

Budget Strategy – Risk Assessment Update

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| 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

The Council remained within budget for 2023/24 and has set a balanced budget for 2024/25. However there are a number of risks that could threaten delivery of a revenue budget out-turn within budget for the year.

Looking further forward, the impact of a change of government on local authorities and Maidstone in particular remains unclear. However, further devolution and constraints on public expenditure are likely to have an impact.

The Council has an ambitious capital programme, which is subject to a number of risks, in particular the cost of finance and risks around delivery.

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

| Meeting | Date |
|---|--------------|
| Audit, Governance and Standards Committee | 29 July 2024 |

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 |

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| | 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.

Out-turn for 2023/24

- 2.2 As reported to the Policy Advisory Committees and Cabinet this month, the Council underspent its revenue budget by £22,000 (0.1%) in 2023/24. The impact of overspends on temporary accommodation and property and leisure services were mitigated by use of the contingency budget and higher than expected interest income. Whilst this meant that budget risks were managed successfully, the underlying pressures, particularly around temporary accommodation, mean that there continue to be risks for 2024/25.

Revenue budget 2024/25

- 2.3 The Council agreed a balanced budget for 2024/25 in February 2024. At this relatively early stage in the financial year there remains time for any potential overspends to be addressed, either directly or by offsetting underspends or additional income from other areas of council activity.
- 2.4 Temporary accommodation expenditure, being demand-led, continues to be a big risk to the budget and is now identified separately within the risk register. There was an increase of £450,000 in the temporary accommodation budget for 2024/25, but even this may not be sufficient given that the number of people in temporary accommodation remains close to its peak, being 250 at the end of June. The risk is all the greater because, whilst the number of people presenting as homeless remains high, it is increasingly difficult to move homeless families into permanent accommodation with fewer vacant units coming on stream from social housing providers.
- 2.5 The Council is mitigating the cost impact of providing temporary accommodation by buying its own properties for homeless families, which is much cheaper than externally procured nightly paid accommodation. This is achieving a gradual reduction in costs.

Future position – 2025/26 and subsequent years

- 2.6 There are a large number of variables likely to impact the council's financial position in future years. As reported to the Climate Transition, Corporate and Environmental Services PAC and to Cabinet this month, we will address this by drawing up projections under a range of different scenarios in our medium term financial planning.

2.7 Key variables are as follows:

- external economic environment, which can affect the council by (for example) driving up the number of homeless families and reducing parking income
- government policy on public spending
- government's government and Bank of England monetary policy – high interest rates increase the cost of funding the capital programme
- the council's own capacity to deliver services and respond to changing circumstances.

2.8 The economic environment now appears somewhat more favourable, with inflation within the government's target for two months running, and a moderate level of growth. It is therefore appropriate to downgrade the risk 'inflation rate is higher than 2% government target'.

2.9 So far as government policy on public spending is concerned, the new Labour government has emphasised the difficult financial environment it faces, with severe pressures on public services and record levels of borrowing. This will influence the framework for local authority financing, including the Council Tax referendum limit, the share of business rates that local authorities are able to retain, and the level of one-off government grants. This is reflected in the budget risk register as 'adverse impact from changes in local government funding'.

2.10 More broadly, the government has indicated its desire to see greater devolution to local authorities, which may have impacts for Maidstone and Kent.

Capital Programme

2.11 The Council has an ambitious capital programme, amounting to £430 million over the next ten years. The capital programme is updated every year as part of the budget process. This will allow the new administration, formed in May 2024, to update the programme in light of new strategic priorities. However, assuming that the capital programme remains on the same scale as currently planned, there are a number of risks, eg

- Availability and cost of finance
- Inflation in construction prices
- Contractor failure / liquidation
- Capacity of council to deliver the programme.

2.12 In 2022 the Council locked in £80 million of its borrowing requirement at the relatively low rate of 2.89%, with the first tranche of £40 million being drawn down in February 2024. Borrowing rates are now much higher: the 50 year Public Works Loan Board rate is currently 5.18%. It is possible that rates may remain at similar rates, so funding capital expenditure above and beyond the initial £80 million could become much more expensive, limiting the number of viable capital projects and affecting the Council's ability to

achieve its strategic objectives. This risk has been captured in the risk register under the heading 'Capital Programme cannot be funded'.

2.13 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 |
|--------------|---|--|---|
| G | Inflation rate is higher than 2% government target | Inflation has now been within the target for 2 months running. | Impact – major (no change) Likelihood – possible (reduced) |
| H | Adverse impact from changes in government funding | Uncertainty about new government's plans. | Impact – major (no change) Likelihood – probable (increased) |
| S (new risk) | Increase in numbers requiring temporary accommodation | Numbers in temporary accommodation are close to a record high level and the lack of permanent housing means that numbers may rise still further. | Impact – major Likelihood – probable |

2.14 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.

2.15 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 has been carried out for the 2024/25 budget and the results have been 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.