

**Budget Strategy – Risk Assessment Update**

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| <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**

Demand for temporary accommodation continues to pose a significant budget risk in the current financial year to 31 March 2024. An overspend of £800,000 for the year is projected currently, although this could increase if numbers in temporary accommodation rise.

Budget planning for next year (2024/25) assumes that numbers in temporary accommodation will continue at the current levels. Given this, and a range of other assumptions, the budget for next year can be balanced. The provisional Local Government Finance Settlement, announced just before Christmas 2023, has confirmed this position.

The Council has an ambitious capital programme. The report outlines a number of risks associated with the programme. However, funding is in place which should allow the first phase of 1,000 Affordable Homes schemes to progress.

**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 | 15 January 2024 |

# 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. The main threat to delivery of an outturn in line with the budget is the increase in numbers in temporary accommodation compared with last year. Currently an overspend of £800,000 is projected under this heading, which assumes that numbers in temporary accommodation remain at current levels for the remainder of the year.
- 2.3 With offsetting underspends elsewhere, this has led to a projected overspend of just under £300,000 for the Council overall for the year. Work continues to try and mitigate this overspend and deliver an overall performance in line with budget.
- 2.4 There is nevertheless a risk that numbers in temporary accommodation could increase, which would lead to a higher overspend for the year. This is captured within the budget risk register heading 'Failure to contain expenditure within agreed budgets'.

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

- 2.5 A draft Medium Term Financial Strategy was presented to Policy Advisory Committees in September 2023, setting out the likely position for the 5-year planning period. The Strategy document explained that 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, based on a realistic scenario of continued high inflation and limited funding flexibility, were included in the MTFs and showed a budget gap of £925,000 for 2024/25 and significantly higher figures in subsequent years. These projections assumed 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 budget risk register includes the risks 'Inflation rate is higher than 2% government target' and 'Constraints on council tax increases', which reflect the fact the referendum limit of 3% has been lower than the rate of inflation. Inflation is now falling, albeit it has not yet reached the

government's target, so it is appropriate to downgrade the inflation risk in the risk register.

- 2.8 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 2023. It is therefore anticipated that proposals for a balanced budget can be presented to Council at its budget setting meeting on 21<sup>st</sup> February 2024.

### **Local Government Finance Settlement 2024/25**

- 2.9 The assumptions underlying the MTFs financial projections have been confirmed by the provisional local government finance settlement, announced just before Christmas 2023. The settlement confirmed a Council Tax referendum threshold of 3% for district councils. Thresholds for upper tier authorities and police authorities are 5% and £13 respectively. Assuming that Kent County Council and Kent Police increase their precepts by the maximum permitted, ie by 5% and 5.35% respectively, Maidstone Borough Council's proportion of the overall Council Tax bill would fall from 13.2% to 13%.
- 2.10 The local government finance settlement also incorporated a guaranteed increase in Core Spending Power, before any increase in Council Tax, of 3%. (Core Spending Power is the measure used by government to evaluate what they consider to be the underlying financial position of local authorities.) This means that Maidstone's funding will be topped up by a Funding Guarantee payment of £3.3 million.
- 2.11 The Funding Guarantee is a one-off grant. It has been used by the government in 2023/24 and now in 2024/25 as a mechanism for giving more money to local authorities pending the much-delayed radical reshaping of the local government funding regime. Note that the Funding Guarantee cannot be relied on in the future. The new 'fair funding' regime is likely to have a detrimental effect on relatively well-off areas like Maidstone. However, for the time being, Maidstone has benefited from significant one-off funding in the form of New Homes Bonus and the Funding Guarantee, and has used this principally to support the 1,000 Affordable Homes programme by setting up a Housing Investment Fund.
- 2.12 A further helpful feature of the funding settlement was confirmation that our application, along with other Kent authorities, to continue with the Kent Business Rates pool has been approved. This means that, collectively, the levy of 50% that pool authorities would otherwise have paid on growth in business rates above the government's baseline will be reduced to 0.7%. Growth in business rates remains positive, so it is appropriate to downgrade the budget risk register heading 'Business Rates Pool fails to generate sufficient growth'.

### **Capital Programme**

- 2.13 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 £9 million today to around

£300 million in 2028/29, with the revenue cost of capital increasing accordingly.

2.14 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.

2.15 Currently the Council has locked in £80 million of its future borrowing requirement at the relatively low rate of 2.89%. Capital expenditure will need to be carefully monitored to ensure that expenditure above and beyond the amount to be funded from this initial £80 million meets the prudential affordability requirement. This in turn depends on the future availability and cost of finance. Whilst interest rates are projected to reduce compared to their current rates, the speed of the reduction is uncertain.

2.16 This risk has been captured in the risk register under the heading 'Capital Programme cannot be funded'. Given the broader risks around the capital programme, it is proposed to change this wording to 'Capital Programme cannot be delivered given available budgets and funding'.

2.17 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. The Council is using its Housing Investment Fund (see paragraph 2.10 above) to provide this subsidy. 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.

2.18 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 is now falling, although it has not yet reached 2%.   | Impact – major (no change)<br>Likelihood – probable (reduced) |
| J   | Capital programme cannot be funded                 | Broader risks around capital programme recognised by changing wording to 'Capital Programme cannot be | -   |

| Ref | Risk  | Factor considered   | Implications for risk profile                                    |
|-----|---|---|--|
|     |   | delivered given available budgets and funding'  |  |
| M   | Business Rates pool fails to generate sufficient growth | Pool membership has been confirmed for 2024/25 and business rates growth remains positive | Impact – moderate (no change)<br>Likelihood – possible (reduced) |

2.19 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.

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