

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

There is a risk that the Council may overspend in the current financial year owing to the increase in numbers being housed in temporary accommodation. Although savings elsewhere mitigate the overspend, this may not be sufficient to offset the additional costs and allow us to balance the budget for the year.

Budget planning for next year (2024/25) is well under way. A budget gap of £925,000 is projected, assuming that Council Tax is increased by 3% and fees and charges increase by 5% overall. Savings have been put forward for member consideration that, all things being equal, would cover the budget gap.

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	25 September 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, Resources 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
Information Governance	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 The Council produced a balanced budget for both revenue and capital income and expenditure for 2023/24. The half-way point in the year is approaching and it is possible to make some early projections as to the likely out-turn. In the quarter 1 figures, recently presented to Policy Advisory Committees, it was reported 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, reducing the projected overspend to just under £300,000. 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.
- 2.4 The Council's underlying balance sheet position nevertheless remains strong. Unallocated General Fund reserves at 31 March 2023 amounted to £13 million.

Future position – 2024/25 and subsequent years

- 2.5 A draft Medium Term Financial Strategy has recently been presented to Policy Advisory Committees, 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.
- 2.6 Financial projections have been 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.
- 2.7 The Council's immediate priority in setting a balanced budget for 2024/25 is to close the budget gap of £925,000 for next year. Budget proposals have been put forward which would deliver sufficient savings. 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 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	Increase in numbers in temporary accommodation.	Impact – major (no change) Likelihood – probable (increased)

- 2.12 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.

2.13 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 2024/25 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.