance has been built into the budget for continuing high levels of demand for temporary accommodation. However, it is possible that increased pressure and/or new pressures could emerge over time.

Funding from central government

- 2.6 The Council no longer receives Revenue Support Grant, but it is due to receive £4.7 million in unringfenced government grants in 2023/24 (New Homes Bonus, Services Grant and Funding Guarantee). Council decided when setting the 2023/24 budget to allocate £300,000 of this for spatial policy and planmaking and £400,000 to increase the salary budget envelope.
- 2.7 As the Council cannot assume that these grants will continue at the present level in the future, it would have been prudent to treat them as one-off funding and not deploy them to meet ongoing commitments. There is

therefore a risk in particular in using £400,000 to increase the salary budget envelope, as this represents an ongoing commitment to paying staff at a higher level. This will create an additional requirement to deliver savings in future years, which may not be possible without impacting service delivery and/or increasing fees and charges significantly.

- 2.8 Although the Council no longer receives Revenue Support Grant, other sources of income are affected by the local government funding regime. Council Tax increases are subject to a referendum limit set by central government. The share of business rates retained by the Council depends on the government's assessment of the borough's needs. The long delayed 'fair funding settlement', whilst now unlikely to be implemented before the next General Election, may impact Maidstone adversely.

Capital Programme

- 2.9 The Council has an ambitious capital programme. Funding this will require an increase in long term debt from £5 million today to over £150 million in 2027/28, with the revenue cost of capital increasing accordingly. This higher level of debt means greater risk for the Council.
- 2.10 The cost of delivering the capital programme cannot be predicted with certainty. Construction costs are highly dependent on volatile raw material costs and on the availability of scarce labour resources. Construction projects inevitably bring a risk of unforeseen obstacles to completion, arising from ground conditions, adverse weather, etc.
- 2.11 80% of the capital programme is accounted for by housing investment. Of this, the majority is intended to be affordable housing, which would require a revenue subsidy currently estimated to be £50 million in total for the 1,000 affordable homes programme. Accordingly, the 2023/24 budget includes a transfer to the Housing Investment Fund, to be used to subsidise the Affordable Housing Programme. It should be noted that the transfer is less than would be required annually on current projections to fulfil the Council's aspirations to provide 1,000 affordable homes over a ten year period. In other words, the Council is not currently on track to deliver this strategic priority.

Availability of funding for Capital Programme

- 2.12 It is assumed that funding will continue to be available for the capital programme. Historically the main source of funding for local authorities has been the Public Works Loan Board. The Council has however locked in £80 million of private sector borrowing at a competitive rate, to be drawn down between 2024 and 2026. Borrowing in excess of the initial £80 million will depend on the future pattern of interest rates and is therefore subject to risk.

Pay and price inflation

- 2.13 The outlook for the UK economy will be very challenging over the next two years. 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.
- 2.15 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
A	Failure to contain expenditure within agreed budgets	Whilst the budget allows for current levels of service demand continuing over the medium term, there is a risk that expenditure could increase still further.	Impact – major (no change) Likelihood – possible (increased)
D	Planned savings are not delivered	£700,000 of ongoing new revenue budget expenditure in 2023/24 has been funded from one-off sources, which creates further pressure to deliver savings in future years.	Impact – major (no change) Likelihood – probable (increased)

2.16 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.

2.17 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.
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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 is under way for the 2023/24 budget and the results will be reported to Members 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.