

**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 Council is having to deal with a significant budget overspend in the current financial year owing to the increase in numbers being housed in temporary accommodation. At this stage in the year it is hoped that savings can be identified elsewhere to offset this overspend.

Budget planning for next year (2024/25) is making good progress. Savings to address a budget gap of £925,000 have been identified and were approved by Cabinet at its meeting on 25<sup>th</sup> September.

The local authority sector as a whole is seeing an increasing number of councils at risk of bankruptcy. To help members judge the risk for this Council, this report additionally sets out how Maidstone compares with its peers on the key metrics.

**This report makes the following recommendations to this Committee:**

That the Audit Governance and Standards Committee notes the risk assessment of the Budget Strategy provided at Appendix A.

**Timetable**

<b>Meeting</b>	<b>Date</b>
Audit, Governance and Standards Committee	13 November 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	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
<b>Information Governance</b>	No implications.	Director of Finance, Resources and Business Improvement
<b>Equalities</b>	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
<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.	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 The Council produced a balanced budget for both revenue and capital income and expenditure for 2023/24. Performance monitoring for the year to date indicates that, based on current numbers in temporary accommodation, we can expect an overspend in excess of £800,000 under this heading. Although the Council is acquiring additional properties through the capital programme, a large number of families will continue to be housed in expensive nightly paid accommodation.
- 2.3 This overspend can be mitigated substantially through underspends elsewhere around the Council, and every effort will be made to keep spend overall within budget for the year. However, spend on temporary accommodation is volatile and there is a significant risk that the budget cannot be brought into balance or even that the overspend could be higher.

### **Future position – 2024/25 and subsequent years**

- 2.4 A draft Medium Term Financial Strategy was presented to Policy Advisory Committees in September, setting out the likely position for the 5-year planning period. The external environment is challenging, with the UK economy facing low growth prospects and continued high inflation. This limits the scope for any increase in public expenditure, which in turn will affect the Council, because it gives the government little scope to flex the funding framework for local government to alleviate financial pressures caused by expenditure growth. Any assistance is likely to benefit upper tier or single tier authorities, not lower tier authorities like Maidstone.
- 2.5 Financial projections were drawn up, based on a realistic scenario of continued high inflation and limited funding flexibility. These show a budget gap of £925,000 for 2024/25 and a significantly increased gap in subsequent years. Note that all these projections assume that Council Tax income is increased by the maximum possible given the referendum limit, and fees and charges are increased in line with inflation. In all cases, the budget gap would be greater if these measures were not taken.
- 2.6 Budget proposals have been put forward which would deliver sufficient savings and were presented to members in September. Cabinet approved these savings at its meeting on 25<sup>th</sup> September.
- 2.7 Details of fees and charges which would deliver an overall 5% increase still need to be agreed. Savings on a much greater scale will be required in subsequent years.

## **Capital Programme**

- 2.8 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.
- 2.9 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).
- 2.10 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.
- 2.11 Overall, in light of the above, no changes are proposed to the budget risk register. Details are set out in Appendix A, which lists 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.
- 2.12 Members are invited to consider further risks or to propose varying the impact or likelihood of any risks.

## **Budget risks – the overall local authority context**

- 2.13 The local authority sector as a whole is seeing an increasing number of councils at risk of bankruptcy. To help members judge the risk for this Council, further information is set out here to help members assess how Maidstone compares with its peers.
- 2.14 Local authorities cannot become bankrupt in the same way as a company or an individual. However, issue of a Section 114 notice is usually treated as equivalent to an admission of bankruptcy. This notice must be issued if the the predicted expenditure of the council during a financial year is likely to exceed its available funds. Once a notice has been issued, no new expenditure is permitted except to fund statutory services, although existing commitments and contracts are honoured and staff wages are paid.

- 2.15 The number of section 114 notices issued, both in the recent past and in the period since enactment of the Local Government Finance Act in 1988, remains small. However, the risk of a section 114 notice – as opposed to an actual section 114 notice – has been highlighted at a much larger number of councils in the past year, including Kent, Hampshire, Havering, Kirklees, Coventry, Southampton, Medway and Guildford.
- 2.16 In most cases, the risk arises because in-year expenditure exceeds revenue. The problem is particularly acute amongst authorities providing social services, where the numbers in care and unit costs are increasing rapidly, and the cost of care can exceed £1 million per head in the most serious cases. But an in-year overspend in itself will not give rise to a section 114 notice, because local authorities can legitimately draw on reserves brought forward from previous years.
- 2.17 Using reserves is not, however, a long term solution, as reserves can only be used once, and the rate at which they are being depleted in many councils means that the overspends that they are incurring are unsustainable. The issue is the relationship of overspends to available reserves.
- 2.18 In order to establish the risk of a section 114 notice being required, the key metrics are therefore the current level of overspend and the level of unallocated reserves available to cover the overspend. Strictly speaking, only the General Fund balance is truly unallocated and available to support ongoing revenue expenditure. However, it is the practice in many authorities for earmarked reserves to be maximised at the expense of General Fund reserves. Often the 'earmarking' is to meet generic purposes, such as 'business risk'. Where a specific legal or constructive obligation exists that probably requires settlement, and a reliable estimate can be made of the amount of the obligation, accounting standards require this to be met through a provision, which would be charged in-year to the General Fund. Birmingham City Council's obligation to meet equal pay claims is sufficiently clear to require treatment as a provision, hence the negative impact on the General Fund which has given rise to a Section 114 notice.
- 2.19 For the purpose of establishing the risk of a section 114 notice, the relevant reserves to be used are therefore the General Fund balance and Earmarked Reserves. This allows local authorities to be ranked in relation to the level of reserves held as compared with their net revenue expenditure. On this basis, there were just six local authorities that did not have enough in reserves as at 31 March 2022 to cover an overspend of 20%, albeit that the position is likely to have worsened since then: three shire districts, two unitary authorities, and one metropolitan borough.
- 2.20 On this ranking, Maidstone stands at 237 out of 323 authorities for which information is available. In other words, 236 councils would be more likely to go bankrupt than Maidstone.
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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 has been carried out 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.