

**Budget Strategy – Risk Assessment Update**

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

**Executive Summary**

The revenue out-turn for 2022/23 saw the Council achieve a small underspend against its budget. Given continued effective financial management, the prospects of a similar out-turn for 2023/24 look reasonable at this early stage in the financial year.

Looking further ahead, the Council's financial position risks being adversely affected by the continued high rate of inflation, given that it is severely constrained in its capacity to increase revenues in response to increased costs.

Although the Council has a low level of borrowing at present, it plans to embark on significant borrowing over the next few years to fund its capital programme, which will also bring a heightened degree of 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**

<b>Meeting</b>	<b>Date</b>
Audit, Governance and Standards Committee	24 July 2023

# Budget Strategy – Risk Assessment Update

## 1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
<b>Impact on Corporate Priorities</b>	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
<b>Cross Cutting Objectives</b>	The cross cutting objectives are reflected in the MTFS and the budget.	Director of Finance, Resources and Business Improvement
<b>Risk Management</b>	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
<b>Financial</b>	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
<b>Staffing</b>	The process of developing the budget strategy will identify the level of resources available for staffing over the medium term.	Director of Finance, Resources and Business Improvement
<b>Legal</b>	The Council has a statutory obligation to set a balanced budget and development of	Team Leader (Contentious and Corporate Governance)

	the MTFS and the strategic revenue projection in the ways set out in this report supports achievement of a balanced budget.	
<b>Information Governance</b>	No implications.	Director of Finance, Resources and Business Improvement
<b>Equalities</b>	If not already considered, an Equalities Impact Assessment should be completed as part of the recommended work set out in the strategy to ensure they meet the needs of those affected by it.	Equalities & Communities Officer
<b>Public Health</b>	None identified.	Director of Finance, Resources and Business Improvement
<b>Crime and Disorder</b>	None identified.	Director of Finance, Resources and Business Improvement
<b>Procurement</b>	None identified.	Director of Finance, Resources and Business Improvement
<b>Biodiversity and Climate Change</b>	None identified.	Biodiversity & Climate Change Manager

## 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 The revenue out-turn for 2022/23 was an underspend of £212,000 (0.9%) against the budget. Overspends, most significantly on temporary accommodation for homeless families, were more than offset by underspends elsewhere, arising mainly from better than budget performance on income generation and from staff vacancies.
- 2.3 The Council is effective in managing financial performance. This is underpinned by regular quarterly meetings at which Heads of Service are held to account for financial performance against budget and reporting of quarterly financial performance to Policy Advisory Committees and the Executive.
- 2.4 There continue to be budget risks, particularly around temporary accommodation. An additional £600,000 has been built into the budget for temporary accommodation for 2024/25, but this may still not be adequate given the level of demand.
- 2.5 The Council's balance sheet position remains strong. Unallocated General Fund reserves at 31 March 2023 amounted to £11 million. The Council's liabilities include long term borrowing of just £5 million.

## **Future position – 2023/24 and subsequent years**

- 2.6 CPI inflation is currently (May 2023) running at 8.7%. Whilst the Bank of England's core projection is for a reduction to the target level of 2% by the end of 2024, its projections have consistently been over-optimistic and there is a high likelihood that inflation will remain around 5% for some years to come.
- 2.7 The implications for the Council are very significant, given the constraints on its capacity to increase revenues to offset increases in prices. Maidstone Borough Council is largely self-sufficient financially: locally generated sources of income (Council Tax, Business Rates and Other Income) cover most of the Council's cost of services. Direct unringfenced government support in the form of the Revenue Support Grant ended in 2016/17, although additional support was provided by government subsequently to assist with additional Covid-19 spend.
- 2.8 However, the local authority funding framework set by government remains a crucial determinant of the Council's future financial position. This is primarily because (a) central government restricts the amount by which Council Tax can be increased and (b) it determines the share of business rates that can be retained locally. The Council is therefore severely constrained in its capacity to increase revenues in response to increased costs.
- 2.9 At this stage we do not have any clarity about the Council Tax referendum limit, the Business Rates baseline and any other grants such as New Homes Bonus for 2024/25. The usual pattern whereby the local government finance settlement is announced just before Christmas suggests that we will not have any definitive figures until late December.

2.10 As Maidstone's financial position is so dependent on government policy and on broader economic factors such as inflation, neither of which can be predicted with any certainty, it is appropriate to model the impact of different scenarios on the Council. This follows a similar approach to that adopted in previous years in financial planning. For these purposes, we consider it prudent at this stage to adopt a scenario which combines continued high inflation and tight constraints on the Council's revenue raising capacity. However, other scenarios will be modelled and the implications considered when developing an updated Medium Term Financial Strategy.

### **Capital Programme**

- 2.11 The Council has an ambitious capital programme, which includes plans to deliver 1,000 new affordable homes over the next ten years. 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.
- 2.12 There are a number of risks associated with the capital programme which potentially will impact the revenue account, to the extent that capital expenditure is abortive or leads to the write-down of capital investments:
- Construction prices increasing
  - Contractor failure / liquidation
  - Availability / cost of finance (currently the Council has arranged £80 million of funding, but the availability and cost of finance when this is exhausted is not known).
- 2.13 Finally, there is a specific requirement in relation to the Affordable Housing programme to provide the necessary subsidy for tenants. The requirement for a subsidy arises because affordable housing (ie housing to be let at a rent of no more than 80% of the Local Housing Allowance) does not achieve the rate of return that is required on Council investments in order to satisfy the prudential borrowing rules. There is a risk that, if the necessary subsidy is not available, the Council will not be able to achieve the targeted number of affordable homes.
- 2.14 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	Performance against budget provides reassurance that the Council can deliver its savings targets.	Impact – major (no change) Likelihood – possible (reduced)

Ref	Risk	Factor considered	Implications for risk profile
G	Inflation rate is higher than 2% government target	Not only is inflation currently well in excess of target, it may well remain high for some years to come.	Impact – major (increased) Likelihood – almost certain (no change)
I	Constraints on Council Tax increases	The Council Tax referendum limit for 2023/24 was 3%. Whilst it is not expected that the limit will be reduced in 2024/25, this is still considerably less than the likely rate of inflation.	Impact – major (increased) Likelihood – probable (no change)

2.15 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.

2.16 Members are invited to consider further risks or to propose varying the impact or likelihood of any risks.

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### **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.

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### **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 2024/25 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.