

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE MEETING

Date: Monday 14 March 2022
Time: 6.30 p.m.
Venue: Town Hall, High Street, Maidstone

Membership:

Councillors Bartlett (Vice-Chairman), Brindle, Coulling (Parish Representative), Cuming, Daley, Fissenden, Perry (Chairman), J Sams, Titchener (Parish Representative), Trzebinski and de Wiggondene-Sheppard

The Chairman will assume that all Members will read the reports before attending the meeting. Officers are asked to assume the same when introducing reports.

AGENDA

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1. Apologies for Absence
2. Notification of Substitute Members
3. Urgent Items
4. Notification of Visiting Members
5. Disclosures by Members and Officers
6. Disclosures of Lobbying
7. To consider whether any items should be taken in private because of the possible disclosure of exempt information
8. Minutes of the meeting held on 17 January 2022 1 - 8
9. Question and answer session for members of the public (if any)
10. Questions from Members to the Chairman (if any)
11. Complaints Received Under the Members' Code of Conduct 9 - 13
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14. Internal Audit and Assurance Report 2022/23 35 - 48

Issued on Friday 4 March 2022

Continued Over/:

Alison Broom

Alison Broom, Chief Executive

INFORMATION FOR THE PUBLIC

In order to ask a question at this meeting in person or by remote means, please call **01622 602899** or email committee@maidstone.gov.uk by 5 p.m. one clear working day before the meeting (i.e. by 5 p.m. on Thursday 10 March 2022). You will need to provide the full text in writing.

If your question is accepted, you will be provided with instructions as to how you can access the meeting.

In order to make a statement in relation to an item on the agenda, please call **01622 602899** or email committee@maidstone.gov.uk by 5 p.m. one clear working day before the meeting (i.e. by 5 p.m. on Thursday 10 March 2022). You will need to tell us which agenda item you wish to speak on.

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MAIDSTONE BOROUGH COUNCIL

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

MINUTES OF THE MEETING HELD ON 17 JANUARY 2022

Present: Councillor Perry (Chairman) and Councillors Bartlett, Brindle, Coulling (Parish Representative), Cuming, Fissenden, J Sams, Trzebinski and Titchener (Parish Representative)

Also Present: Mr Trevor Greenlee – Grant Thornton (External Auditor)

59. APOLOGIES FOR ABSENCE

It was noted that apologies for absence had been received from Councillors Daley and de Wiggondene-Sheppard.

Councillor J Sams left the meeting at the conclusion of this item (6.35 p.m.).

60. MR ANDREW TOWNSEND

The Chairman welcomed Mr Andrew Townsend, the Interim Head of Internal Audit Partnership, to his first meeting of the Committee.

61. NOTIFICATION OF SUBSTITUTE MEMBERS

There were no Substitute Members.

62. URGENT ITEMS

There were no urgent items.

63. NOTIFICATION OF VISITING MEMBERS

There were no Visiting Members.

64. DISCLOSURES BY MEMBERS AND OFFICERS

There were no disclosures by Members or Officers.

65. DISCLOSURES OF LOBBYING

There were no disclosures of lobbying.

66. EXEMPT ITEMS

RESOLVED: That the items on the agenda be taken in public as proposed.

67. MINUTES OF THE MEETING HELD ON 15 NOVEMBER 2021

RESOLVED: That the Minutes of the meeting held on 15 November 2021 be approved as a correct record and signed.

68. QUESTION AND ANSWER SESSION FOR MEMBERS OF THE PUBLIC

There were no questions from members of the public.

69. QUESTIONS FROM MEMBERS TO THE CHAIRMAN

There were no questions from Members to the Chairman.

70. COMMITTEE WORK PROGRAMME 2021/22

The Committee considered its work programme for the remainder of the Municipal Year 2021/22.

RESOLVED: That the Committee work programme for the remainder of the Municipal Year 2021/22 be noted.

71. EXTERNAL AUDITOR'S PROGRESS REPORT AND SECTOR UPDATE

Mr Trevor Greenlee of Grant Thornton presented the External Auditor's report providing an update on progress with the audit of the 2020/21 financial statements and a summary of emerging national issues and developments of relevance to the local government sector.

Mr Greenlee advised the Committee that:

- Grant Thornton's Audit Findings Report was presented to the Committee at its meeting on 15 November 2021. At that time, it was explained that although substantial progress had been made in most areas, changes were required because of a historic issue involving a prior period adjustment in the financial statements. The Council provided a revised set of accounts including that adjustment in December 2021 and a further version the previous week. The External Auditor was currently reviewing the most recent and the earlier versions of the revised accounts and the accompanying working papers and would engage with the Finance Team if there were further issues in relation to those amendments.
- As a result of the review process, the External Auditor had identified some areas where further information was required and would work with the Finance Team to progress that as quickly as possible.

- Subject to progress regarding outstanding queries, the External Auditor was aiming to issue the audit opinion on the 2020/21 financial statements by 31 January 2022.
- The External Auditor's review of the Council's 2020/21 Housing Benefit Subsidy claim was also currently in progress.

In response to a question, Mr Greenlee explained that although it was the External Auditor's aim to complete the audit by 31 January 2022, that would depend upon progress with the outstanding issues over the next few weeks.

The Chairman expressed disappointment and concern that the audit was taking so long and that the accounts had still not been formally signed off. He sought assurance that the audit would be completed by 31 January 2022 and with a satisfactory outcome.

Mr Greenlee said that he fully understood the wish to complete the audit as quickly as possible and it was the External Auditor's aim to do so by 31 January 2022. However, that would depend on progress with the outstanding review queries, and he could not give a commitment that the audit would be completed by 31 January 2022.

Arising from a request for more information about the reasons for the delay, Mr Greenlee explained that until the External Auditor had got to the point of reviewing all work, it was difficult to provide a definitive list of queries. In terms of the actual outstanding queries, he did not think any were of a fundamental or particularly complex nature which would start a whole chain of events.

The Chairman said that he had every confidence in the Council's Finance Team and hoped that the External Auditor would work to conclude the audit as a top priority as it was a matter of importance to the Council.

RESOLVED: That subject to the concerns expressed during the discussion about the delay in concluding the 2020/21 audit, the External Auditor's progress report and sector update, attached as Appendix 1 to the report of the Head of Finance, be noted.

72. TREASURY MANAGEMENT, INVESTMENT AND CAPITAL STRATEGIES 2022/23

The Finance Manager introduced his report setting out the draft Treasury Management, Investment and Capital Strategies for 2022/23. It was noted that:

- The Strategies were based upon the proposed Capital Programme which totalled £233m over the next five years and would be discussed at the meeting of the Policy and Resources Committee on 19 January 2022.

- The proposal for next year was to utilise balances as far as possible and to increase short-term and long-term borrowing to support the Capital Programme.
- The Capital Programme was escalating, and potential external borrowing would increase over the next five years to approximately £216m with a capital financing requirement of £274m. It was anticipated that next year's borrowing would increase by £20m and the operational and authorised limits for external debt were set at £57m and £67m respectively. The Council was also looking into forward borrowing options due to low interest rates in the borrowing markets.
- Treasury investments were likely to fluctuate between £10m and £55m next year.
- Investments would be short-term, but there was provision in the strategy to invest £2m for over a year if rates became favourable and the funding was available at the time.
- There would be a balance of £1.2m at the end of 2022/23 in respect of service loans, including provision of £1m for Maidstone Property Holdings Limited to undertake refurbishments to various properties it currently leased from the Council.
- In response to a question at the last meeting, it was considered that using the Government's Debt Management Office (DMO) in place of money market funds would be more of an administrative burden for no extra financial gain. The DMO did not offer accounts which would allow the Council to recall funds daily to meet its cash flow liabilities. Fixed term deposits were required. Rates were around 0% while money market funds were gradually increasing. Money market funds were AAA rated funds whilst the DMO was currently AA-.

In response to questions, the Director of Finance and Business Improvement advised the Committee that:

- He would be happy to meet with Members to discuss the Strategies in more detail. The length of the report reflected the additional requirements put on Councils regarding the reporting of treasury management following the Icelandic banking crash. However, he would look at how the information might be summarised in an easily digestible form in future. Table 2 on page 111 of the agenda showed how it was planned to fund capital expenditure in each year as projected from 2022/23 onwards, including the use of the Council's own resources and external borrowing. The Council was obliged to ensure that any borrowing was sustainable so, for example, in the case of the affordable housing programme, which was the biggest component, the Officers would be putting a business case to Members showing how the borrowing could be supported through the revenue generated from that housing.

- There were no plans to show as separate figures the self-financing elements of capital projects. The risk associated with the deliverability of the Capital Programme was acknowledged and it was now given a higher rating in the risk assessment of the Budget Strategy. The Officers were looking at measures to mitigate the risk.
- The difficulty associated with the main source of borrowing (the Public Works Loan Board) was that it was only available at the point that it would be delivered and there was a stipulation about not borrowing in advance of need. However, there were alternatives in the market, such as pension funds, which were being actively explored; types of entity that would be interested in fixing the rate today without the Council having to draw down the funds until some point in the future. This would also provide the opportunity to lock into current interest rates.
- Rather than placing money with just one counterparty, it was safer to spread the risk across several counterparties. He did not consider this to be a time-consuming exercise for the Officers.
- When preparing budget projections for the Medium-Term Financial Strategy, the Officers did test different scenarios, including one addressing the risk of continuing high inflation.
- Whilst the further investment at Lockmeadow did generate a financial return, it was intended to boost the economy of the Borough in line with the Council's strategic objective of making Maidstone a thriving place.
- The minimum revenue provision was the minimum amount the Council must charge to its revenue budget each year for repaying external borrowing. It was treated like depreciation in the preparation of the accounts but from the perspective of debt repayment.
- In terms of the implications of the revised CIPFA Treasury Management and Prudential Codes, there were implications such as ESG issues within the Capital Strategy which needed to be addressed, but most requirements/amendments were covered already.
- It was for the Council to set its counterparty limits having regard to the advice of its Treasury Management advisors and credit ratings did provide a good starting point for the assessment of financial risk.
- When drawing up the Capital Programme, the Officers made provision for possible future spending but decisions about individual schemes would be made by Members.
- The Council was borrowing more than it needed in order to keep a cash float for liquidity purposes. The proportion of financing costs to the net revenue stream was set out in table 9 on page 17 of the Capital Strategy, rising to 18.5% in 2026/27. 20% was probably the maximum in terms of gearing.

Arising from the discussion, the Finance Manager undertook to:

- Amend the table set out in section 3.1 of the Treasury Management Strategy summarising the Council's forward projections for borrowing to include an extra line to cover the minimum revenue provision; and
- Amend table 1 set out on page 3 of the Investment Strategy relating to loans for service purposes to update the approved limit for local charities in 2022/23.

RESOLVED:

1. That subject to the minor amendment arising from the discussion, the Treasury Management Strategy for 2022/23, attached as Appendix A to the report of the Finance Manager, be agreed and recommended to the Council for adoption subject to any amendments arising from consideration of the Capital Programme by the Policy and Resources Committee at its meeting on 19 January 2022.
2. That subject to the minor amendment arising from the discussion, the Investment Strategy for 2022/23, attached as Appendix B to the report of the Finance Manager, be agreed and recommended to the Council for adoption.
3. That the Capital Strategy for 2022/23, attached as Appendix C to the report of the Finance Manager, be agreed and recommended to the Council for adoption.

73. **EXTERNAL AUDIT PROCUREMENT**

The Director of Finance and Business Improvement introduced his report setting out the options for the procurement of External Auditors for the financial years 2023/24 to 2027/28.

The Director of Finance and Business Improvement advised the Committee that:

- 2022/23 was the final year of the existing External Audit contract and it was now necessary for the Council to decide on the arrangements for 2023/24 and subsequent years. The options were to procure independently (or in conjunction with other authorities) or to accept an invitation from Public Sector Audit Appointments Ltd (PSAA) to opt into an outsourced procurement.
- In July 2016 the Secretary of State specified PSAA, a subsidiary of the Local Government Association, as an appointing person responsible for appointing an auditor and setting scale fees for relevant principal authorities that had chosen to opt into its national scheme.
- The recommendation was that the Council accept the invitation from PSAA to become an opted-in authority for the following reasons:

The administration of procurement would be outsourced, leading to a significant saving in Council time and resources;

Management of the audit contract would be outsourced, again leading to a significant saving in Council effort;

PSAA was better placed than the Council to achieve good value for money from the procurement, owing to its dominant position in the market place;

Outsourcing external audit procurement to PSAA provided assurance that the Council's statutory obligation to have an external audit would be met;

PSAA had published a Procurement Strategy which reflected lessons learned from the operation of the initial five-year outsourced contracts, for example by placing greater emphasis on quality versus cost when making appointments; and

Whilst there had been serious issues about the delivery of audits over the past four years such as late opinions, lack of skilled and experienced audit staff, increasing demand on Officer time to service audits, low fees but frequent supplements, it was considered that a sector-wide approach to addressing these, led by PSAA, was more likely to improve standards.

In response to questions, the Director of Finance and Business Improvement explained that:

- It was the responsibility of PSAA to allocate auditors to individual authorities.
- In terms of an audit supplier having a pre-existing relationship with an opted-in body which prevented it from accepting an audit appointment, he did not think auditing the pension fund which was a separate entity was an example of something which would rule the auditor out.
- To comply with the legislation, it was necessary for the Council to appoint an auditor to audit its accounts for a financial year by no later than 31 December in the preceding financial year.

RESOLVED to RECOMMEND to COUNCIL: That an invitation from Public Sector Audit Appointments to become an opted-in authority, in accordance with the decision-making requirements of the Local Audit (Appointing Person) Regulations 2015, be accepted.

74. BUDGET STRATEGY - RISK ASSESSMENT UPDATE

The Committee considered the report of the Director of Finance and Business Improvement providing an update on the budget risks facing the Council. It was noted that current monitoring indicated that in-year

financial performance in 2021/22 remained in line with budget. Budget proposals for 2022/23 currently being presented to Service Committees would, if agreed, also allow a balanced budget to be achieved for next year. However, future years' performance remained subject to a range of risks, including continued high inflation, the impact on third party income from further pandemic outbreaks, and challenges in delivering the Capital Programme when materials and labour are scarce.

During the discussion, reference was made to the risks associated with higher levels of inflation, particularly in relation to the funding of the Capital Programme and the implications for specific projects. It was also suggested that risk P relating to the financial impact of a resurgence of Covid-19 should be qualified on the basis that the Government might not be prepared to mitigate that impact in future.

In response to a question, the Director of Finance and Business Improvement said that consideration would be given to including long term liabilities in relation to the pension fund in the risk register going forward.

RESOLVED: That subject to the points raised in the discussion, the updated risk assessment of the Budget Strategy, attached as Appendix A to the report of the Director of Finance and Business Improvement, be noted.

75. MS ELLIE DUNNET

The Chairman said that Ellie Dunnet, Head of Finance, would be leaving the Council later that week to take up a new position elsewhere. On behalf of the Committee, the Chairman thanked Ms Dunnet for her work and support over the years and wished her all the very best for the future.

76. DURATION OF MEETING

6.30 p.m. to 7.55 p.m.

Audit, Governance & Standards Committee
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14 March 2022

Complaints Received Under the Members' Code of Conduct

Final Decision-Maker	Audit, Governance & Standards Committee
Lead Head of Service	Claudette Valmond – Interim Head of Legal Partnership
Lead Officer and Report Author	Gary Rowland – Senior Legal Adviser, Corporate Governance
Classification	Public
Wards affected	All

Executive Summary

The report provides an update to the Committee on complaints under the Members' Code of Conduct previously reported as under consideration and received in the period 1 September 2021 to 28 February 2022.

This report makes the following recommendations to this Committee:

1. That the contents of the report be noted.

Timetable

Meeting	Date
Audit, Governance & Standards Committee	14 March 2022

Complaints Received Under the Members' Code of Conduct

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	High standards of conduct are essential amongst Members in delivering the Council's priorities. The Code of Conduct complaints procedure supports this.	Senior Legal Adviser – Corporate Governance
Cross Cutting Objectives	No impact.	Senior Legal Adviser – Corporate Governance
Risk Management	The report is presented for information only and has no risk management implications. An effective and robust Code of Conduct complaints procedure minimises the risk of Member misconduct and is part of an effective system of governance.	Senior Legal Adviser – Corporate Governance
Financial	There are no direct financial implications; however, should it be necessary to appoint external Independent Investigators, the cost of this will be met by the Borough Council.	Senior Legal Adviser – Corporate Governance
Staffing	The complaints procedure is dealt within the remit of the Monitoring Officer with input from the Legal team as required.	Senior Legal Adviser – Corporate Governance
Legal	The requirements of the Localism Act 2011 with regards to the Code of Conduct complaints procedure are set out within the report. The reporting process ensures that the Committee continues its oversight of the Code of Conduct as required by the Constitution.	Senior Legal Adviser – Corporate Governance
Privacy and Data Protection	No personal information is provided as part of the report.	Senior Legal Adviser – Corporate Governance
Equalities	The recommendations do not propose a change in service therefore will not require an equalities impact assessment	Equalities & Communities Officer
Public Health	None identified in the report.	Senior Legal Adviser – Corporate Governance

Crime and Disorder	None identified in the report.	Senior Legal Adviser – Corporate Governance
Procurement	None identified in the report.	Senior Legal Adviser – Corporate Governance
Biodiversity and Climate Change	None identified in the report.	Senior Legal Adviser – Corporate Governance

2. INTRODUCTION AND BACKGROUND

- 2.1 It is a requirement under the Localism Act 2011 that all Councils adopt a Code of Conduct and that the Code adopted must be based upon the Nolan Principles of Conduct in Public Life. The current Members’ Code of Conduct (“the Code”) for Maidstone Borough Council is set out in the Constitution.
- 2.2 The Localism Act 2011 requirement to adopt a Code of Conduct also applied to all Parish Councils. Most Parish Councils in the Maidstone area have adopted a similar Code of Conduct to the Borough Council, based on a Kent wide model. A few Parish Councils have adopted their own particular Code.
- 2.3 Under the Localism Act 2011 Maidstone Borough Council is responsible for dealing with any complaints made under the various Codes of Conduct throughout the Maidstone area.
- 2.4 The Constitution stipulates that oversight of Code of Conduct complaints is part of the remit of the Audit, Governance and Standards Committee.
- 2.5 As part of the Committee’s oversight function it is agreed that the Monitoring Officer will provide reports on complaints to the Audit, Governance & Standards Committee. It should be noted that the Localism Act 2011 repealed the requirement to publish decision notices; therefore in providing the update to the Committee the names of the complainant and the Councillor complained about are both kept confidential in accordance with the Data Protection Act 2018. Whilst personal data is kept confidential, the report now highlights why those complaints that were rejected, did not establish a breach of the Code as requested during the meeting in September 2021.
- 2.6 Since the last report to this Committee on 28 September 2021, 4 existing Borough Councillor complaints have been concluded as follows:
- Allegation – 3(2)(a) you must not conduct yourself in a manner which could reasonably be regarded as bringing your office or authority into disrepute.

No breach was established. Complaint met part (e) of the Legal Jurisdiction Test – ‘if the facts could be established as a matter of evidence, could the alleged conduct be capable of a breach of the Code of Conduct?’

The Subject Member’s comments during a robust debate were not considered to be inappropriate.

- Allegations - 3(2)(a) you must not bully any person and 3(2)(f) you must not conduct yourself in a manner which could reasonably be regarded as bringing your office or the Authority into disrepute.

No breach was established. Complaint met part (e) of the Legal Jurisdiction Test – ‘if the facts could be established as a matter of evidence, could the alleged conduct be capable of a breach of the Code of Conduct?’ The complaint also met part (f) of the Local Assessment Criteria – ‘the complaint is relatively minor and dealing with the complaint would have a disproportionate effect on both public money and officers’ and Members’ time.’

The alleged behaviour of the Subject Member did not correspond with the recording of the Council meeting.

- Allegation - 3(2)(f) you must not conduct yourself in a manner which could reasonably be regarded as bringing your office or the Authority into disrepute.

No breach was established. Complaint met part (e) of the Legal Jurisdiction Test – ‘if the facts could be established as a matter of evidence, could the alleged conduct be capable of a breach of the Code of Conduct?’

Comments made by the Subject Member were not considered to be offensive or personal. General advice was given around considering the perception of comments made in future.

- Allegations - 3(2)(a) – you must not bully any person, 3(2)(c) – you must not do anything that compromises, or is likely to compromise, the impartiality or integrity of those who work for, or on behalf of, the Authority, 3(2)(f) – you must not conduct yourself in a manner which could reasonably be regarded as bringing your office or the Authority into disrepute and 3(2)(g) – you must not use or attempt to use your position as a Councillor improperly to confer on or secure for yourself or any other person, an advantage or disadvantage.

No breach was established. Complaint met part (c) of the Legal Jurisdiction Test – ‘was the person complained of acting in an official capacity at the time of the alleged conduct?’

No evidence was provided that showed the Subject Member was acting in an official capacity.

Since the last report, 5 new complaints have been received against parish councillors. These complaints are currently being considered by the Interim Monitoring Officer and will be reported on in the next report.

3. AVAILABLE OPTIONS

- 3.1 The Committee could decide that they no longer wish to receive the updates on complaints under the Code of Conduct. This is not recommended as it is part of the Committee's general oversight function.
 - 3.2 That the Committee note the update on complaints received under the Members' Code of Conduct.
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4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 Option 3.2 that the Committee note the update on complaints received under the Members' Code of Conduct is recommended as it is important that the Committee continue to oversee the complaints received.
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5. RISK

- 5.1 This report is presented for information only and has no risk management implications.

6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 6.1 Members of the Audit, Governance & Standards Committee and the Independent Person will be consulted on individual complaints, as and when necessary, in accordance with the relevant complaints procedure.
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7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 7.1 As the report is for information only, no further action will be taken.
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8. REPORT APPENDICES

None.

9. BACKGROUND PAPERS

None.

Agenda Item 12

Audit, Governance and Standards Committee

14 March 2022

Statement of Accounts 2020/21

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

Executive Summary

This report provides the committee with an update on progress with the audit of the 2020/21 financial statements.

Purpose of Report

Noting.

This report makes the following recommendations to this Committee:

1. That the report be noted.

Timetable

Meeting	Date
Audit, Governance and Standards Committee	14 March 2022

Statement of Accounts 2020/21

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	We do not expect the recommendations will by themselves materially affect achievement of corporate priorities. However, they will support the Council's overall achievement of its aims in demonstrating accountability and value for money.	Director of Finance and Business Improvement
Cross Cutting Objectives	There is no specific implication, however sound financial management does support the delivery of the Council's cross cutting objectives.	Director of Finance and Business Improvement
Risk Management	This is detailed within section 5.	Director of Finance and Business Improvement
Financial	The Statement of Accounts provides an overview of income and expenditure for the financial year to 31 March 2021, and details the council's assets, liabilities and reserves at this date. The work of the external auditor aims to provide independent assurance over this document.	Director of Finance and Business Improvement
Staffing	No implications identified.	Director of Finance and Business Improvement
Legal	Under section 151 of the Local Government Act (LGA 1972), the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including advising on the corporate financial position and providing financial information. It is a function of the Audit, Governance and Standards Committee to review and approve the annual statement of accounts and to consider if appropriate accounting policies have been followed and whether there are concerns arising from the	Director of Finance and Business Improvement

	financial statements or from the audit that need to be brought to the attention of the Policy and Resources Committee or Council.	
Privacy and Data Protection	No implications identified.	Director of Finance and Business Improvement
Equalities	No implications identified.	Director of Finance and Business Improvement
Public Health	No implications identified.	Director of Finance and Business Improvement
Crime and Disorder	No implications identified.	
Procurement	No implications identified.	Director of Finance and Business Improvement
Biodiversity and Climate Change	The implications of this report on biodiversity and climate change have been considered and there are no direct implications on biodiversity and climate change.	Director of Finance and Business Improvement

2. INTRODUCTION AND BACKGROUND

- 2.1 In accordance with Accounts and Audit Regulations, the Council was required to have its audited Statement of Accounts for the 2020/21 financial year approved by the Audit, Governance and Standards Committee by 30 September 2021. This did not happen, and although the accounts have now been approved by the Committee, auditors Grant Thornton have still not issued an opinion as at the time of writing this report. The background is set out in the following paragraphs.
- 2.2 The draft financial statements were prepared by the finance team and presented to this committee at its meeting in July 2021, with audit fieldwork commencing in late August. An updated version of the statements was then presented to the committee at its meeting on 28 September 2021. At this time, Grant Thornton advised that insufficient work had been completed to issue an audit opinion by the statutory deadline of 30 September, but they anticipated that outstanding work would be completed during October 2021.

- 2.3 The updated Statement of Accounts and Grant Thornton’s Audit Findings Report were presented to the committee at its meeting on 15 November 2021. The Audit Findings Report stated that the audit was substantially complete and Grant Thornton anticipated issuing an unmodified audit report. Some further adjustments relating to the capital accounting entries were anticipated, and the committee approved the accounts subject to the satisfactory resolution of these issues by the Director of Finance and Business Improvement in consultation with the Chairman of the Committee.
- 2.4 An update from Grant Thornton was provided at the committee’s meeting on 17 January 2022. This stated that ‘subject to the completion of outstanding work we anticipate giving our audit opinion on the 2020/21 financial statements by 31 January 2022’.
- 2.5 The Director of Finance and Business Improvement and the team have provided answers to all the auditors’ queries promptly throughout this process. We are not aware of any contentious issues that might cause a delay in issuing an audit opinion. However, as of the time of writing, an opinion has not been issued.
- 2.6 Mr Paul Dossett of Grant Thornton has been invited to this meeting so that members may raise any questions if an audit opinion is still not forthcoming as of the date of the meeting.
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3. AVAILABLE OPTIONS

- 3.1 Committee members are asked to note this report.
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4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 The report is for noting only.
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5. RISK

- 5.1 Risks have been considered with reference to the Council’s risk management framework, and are considered to be within acceptable levels.
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6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 6.1 Members of the public have legal rights to inspect, ask questions about and challenge items in the Council’s accounts. Details of this were published on the Council’s website and the statutory period ended on 10 September 2021. One enquiry was received regarding Covid Grants and rent deferrals, and this has been dealt with.
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7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

7.1 To be discussed at the meeting.

8. REPORT APPENDICES

None

9. BACKGROUND PAPERS

None

Audit, Governance & Standards Committee

14th March 2022

Risk Management Annual Report – 2021-22

Final Decision-Maker	Audit, Governance & Standards Committee
Lead Head of Service	Mark Green – Director of Finance and Business Improvement
Lead Officer and Report Author	Alison Blake – Interim Deputy Head of Audit
Classification	Public
Wards affected	All

Executive Summary

The Audit, Governance & Standards Committee is required to provide oversight of the Council’s risk management arrangements and to seek assurances that the processes are working effectively. This report, which is presented annually, sets out the details of how the risk management processes have been working across the Council, and the work plan for the upcoming year.

Purpose of Report

The purpose of this report is to provide assurance to Members on the Council’s risk management arrangements. As those charged with governance, the Committee must seek assurance over the effectiveness of the operation of the process as required through its Terms of Reference.

This report makes the following recommendations to this Committee:

1. That the Risk Management Annual Report (Appendix 1) is **discussed** and **noted**.

Timetable

Meeting	Date
Audit, Governance & Standards Committee	14 th March 2022

Risk Management Annual Report – 2021-22

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	We do not expect the recommendations will by themselves materially affect achievement of corporate priorities. However, risk management is a key component in the Council's governance. Good governance underpins everything that the Council does.	Alison Blake – Interim Deputy Head of Audit
Cross Cutting Objectives	We do not expect the recommendations will by themselves materially affect achievement of corporate priorities. However, risk management is a key component in the Council's governance. Good governance underpins everything that the Council does.	Alison Blake – Interim Deputy Head of Audit
Risk Management	Risk management is the focus of this paper.	Alison Blake – Interim Deputy Head of Audit
Financial	Risk management support is provided through the Mid Kent Audit partnership within existing budgets. This decision therefore has no direct financial implications. In general, effective risk management contributes towards strong financial governance and controls in the Council.	Section 151 Officer & Finance Team
Staffing	There are no staffing implications to this decision.	Alison Blake – Interim Deputy Head of Audit
Legal	The Accounts and Audit Regulations 2015 require the Council to have a sound system of control which includes arrangements for the management of risk. This report is part of those arrangements and is designed to ensure that the appropriate controls are effective.	Interim Deputy Head of Legal Partnership
Privacy and Data Protection	This is a report in the public domain, and there are no associated privacy or data protection implications.	Policy and Information Team
Equalities	This report does not describe circumstances which require an Equality Impact Needs Assessment.	Equalities & Communities Officer

Public Health	While public health risks may be identified and reported through the risk management processes there are no public health implications for this report.	Public Health Officer
Crime and Disorder	While crime and disorder risks may be identified and reported through the risk management processes there are no crime and disorder implications for this report.	Head of Service or Manager
Procurement	While procurement risks may be identified and reported through the risk management processes there are no procurement implications for this report.	Head of Service & Section 151 Officer
Biodiversity and Climate Change	While biodiversity and climate change risks may be identified and reported through the risk management processes there are no biodiversity and climate change implications for this report.	Biodiversity and Climate Change Officer

2. INTRODUCTION AND BACKGROUND

- 2.1 Risk management is the process undertaken to identify, evaluate and manage risks. In early 2016 the Council implemented a risk management framework designed to improve the risk management process. This included reporting and monitoring mechanisms for key risk information to be communicated to Senior Officer and Member level. This framework was reviewed and updated in April 2019 to ensure that it remains fit for purpose and current.
- 2.2 The Audit, Governance & Standards Committee is required to provide oversight of the Council's risk management arrangements and to seek assurances that the processes are working effectively. This report, which is presented annually, sets out the details of how the risk management processes are working across the Council.

3. AVAILABLE OPTIONS

- 3.1 In order for any risk management process to be effective it is vital that risk information is reported, that risks are monitored and that action is taken to manage risks to an acceptable level. Reporting risks to Members is necessary to provide assurance that risks are being managed.
- 3.2 An alternative option would be to not report or monitor risks, but this would counter the effectiveness of the process, and would go against the terms of reference for this Committee.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 Effective risk management is a key component of sound governance. This Committee, as those charged with governance, must gain assurance that the Council is operating an effective risk management process, and that risks are being managed.
- 4.2 We therefore propose that the Committee discusses and notes the arrangements in place, providing any comments as required on the operation of the risk management process.
-

5. RISK

- 5.1 This report is presented for information only and in itself has no risk management implications. The work that it describes helps to contribute towards effective risk management.

6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 6.1 The risk management framework was designed and updated through consultation with Corporate Leadership Team. All risk owners have been involved in the identification and assessment of the risks on the register.
-

7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 7.1 Unless requested otherwise, we will continue to report annually on the Council's Risk Management processes.
-

8. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Appendix 1: Annual Risk Management Report – 2021-22
-

9. BACKGROUND PAPERS

The risk management framework was reported to Policy and Resources Committee in April 2019 and is publicly available on the Council's [website](#).

MID KENT AUDIT

Risk Management Annual Report

Audit, Governance & Standards Committee

March 2022

Introduction

Effective risk management sits at the heart of the Council and is a cornerstone of good governance. The risk management framework and processes enable us to be aware of risks on the horizon and to understand their severity and likelihood. By understanding our risks, we can better plan and prepare, this in turn, increases our ability to deliver and achieve our ambitions and objectives.

The purpose of this report is to provide assurance to Members of Audit, Governance and Standards Committee, that the Council has effective risk management arrangements in place. Moreover, that risks identified through this process are managed and monitored appropriately. This assurance is vital to enable the Committee to fulfil the responsibilities as set out in the Terms of Reference:

“In conjunction with Policy and Resources Committee to monitor the effective development and operation of risk management and corporate governance in the Council to ensure that strategically the risk management and corporate governance arrangements protect the Council.”

Roles & Responsibilities

We (Mid Kent Audit) are responsible for facilitating and coordinating the risk management processes across the Council. Our role includes regular reporting to Officers and Members, through the Corporate Leadership Team (CLT), Policy & Resources Committee and the Audit, Governance & Standards Committee. We also provide workshops, training, and facilitate the effective management of risks across all levels of the Council.

Having valuable and up to date risk information enables both Executive and oversight functions to happen effectively. The Policy & Resources Committee has overall responsibility for the risks identified through the risk process and will review the substance of individual risks to ensure that issues are appropriately monitored and addressed.

As those charged with governance and oversight the Audit, Governance & Standards Committee are required to seek assurance that the Council is **operating** an effective risk management process.

The Risk Process

As a Council we define risk as a **potential future event that, if it materialises, effects the achievement of our objectives**. Risk management is a continuous process which primarily seeks to identify and understand those things that are uncertain. The regular and ongoing monitoring of risks is vital in ensuring that we are responding to the risks in the right way and that our resources are deployed and focussed on the biggest issues.

The Risk Management Framework is the guide that sets out how the Council identifies, manages, and monitors uncertainty. This includes a clear risk appetite statement articulating the Council's tolerance to risk. The framework was reviewed, updated and approved by Policy and Resources Committee in April 2019. The risk management process can be illustrated as follows:



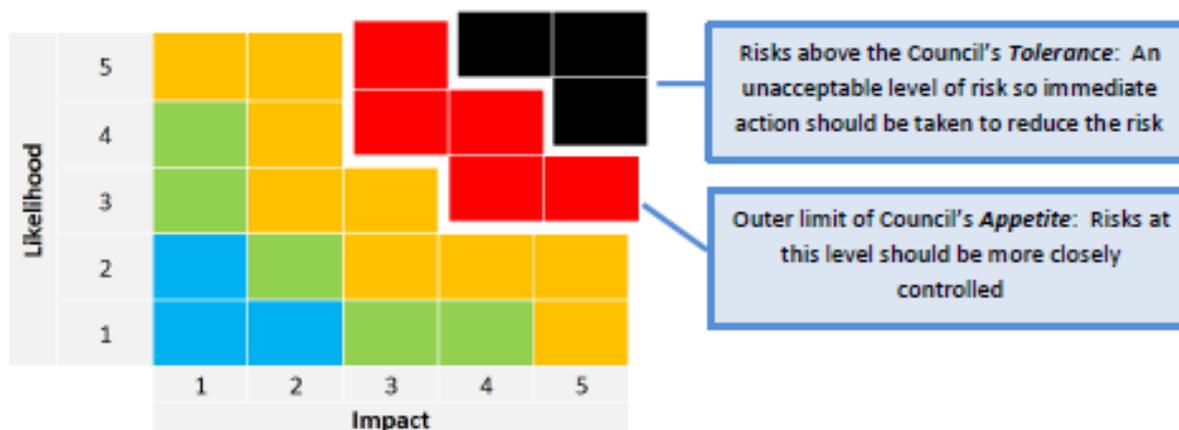
Since a risk is an event that could affect the achievement of the Council's *objectives*, the process starts with considering what the corporate or service objectives are. Consideration is then given to what could happen in the future to affect the achievement of these objectives.

Once identified risks are then *evaluated*, with risk owners understanding how big the **current** risk is by considering:

- The existing controls which are already in place to manage the risk
- How severely the organisation would be affected if the risk occurs (the impact)
- The possibility of the risk materialising and becoming an event that needs managing (the likelihood)

Appendix a includes the definitions used to guide the impact and likelihood evaluations and ensure consistency in measuring risks.

The next step is to determine what, if any, action will be taken to *respond* to the risk. The baseline level of response is determined by the Council’s risk tolerance and appetite, which are illustrated as follows:



The following table outlines what risk owners should do to respond to their identified risks:

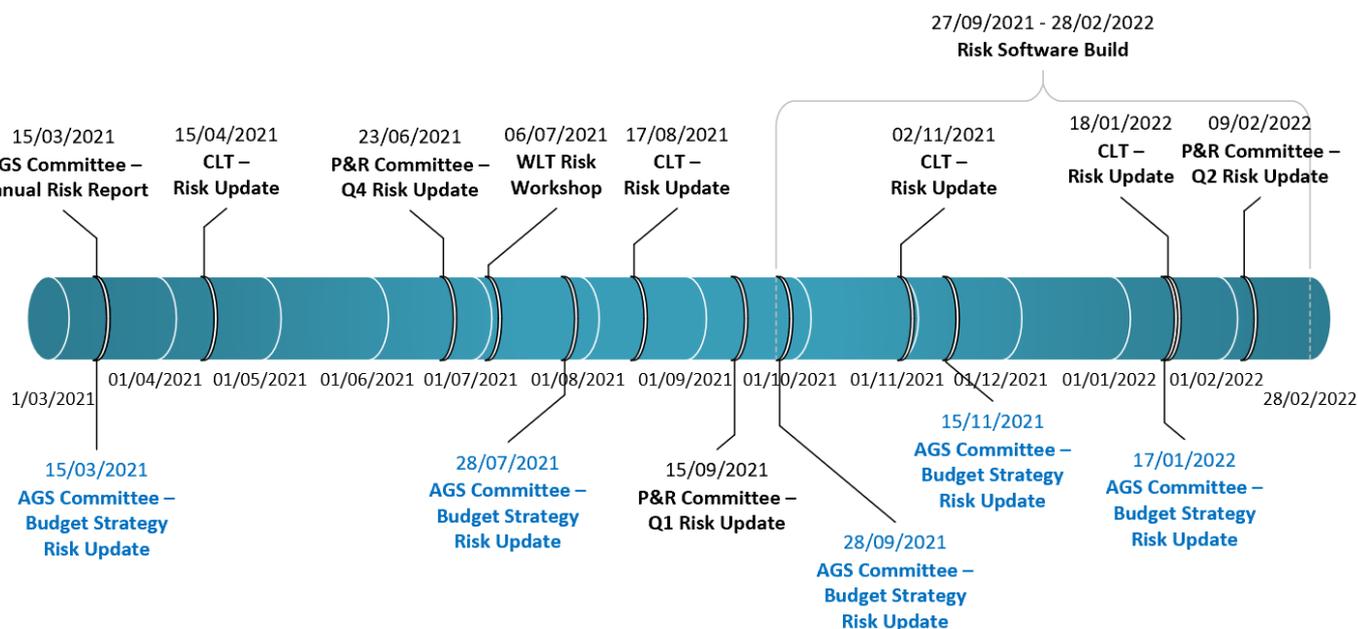
20-25	Identify the actions and controls necessary to manage the risk down to an acceptable level. Risks of this level are regularly reported and monitored by Corporate Leadership Team.
12-16	Identify controls to treat the risk impact / likelihood and seek to bring the risk down to a more acceptable level. Risk of this level are reported and monitored by Corporate Leadership Team each quarter.
5-10	Keep these risks on the radar and update as and when changes are made, or if controls are implemented. Movement in risks should be monitored, for instance featuring as part of a standing management meeting agenda.
3-4	Keep these risks on your register and formally review at least once a year to make sure that the impact and likelihood continues to pose a low level.
1-2	No actions required but keep the risk on your risk register and review annually as part of the service planning process.

Where necessary planned actions should be documented, and the impact and likelihood scores reassessed to determine the **mitigated** risk.

All identified risks and associated information are captured in the Council’s comprehensive risk register. This is used to *monitor and report* on risks to ensure action is being taken as necessary and changes are captured in updates to the risks. Appendix b summarises the overall process and step 4 outlines the routine risk reporting.

2020-21 Risk Processes In Action

The risk management processes outlined in the Framework have been in operation throughout the year, and the following timeline summarises the work completed:



A **Risk Workshop** was run with WLT and CLT during the summer. The workshop considered future threats to the delivery of our priorities for 2021 and reviewed the Council’s corporate risks. From this a number of external threats were identified and the corporate risk register was updated. Routine risk updates to CLT and Policy & Resources Committee include, in addition to the risk profiles and key risk details, external threats on the horizon. This provides an opportunity for the Council to consider what risks may be emerging – hopefully allowing us to identify any pandemic-scale risks.

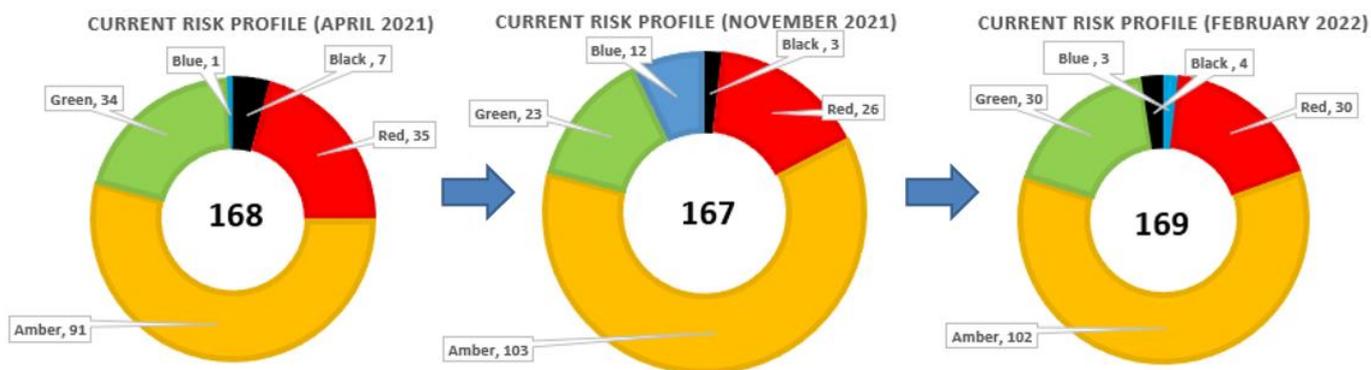
To remain effective risk management should be fully integrated across the organisation. It needs to be a valuable tool to help services meet objectives, to be proportionate and to add insight and value. Our existing risk management processes are admin intensive, restricting the time available for further work to embed risk across the Council. Furthermore, current processes require the prompting of risk leads to ensure risk information remains up to date, and services / senior management do not have ‘live’ access to their risk information. To address these issues **risk management software called JCAD** was purchased. The software has been built to reflect the Council’s risk management processes so that it is tailored to the Council’s approach. The roll out of the system can happen once the new interface (‘Core 5’) has been released by JCAD - this is planned for completion in the next couple of weeks.

During December 2021 the Council’s insurers Zurich performed a **desktop review of the Framework** and how risk information is reported. The report concluded that good arrangements are in place with *“evidence of a strong process led by the audit function as the key conduit for the flow of information.”* Recommendations were made to enhance risk management processes and a lot of these will be addressed through implementation of the JCAD software. The remaining recommendations have been incorporated into the 2022-23 work plan. While recommendations to improve the Councils’ risk management processes

were made the report concludes that: *“These comments don’t take away from the overall impression of strong framework with solid processes .. and engagement from senior leadership as well as service leaders.”*

The Director of Finance and Business Improvement routinely reports a **budget strategy risk update** that considers factors likely to affect the Council’s budget position. This has been reviewed and updated during the year in line with the Risk Management Framework.

The following diagram depicts the risk profile last reported to Audit Committee in March 2021 and how it has changed during the year. The **current** rating is the risk to the Council assuming all existing controls are working as expected to manage the risk.



Corporate Risk Portfolio

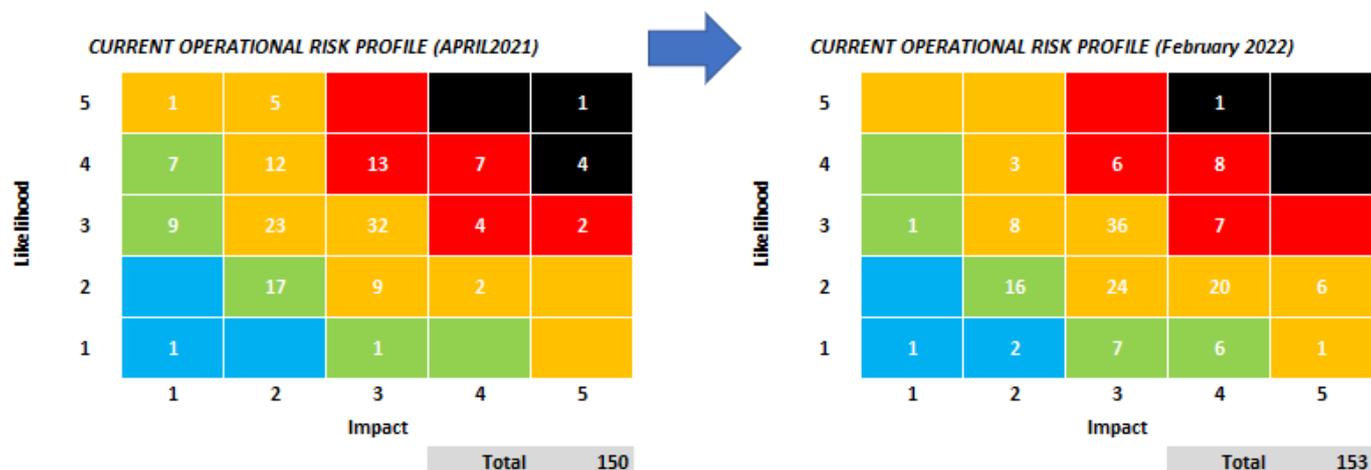
The Council's corporate risks are those risks which could impede the achievement of our strategic aims and objectives. As the most significant areas of uncertainty, corporate risks are reported to Corporate Leadership Team on a regular basis to ensure effective oversight and management.

The full corporate risk register is also reported and published to the Policy & Resources Committee quarterly. The most recent update went in February 2021. The table below summaries the 17 corporate risks and how they've changed over the last 12 months. This illustrates that corporate risks are actively reported and monitored and that processes are in place to ensure new risks are captured and escalated.

Risk Title	Current Score (I x L)		
	Apr 21	Nov 21	Jan 22
Contraction in retail sector	25 (5 x 5)	25 (5 x 5)	25 (5 x 5)
Financial uncertainty	20 (4 x 5)	20 (4 x 5)	20 (4 x 5)
Environmental damage	16 (4 x 4)	16 (4 x 4)	16 (4 x 4)
Brexit / EU Transition	16 (4 x 4)	Removed	
Major unforeseen emergency	15 (5 x 3)	15 (5 x 3)	15 (5 x 3)
Covid-19: Restrictions to Council operations	12 (4 x 3)	9 (3 x 3)	12 (4 x 3)
Covid-19: Community & business recovery	12 (4 x 3)	8 (4 x 2)	8 (4 x 2)
Housing pressures increasing	12 (4 x 3)	16 (4 x 4)	16 (4 x 4)
IT Security Failure	12 (4 x 3)	12 (4 x 3)	12 (4 x 3)
Not fulfilling residential property responsibilities	12 (4 x 3)	12 (4 x 3)	12 (4 x 3)
Major contractor failure	12 (4 x 3)	12 (4 x 3)	12 (4 x 3)
Ability to access / leverage new funding		9 (3 x 3)	9 (3 x 3)
Reduce effectiveness of relationships with strategic partners		9 (3 x 3)	9 (3 x 3)
Governance changes		12 (4 x 3)	12 (4 x 3)
Resilience of the voluntary and community sector		9 (3 x 3)	9 (3 x 3)
Loss of workforce cohesion & talent			12 (3 x 4)
Sig. changes in contractor costs & possible contractor insolvency			20 (4 x 5)

Operational Risks

Operational risk registers are in place for each service (including shared services) and are reviewed and updated routinely depending on severity. Managers and Heads of Service are responsible for managing operational risks. In accordance with the Council’s risk tolerance, Wider and Corporate Leadership Teams receive risk updates throughout the year and will monitor and review risks through that process.



The overall number of operational risks has remained largely unchanged overall, although there has been changes within individual services with some areas removing risks and others adding them. There has also been an overall decrease in the number of red/black risks from 31 in April 2021 to 22 in February 2022.

The black risks in April 2021 related to various impacts from covid, namely on: tourism and visitor numbers, grant schemes and council tax / business rates collection. Over the course of the year all but one of these risks has reduced to within the Council’s appetite. The remaining black risk is:

Infrastructure Improvements			
Service Area: Economic Development	Ownership: John Foster	Score: 14 x L5	20
Risk <i>Infrastructure improvement to road, rail, public transport, cycling, community & social infrastructure and broadband fail to take place due to lack of investment or change to government priorities.</i>	Existing Controls <ul style="list-style-type: none"> • Work with KCC on Broadband, • Continue to work with KCC, Network Rail and Helen Grant MP to secure Thameslink services and further improvements • KCC Transport Planner working for and assisting MBC • Maidstone Strategic Infrastructure Working Group in place and includes delivery of improvements to Loose Road corridor • Ongoing agenda item in RED • Manager supervision and regular 121's • The Integrated Transport Strategy and Infrastructure Delivery Plan are managed by the Strategic Policy Team 		Risk Response <ul style="list-style-type: none"> • Continue to monitor what will replace the SE Rail franchise • Making Maidstone More Active project to identify sports facility requirements across the Borough • Future options for Mote Park Leisure centre to be considered by ERL during 2021 as the contract with MLT and Serco comes to an end in August 2024

Risk review:
April 2022

Risk direction over time:



Score:
I4 x L3

12

This risk continues to be monitored and action is ongoing to reduce the risk.

Implementation of JCAD will provide an opportunity to refresh all operational risk registers. The outcome of this work will be reported in the usual way to Management and then on to Policy & Resources Committee.

Next Steps

Risk management is a continuous process, and we will continue to build on and improve the arrangements to further strengthen risk management processes and to develop a positive risk culture across the Council.

As part of the wider Mid Kent Audit annual planning process, we consider the work needed to support the Council in maintaining effective risk management arrangements. This involves reflecting on the work delivered during 2021-22 and balancing the work plan for the coming year with the needs of the Council and the resources available.

The following provides an overview of the risk work planned for 2022-23, and the key areas of focus for our work. We appreciate that circumstances are changeable and so the plan will be kept under review and amended where necessary.



Risk management is only as effective as the risks that are identified, and the action taken to address those risks. We continue to receive a positive level of engagement and support from Senior Officers and Managers across the Council which has enabled the risk management process to develop and embed.

We would like to take this opportunity to thank officers and Members for their continued work and support.

Impact & Likelihood Scales

Risk Impact

Level	Service	Reputation	H&S	Legal	Financial	Environment
Catastrophic (5)	Ongoing failure to provide an adequate service	Perceived as a failing authority requiring intervention	Responsible for death	Litigation almost certain and difficult to defend Breaches of law punishable by imprisonment	Uncontrollable financial loss or overspend over £500k	Permanent, major environmental or public health damage
Major (4)	Failure to deliver Council priorities Poor Service, 5+ days disruption	Significant adverse national publicity	Fails to prevent death, causes extensive permanent injuries or long term sick	Litigation expected and uncertain if defensible Breaches of law punishable by significant fines	Financial loss or overspend greater than £250k	Long term major public health or environmental incident (1+ yrs)
Moderate (3)	Unsatisfactory performance Service disrupted 3-5 days	Adverse national publicity of significant adverse local publicity	Fails to prevent extensive permanent injuries or long term sick	Litigation expected but defensible Breaches of law punishable by fines	Financial loss or overspend greater than £50k	Medium term major public health or environmental incident (up to 1 yr)
Minor (2)	Marginal reduction in performance Service disrupted 1-2 days	Minor adverse local publicity	Medical treatment required Long term injuries or sickness	Complaint or litigation possible Breaches of regulations or standards	Financial loss or overspend greater than £10k	Short term public health or environmental incident (weeks)
Minimal (1)	No performance reduction Service disruption up to 1 day	Unlikely to cause adverse publicity	First aid level injuries	Unlikely to cause complaint Breaches of local procedures	Financial loss or overspend under £10k	Environmental incident with no lasting detrimental effect

Risk Likelihood

Level	Probability	Description
Almost Certain (5)	90% +	Without action is likely to occur; frequent similar occurrences in local government / Council history
Probable (4)	60% - 90%	Strong possibility; similar occurrences known often in local government / Council history
Possible (3)	40% - 60%	Might occur; similar occurrences experienced in local government / Council history
Unlikely (2)	10% - 40%	Not expected; rare but no unheard of occurrence in local government / Council history
Rare (1)	0% - 10%	Very unlikely to occur; no recent similar instances in local government / Council history

One Page Process Summary

Step 1 – Identify Risks	Step 2 – Evaluate Risks	Step 3 – Risk Response	Step 4 – Monitor & Review																																													
<p>Best done in groups, by those responsible for delivery objectives.</p> <p>RISK is a <i>potential future</i> event that, if it materialises, has an <i>effect</i> on the achievement of our objectives.</p> <p>Consider both threats and opportunities.</p> <p>When to consider:</p> <ul style="list-style-type: none"> • Setting business aims and objectives • Service planning • Target setting • Partnerships & projects • Options appraisal <p>Establish the risk owner.</p> <p>Document in the risk register.</p>	<p>Combination of the impact and likelihood of an event (the CURRENT RISK).</p> <p>Impact score is the highest from the different categories.</p> <p>Establish your key existing controls and whether they are managing the impact and/or likelihood of the risk.</p> <p>Scores can be depicted in the risk matrix:</p> <table border="1" data-bbox="645 930 1133 1297"> <tr> <td rowspan="5">Likelihood</td> <td>5</td> <td>Yellow</td> <td>Yellow</td> <td>Red</td> <td>Black</td> <td>Black</td> </tr> <tr> <td>4</td> <td>Green</td> <td>Yellow</td> <td>Red</td> <td>Red</td> <td>Black</td> </tr> <tr> <td>3</td> <td>Green</td> <td>Yellow</td> <td>Yellow</td> <td>Red</td> <td>Red</td> </tr> <tr> <td>2</td> <td>Blue</td> <td>Green</td> <td>Yellow</td> <td>Yellow</td> <td>Yellow</td> </tr> <tr> <td>1</td> <td>Blue</td> <td>Blue</td> <td>Green</td> <td>Green</td> <td>Yellow</td> </tr> <tr> <td></td> <td></td> <td>1</td> <td>2</td> <td>3</td> <td>4</td> <td>5</td> </tr> <tr> <td></td> <td></td> <td colspan="5">Impact</td> </tr> </table>	Likelihood	5	Yellow	Yellow	Red	Black	Black	4	Green	Yellow	Red	Red	Black	3	Green	Yellow	Yellow	Red	Red	2	Blue	Green	Yellow	Yellow	Yellow	1	Blue	Blue	Green	Green	Yellow			1	2	3	4	5			Impact					<p>Black – Above our <i>tolerance</i>, immediate action and reporting to directors.</p> <p>Red – Outer limit of our <i>appetite</i>, immediate action.</p> <p>Amber – Medium risk, review existing controls.</p> <p>Green – Low risk, limited action, include in plans.</p> <p>Blue – Minimal risk, no action but annual review.</p> <p>Risk Response – 4Ts</p> <ul style="list-style-type: none"> • Treat (i.e. apply controls) • Tolerate (i.e. accept risk) • Transfer (e.g. insurance / partnership) • Terminate (i.e. stop activity) <p>After your response; where does the risk score now? (the MITIGATED RISK)</p>	<p>Completed risk registers returned to Mid Kent Audit.</p> <ul style="list-style-type: none"> • Corporate Leadership Team monthly monitoring of black risks. Quarterly reporting of all high level (black and red) risks. • 6-monthly reporting to Wider Leadership Team. • Risk registers sent quarterly to directors and heads of service. • 6-monthly monitoring at Policy & Resources Committee. • Annual monitoring of process by Audit, Governance & Standards Committee. <p>Mid Kent Audit facilitate the review and update of risk actions (as per your risk register) during the year for and high-level (red / black) risks.</p>
Likelihood	5		Yellow	Yellow	Red	Black	Black																																									
	4		Green	Yellow	Red	Red	Black																																									
	3		Green	Yellow	Yellow	Red	Red																																									
	2		Blue	Green	Yellow	Yellow	Yellow																																									
	1	Blue	Blue	Green	Green	Yellow																																										
		1	2	3	4	5																																										
		Impact																																														

Audit, Governance & Standards Committee

14 March 2022

Internal Audit & Assurance Report 2022/23

Final Decision-Maker	Audit, Governance & Standards Committee
Lead Head of Service	Andrew Townsend, Interim Head of Audit Partnership
Lead Officer and Report Author	Andrew Townsend, Interim Head of Audit Partnership
Classification	Public
Wards affected	All

Executive Summary

The report summarises the risk assessment and consultation process undertaken by Internal Audit to compile the programme of work that will lead up to the 2022/23 Head of Internal Audit Opinion.

Purpose of Report

Decision

This report makes the following recommendations to this Committee:

1. **Approve** the Internal Audit & Assurance Plan for 2022/23 at Appendix 1 to this report. This includes delegating to the Head of Audit Partnership to keep the plan current for in-year emerging risks as set out in para 2.5 of the report.
2. **Note** the Head of Audit Partnership's view that internal audit currently has sufficient resources to deliver the plan and a robust Head of Audit Opinion.
3. **Note** the Head of Audit Partnership's assurance that the plan is compiled independently and without inappropriate influence from management.

Timetable

<i>Meeting</i>	<i>Date</i>
Audit, Governance & Standards Committee	14 March 2022

Internal Audit & Assurance Plan 2022/23

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	We do not expect the recommendations will by themselves materially affect achievement of corporate priorities or cross cutting objectives. However, they will support the Council's overall achievement of its aims by contributing to effective corporate governance.	Andrew Townsend, Interim Head of Audit Partnership. 1 March 2022
Cross Cutting Objectives		
Risk Management		
Financial		
Staffing		
Legal	The Accounts and Audit Regulations 2015 contain provisions on internal audit. The Regulations require that the Council undertakes an effective internal audit taking into account public sector internal auditing standards. The Standards require that the Head of Audit Partnership provides an annual opinion based on objective assessment of the framework of governance, risk management and control.	Interim Deputy Head of Legal Partnership
Privacy and Data Protection	Accepting the recommendations will increase the volume of data held. We will hold that data in line with our retention schedules.	Andrew Townsend, Interim Head of Audit Partnership. 1 March 2022
Equalities	The recommendations do not propose a change in service therefore will not require an equalities impact assessment	
Public Health	No direct implications.	

Issue	Implications	Sign-off
Crime and Disorder	No direct implications.	
Procurement	Accepting the recommendations does not create a need for any new procurement exercise.	

2. INTRODUCTION AND BACKGROUND

- 2.1 The **Public Sector Internal Audit Standards** (the “Standards”) require the audit Partnership to produce and publish a risk based plan, at least annually, to determine the priorities for the year. The plan must consider input from senior management and Members and be aligned to the objectives and risks of the Council.
- 2.2 The purpose of this report is to set out the **annual assurance plan 2022/23** to Members. The report details how the plan is devised, the resources available through the Partnership and the specific audit activities and engagement delivered over the course of the year.
- 2.3 The Standards set out the requirements of the Chief Audit Executive (the Head of Audit Partnership fulfils this role for Maidstone Borough Council) in creating the audit plan. Specifically, Standard 2010:

2010 Planning

The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals.

Interpretation:

To develop the risk-based plan, the chief audit executive consults with senior management and the board and obtains an understanding of the organisation’s strategies, key business objectives, associated risks and risk management processes. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organisation’s business, risks, operations, programmes, systems, and controls.

Public sector requirement

The risk-based plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework. It must incorporate or be linked to a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities.

- 2.4 The Committee needs to obtain assurance on the effectiveness of the control environment, governance and risk management arrangements. The principal source of this assurance is derived from the annual assurance plan.

- 2.5 Standards explicitly support that the plan is flexible and responsive to emerging and changing risks across the year. Therefore the 2022/23 plan includes audit reviews that are **high** priority and those that are **medium** priority. By taking this approach we are able to achieve flexibility within the plan and ensure that the plan remains relevant throughout the year.
-

3. AVAILABLE OPTIONS

- 3.1 There is a statutory requirement for the Council to have an internal audit of its governance, risk and control processes. The Accounts and Audit Regulations 2015, more specifically require that the audit takes into account the Public Sector Internal Audit Standards. The Council could decide that it does not want a programme of work for the audit service, however, this would go against professional Standards.
- 3.2 The appendix sets out the proposed plan for 2022/23, including background details on how we compiled the plan and how we propose to manage its delivery. The proposal is for the Committee to consider and approve the plan.
- 3.3 We confirm to Members that, although the plan has undergone broad consultation with management, it is compiled independently and without being subject to inappropriate influence.
- 3.4 The Committee as part of its terms of reference must retain oversight of the internal audit service and its activities. This includes the Committee's role to formally consider and approve the plan.
-

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 We recommend Members approve the attached audit and assurance plan. The plan has been created through a process conforming with appropriate Standards and Regulations and in consultation with a broad range of officers. The Head of Audit Partnership believes this is the appropriate plan of work to support his opinion at year end.
-

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 We consult with Managers, Heads of Service and Directors throughout the year as we undertake our work, but also specifically as part of the audit planning process. The plan attached represents the collective views of management and the audit service.
- 5.2 The overall resource allocation between the partners is consistent with the collaboration agreement and discussed with the Shared Service Board.

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

6.1 On approval we will begin work towards delivering the approved plan immediately. We will report to Members on progress in the autumn and raise any urgent matters as set out in the *Audit Charter*.

7. REPORT APPENDICES

7.1 The following documents are to be published with this report and form part of the report:

- Appendix 1: Internal Audit & Assurance Plan 2022/23
-

8. BACKGROUND PAPERS

The appendix includes reference to the Public Sector Internal Audit Standards (full document [at this link](#)). Further background papers, including detailed resource calculations, risk assessments and notes from consultation meetings can be made available on request.

Internal Audit & Assurance Plan 2022/23

Maidstone Borough Council



Introduction

1. This risk-based internal Audit Plan for 2022/23 provides adequate coverage to enable an annual Head of Audit Opinion to be made at the end of the financial year.
2. Planning during a period of uncertainty and change is problematic. It is therefore important that this Audit Plan has the flexibility to adapt and adopt to the changes as they develop during the forthcoming financial year.

Risk Assessments

3. The Public Sector Internal Audit Standards direct that audit planning is built upon a risk assessment. This assessment must consider internal and external risks, including those relevant to the sector or global risk issues. This Plan for 2022/23 represents the current views now, but it will be necessary to continue to reflect and consider the audit response as risks and priorities change across the year. A specific update report will be provided to Members midway through the year.

Global and Sector Risks

4. In considering global and sector risks the risk assessment draws on various sources such as the IIA and CIPFA.
5. This year will continue to be another challenging year for Local Government in terms of funding, managing additional recruitment and technological advancement, which in turn may impact on the adequacy and effectiveness of the governance, risk and control framework of the Council. A number of key areas which require consideration when planning the internal audit coverage are set out below. These areas cut across many of the activities carried out by the Council. These areas are not a full listing, nor are they in any priority order. Indeed many are not mutually exclusive of each other.

“Multi-channel” customer engagement: Partly as a result of COVID-19 but also as process changes through improved technology, councils will need to embrace cutting edge technology. Adopting a multi-channel approach to customer engagement will enable council services to be more readily available, more accessible and more transparent.

Commercialisation: Councils are being driven towards being more self-sufficient and cost effective, with pressure to close funding gaps and rebalance budgets. Councils will already be operating in different financial and more commercial environments which have been tested by the business disruption associated with the COVID Pandemic.

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Cyber Security: As more services move on-line, risks and vulnerabilities are likely to increase. Cyber security is as much about awareness and behaviours as it is about network security. Resilience needs to be regularly and stringently stress tested across the organisation to ensure it is operating effectively.

Financial Viability: As the UK emerges from the clutches of the pandemic and some degree of normality returns Councils will be faced with the reality of unbalanced medium term financial plans without including significant potential savings. Realisation of these savings could be challenging and if not achieved at the outset will fail to provide the funds needed to ensure a balanced budget.

Staff Wellbeing: COVID-19 has led to mental health declines, increased work demands and feelings of loneliness due to remote working. Staff turnover is at an all-time high. Managing the wellbeing and associated risks is crucial to ensure a stable workforce.

Climate Change: Councils are taking action to reduce their own carbon emissions and working with partners and local communities to tackle the impact of climate change on their local area.

Inflation: The forecast rises in inflation after a long period of stability is likely to impact upon term contracts as well as budget management.

Council specific Audit Risk Review

6. This risk review incorporates two elements. The first element is the service's relative materiality to the Council's overall objectives and controls. The assessment includes consideration of:



Finance Risk: The value of funds flowing through the service.



Priority Risk: The strategic importance of the service in delivering Council priorities.



Support Service Risk: The extent of interdependencies between Council departments.

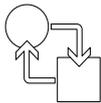
7. The Council's external auditor was requested to advise if there were any areas that internal audit should include in the Audit Plan, and the two suggested areas, Capital Project Management and Asset Register are included in the Plan, below.

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8. The second element considers the reputational aspects of a failure of the effective operation of the internal control arrangements. The assessment includes consideration of:



Oversight Risk: Considering where other agencies regulate or inspect the service.



Change Risk: Considering the extent of change the service faces or has recently experienced.



Audit Knowledge: Considering the outcomes not just the last internal review, but any other information that has been gathered from, for example, following up agreed actions.



Fraud Risk: Considering the susceptibility of the service to fraud loss.

Audit Risk Prioritisation

9. The results of these various risk assessments provide a provisional Audit Plan. The provisional Plan is consulted on with the Managers, Heads of Service and Corporate Leadership Team to get their perspective on the audit assessment and from this the Risk Based Audit Plan for the financial year is produced.

Risk Based Audit: 280 Days

10. The primary part of Audit Plan is delivering risk based audit engagements. This work is classified into High and Medium priority engagements in the Audit Plan. The lists below are in alphabetical and do not imply any ranking within the group or intended delivery order. The timings for the individual reviews will be agreed with a suitable officer sponsor once the Plan has been approved.
11. The Audit Plan has been prepared in advance of the appointment of the substantive Head of Audit for MKA. The new Head of Audit may wish to propose changes to the audit coverage and so may review the Plan will after their appointment. Any proposed changes and the rationale for such changes will be communicated to Senior Management Teams and Audit Committee Members.

High Priority Engagements

12. These are the **10** engagements that require to be undertaken to support a robust opinion at year end.

High Priority Engagement Title & Draft Objectives
<p>1. Business Continuity To seek assurance on arrangements for responding to business disruption events, including unexpected network down time.</p>
<p>2. Capital Projects Funding To seek assurance on arrangements for funding capital projects.</p>
<p>3. Economic Development To seek assurance on progress against actions within the Economic Development Strategy.</p>
<p>4. IT Back-Up & Recovery¹ To seek assurance on the effectiveness of controls to back up the Council's data To seek assurance on recovery of the Council's data after a loss event.</p>
<p>5. Member Development To seek assurance on the effectiveness of training and development provided to Members.</p>
<p>6. Network Security¹ To seek assurance on management of the security of Network controls, including remote access control.</p>
<p>7. Property Acquisition & Disposal To seek assurance that decisions made in relation to property purchases and disposals are in line with Council's strategy and scheme of delegations.</p>
<p>8. Residential Property Repairs & Maintenance To seek assurance on effective management of the residential property repair contract.</p>
<p>9. Subsidiary Company Governance To seek assurance on arrangements for maintaining good governance at Maidstone Property Holdings. To seek assurance on arrangements for maintaining appropriate control of Maidstone Property Holding's operations.</p>
<p>10. Workforce Planning To seek assurance on the Council's plans and strategies for ensuring they are able to attract and retain the workforce needed.</p>

¹ Shared Service with Swale & Tunbridge Wells

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Medium Priority Engagements

13. We have **17 engagements** on this list and aim to deliver **at least 7**. Any engagements we do not take forward for 2022/23 we will automatically consider as candidates for 2023/24. The list below is alphabetical and doesn't suggest ranking within the group or intended delivery order. We will agree timings with a suitable officer sponsor once we have a Member approved plan.

External Audit Priority Engagement Title & Draft Objectives
1. Asset Register To seek assurance on system for maintaining the accuracy and completeness of the Council's Asset register.
Medium Priority Engagement Title & Draft Objectives
2. Budgetary Control To seek assurance on the effectiveness of controls seeking to maintain oversight of Council finances against budgets.
3. Building Control To seek assurance on appropriate accounting for Building Control Income. To seek assurance on arrangements for ensuring Building Control complies with relevant quality standards in undertaking its work.
4. CCTV Monitoring To seek assurance on arrangements for maintaining compliance with the CCTV Code of Practice and other relevant Council procedures.
5. Complaint Handling To seek assurance on compliance with complaint handling process To seek assurance that the Council responds appropriately to information (both general and specific) from the Local Government Ombudsman
6. Crematorium To seek assurance on compliance with Crematorium Regulations, and To seek assurance on income collection controls
7. Discretionary Housing Payments² To seek assurance on the management and delivery of the Discretionary Housing Payments scheme
8. Electoral Registration To seek assurance on compliance on Electoral Commission requirements in compiling and maintaining the electoral register.
9. Facilities Management To seek assurance on managing routine maintenance and responsive repairs across the Council's buildings To seek assurance on maintaining the security of Maidstone House

² Shared Service with Tunbridge Wells

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Medium Priority Engagement Title & Draft Objectives
10. Food Safety² To seek assurance on completion of food safety inspections in compliance with Food Safety Act 1990
11. Garden Waste To seek assurance on management of the Garden Waste subscription service
12. Health Team To seek assurance that the Council has set out and accurately monitors expectations of Health Living Co-ordinators and Every Contact Counts schemes.
13. Markets To seek assurance that market finances work in line with SFIs.
14. Planning Enforcement To seek assurance on arrangements for responding to planning breach reports in keeping with relevant legislation, Council policy and procedure.
15. Private Water Supply To seek assurance on completion of private water supply inspections in compliance with The Private Water Supplies Regulations 2016
16. Staff Performance Management To seek assurance on compliance with the Council's staff performance management procedures. To consider how the Council monitor success of its staff performance management approach.
17. Theatre Operations To seek assurance on arrangements for managing delivery of the Hazlitt Theatre Contract

Follow-up of Agreed Actions: 30 days

14. Time has been allocated to following up the actions arising from internal audit recommendations made and reporting the results to Senior Officers and Members.

Consultancy & Member Support: 70 days

15. A consultancy allocation provides general and specific extra advice or training to the Council. This allocation also provides support to Members, through attendance at and reporting to Committees.
16. This fund also provides a contingency to avoid having to cut short engagements and allow full exploration of significant findings.

Risk Management: 58 days

17. At Maidstone MKA's responsibility encompasses tasks such as leading the risk management framework, keeping and updating strategic and operational risk registers. The responsibility for managing the identified risks remains with the relevant risk owners. MKA also compiles risk reporting to Senior Officers and Members, including an annual report to this Committee.
18. The plans for developing risk management in 2022/23 are set out in the Annual Risk Management Report.

Planning: 24 days

19. This time is allocated to complete the major part of the annual planning exercise, including updating risk assessments and consultation across the Council. The time is also used for identification of risks and issues across the Council, the wider public sector and the audit profession. This ensures the Audit Plan can remain dynamic and responsive to risk through the year.

Counter Fraud Support: 28 days

20. At Maidstone MKA'S responsibilities include writing and updating Counter Fraud and Whistleblowing policies, providing a channel for officers to raise concerns under the Public Interest Disclosure Act. MKA also acts as lead contact for the National Fraud Initiative, a data matching exercise co-ordinated by the Cabinet Office.
21. For 2022/23 it is intended to compile more detailed procedures for investigations, drawing on Cabinet Office Standards. We also aim to draw up training to support compliance with the Bribery Act and make clear where people should report any matters of concern.
22. The counter fraud support role also includes conducting investigations on matters of concern. Additional time may be required for such work and this will be drawn from the consultancy budget above.

Resourcing the Audit Plan

23. MKA is currently going through a period of significant staffing change. A number of senior posts are currently filled on an interim basis and it is likely to be November 2022 at the earliest before all the substantive posts are filled.

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24. MKA also have access to sources of specialist expertise through framework agreements with audit firms, which includes access to subject matter experts.
25. The overall resource level is therefore based on the current audit team establishment and the chargeability for each grade. This calculation produces an available number of days across the four Councils to which MKA provides the internal audit service of 1,740 days.
26. Each Council receives a share in keeping with their contribution to the overall partnership budget. The Collaboration Agreement is planned to be subject to a comprehensive review during 2022/23. Based on the current Agreement Maidstone 2022/23 Audit Plan has **490 days** to assign. This includes time to complete work carried forward from 2021/22.
27. MKA has the skills and expertise to deliver the 2022/23 Audit Plan and it is confirmed that planned audit work will enable a Head of Audit opinion for 2022/23 to be delivered in Spring 2023.

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

14 March 2022

Budget Strategy – Risk Assessment Update

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

Executive Summary

As the 2021/22 year end approaches, the risk of failing to deliver against the revenue budget for the year is reducing. A balanced budget has been set for 2022/23 but the position for future years remains uncertain. Higher levels of inflation pose significant risks, but particularly for delivery of the capital programme.

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	14 March 2022

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 and Business Improvement
Cross Cutting Objectives	The cross cutting objectives are reflected in the MTFS and the budget.	Director of Finance 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 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 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 and Business Improvement
Legal	The Council has a statutory obligation to set a balanced budget and development of	Director of Finance and Business Improvement

	the MTFS and the strategic revenue projection in the ways set out in this report supports achievement of a balanced budget.	
Privacy and Data Protection	No implications.	Director of Finance 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 and Business Improvement
Public Health	None identified.	Director of Finance and Business Improvement
Crime and Disorder	None identified.	Director of Finance and Business Improvement
Procurement	None identified.	Director of Finance and Business Improvement
Biodiversity and Climate Change	None identified.	Director of Finance 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.

Delivering the 2021/22 revenue budget

- 2.2 Details of the Council's financial performance for the third quarter of 2021/22 have now been reported to all the Service Committees. Overall, income and expenditure are broadly in line with budget and an underspend against budget of £207,000 is projected for the year as a whole. As the year end approaches, the risk of failing to meet budget is therefore steadily diminishing.

Budget 2022/23

- 2.3 Budget proposals were considered by Council at its meeting on 23rd February. A balanced budget was agreed for 2022/23, based on a Council Tax increase of 2%. Provision was made for expenditure on strategic policy and planmaking, together with a contribution to a Housing Investment Fund to support the Council's Affordable Housing Programme, by earmarking New Homes Bonus, which for 2022/23 amounts to £4.2 million. A contingency of £1.3 million in total has been built into the budget to allow for higher levels of inflation than anticipated in the original Medium Term Financial Strategy assumptions.
- 2.4 The context for the Council's budget is the government's Local Government Finance Settlement, which only covers 2022/23. It is likely that there will be changes in funding arrangements in 2023/24, so there remains uncertainty about the position looking further forward.

Delivering the capital budget

- 2.5 There are two main risks associated with the capital programme.
- 2.6 Firstly, the availability of funding is essential to delivery of the programme. Currently, funding for the capital programme is readily available: in the short term, through the market in borrowing and lending between local authorities; and over the longer term, through the Public Works Loan Board (PWLB). There is no indication that the government will withdraw this facility for local authorities, so long as the lending is not for purely commercial investment purposes.
- 2.7 However, it is appropriate to mitigate the risk of dependency on the PWLB, and in line with the Treasury Management Strategy the Council is considering alternative sources of financing which will also allow the Council to lock in current interest rates for a portion of its debt.
- 2.8 A second risk to the capital budget is the impact of inflation and supply blockages. Over time, the impact of higher input costs should be reflected in higher returns from capital investment and increases in the value of capital assets. However, the Council is likely to see severe budget pressures in the short term at the level of individual capital projects, requiring additional funding to be transferred within the overall capital budget envelope and reducing the overall amount of funding available.

These risks are likely to be exacerbated by Russia's invasion of Ukraine and the consequent impact on energy prices.

External factors

- 2.9 The Covid-19 pandemic shows how vulnerable the Council is to external factors. The corporate risk register includes risks relating to (a) major emergencies such as a new pandemic and (b) a resurgence of the Covid-19 pandemic. This has been mirrored in the Budget Risk Register.
- 2.10 As already indicated above in relation to the capital programme, inflation poses a risk to the Council's budget. CPI currently stands at 5.5% and continues to rise. The Bank of England projects a fall in inflation in the second half of 2022, but there is a risk that higher levels of inflation may become embedded.
- 2.11 Higher levels of inflation affect the Council in a variety of ways. The most direct is through contracts which are linked to inflation. The main item of Council expenditure, comprising around 50% of the total, is pay. Market pay rates are increasing, particularly in sectors where qualified staff are scarce. The Council will need to respond in order to attract and retain good quality staff.
- 2.12 Whilst increases in cost inputs can be offset to an extent by increasing fees and charges, some of these are fixed statutorily. The Council's main source of revenue is Council Tax, which is subject to a referendum limit of 2%. Council Tax increases in future years may continue being capped at less than the rate of inflation, implying a squeeze on service delivery.

Pension liability

- 2.13 Members have highlighted the risks associated with the Council's pension liability in respect of present and former employees. The Council's financial statements include a provision to cover this risk, and periodic valuations are carried out to ensure that ongoing employer pension contributions are sufficient to fund this liability. Risk arises in a number of ways, including pension fund investment performance, inflation in salaries and pensions, changes in longevity, and capacity of the organisation to support pension fund contributions. These are all taken into account in actuarial valuations for the purposes of quantifying pension fund liability and assessing contribution levels. Where appropriate, mitigation actions are taken, eg by increasing contribution levels. For the purposes of the Budget Risk Register, it is proposed to acknowledge the risks by including a collective item to address them in the register, but to recognise the mitigations in the scoring of the risk.
- 2.14 In light of the changes in risk levels described above, the following changes are proposed to the budget risk register.

Ref	Risk	Factor considered	Implications for risk profile
B	Fees and charges fail to deliver sufficient income	Projections indicate that there will be a modest underspend against budget for 2021/22.	Impact – major (no change) Likelihood – low (reduced)
C	Other income fails to achieve budget	Projections indicate that there will be a modest underspend against budget for 2021/22.	Impact – major (no change) Likelihood – low (reduced)
R	Pension liability cannot be funded (new risk)	There are a range of risks affecting the pension liability. These are considered as part of regular actuarial valuations and mitigating actions taken as appropriate.	Impact – major Likelihood – low

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.

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 was completed for the 2022/23 budget and the results were reported to Service Committees 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:

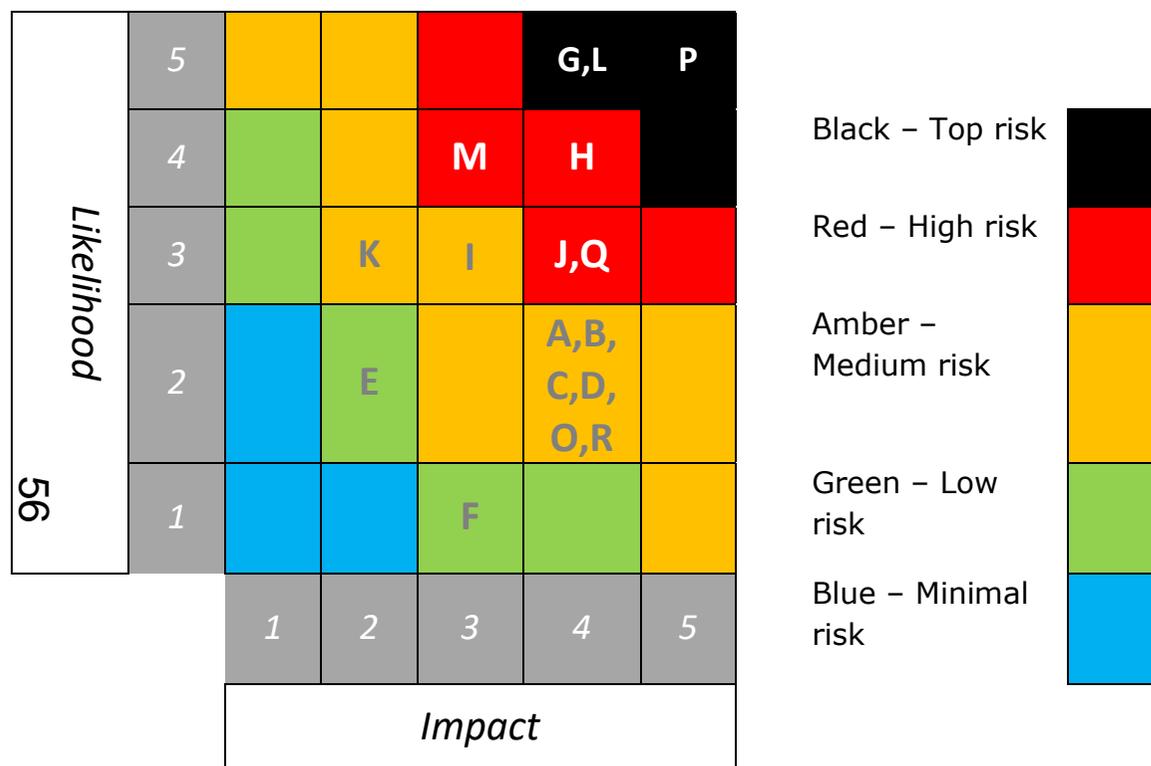
- Appendix A: Budget Strategy Risks
-

9. BACKGROUND PAPERS

None.

Budget Strategy Risks

The risk matrix below provides a summary of the key budget risks. The risk register that follows provides more detail.

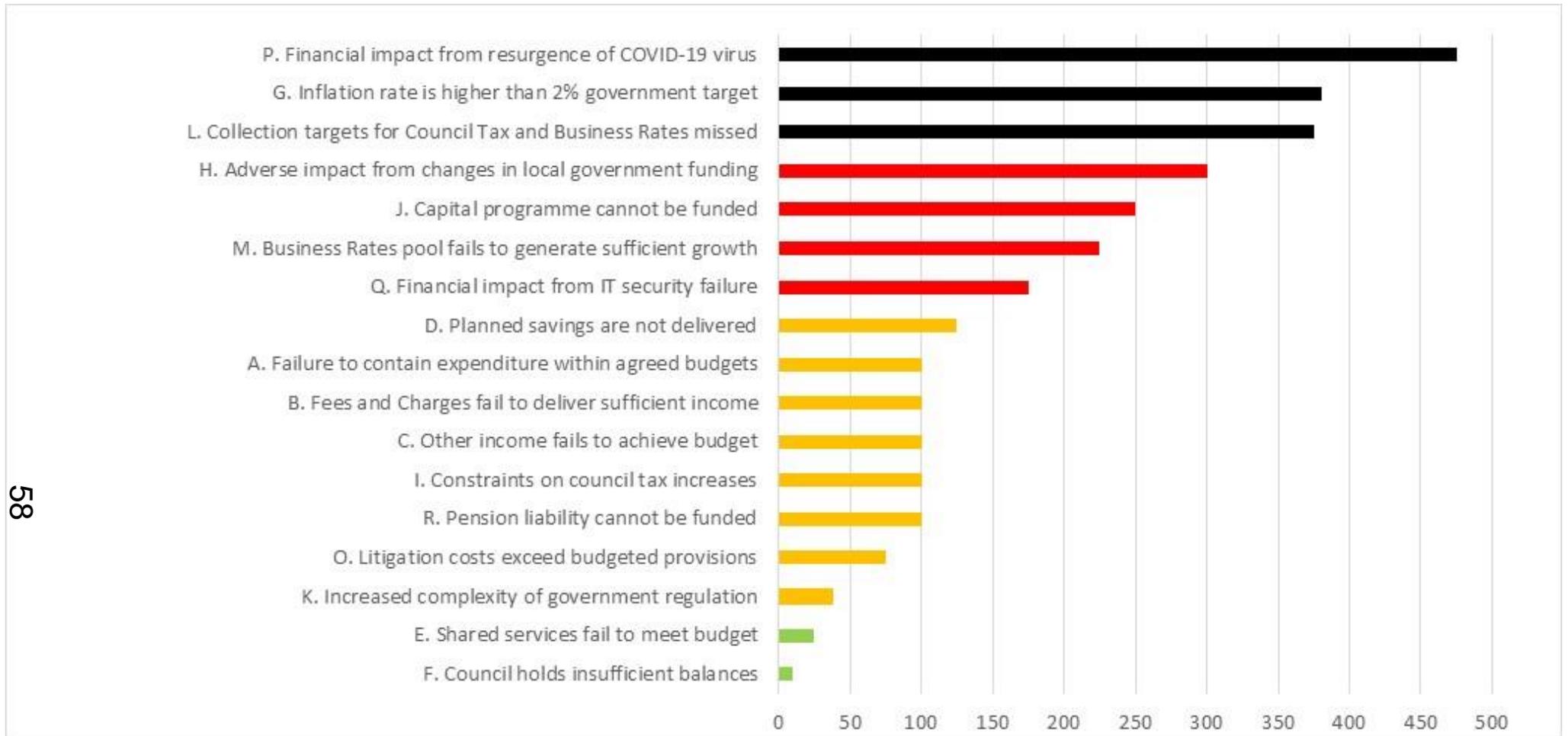


A. Failure to contain expenditure within agreed budgets	J. Capital programme cannot be funded
B. Fees and Charges fail to deliver sufficient income	K. Increased complexity of government regulation
C. Other income fails to achieve budget	L. Collection targets for Council Tax and Business Rates missed
D. Planned savings are not delivered	M. Business Rates pool fails to generate sufficient growth
E. Shared services fail to meet budget	O. Litigation costs exceed budgeted provisions
F. Council holds insufficient balances	P. Financial impact from a resurgence of Covid-19
G. Inflation rate is higher than 2% government target	Q. Financial impact from IT security failure
H. Adverse impact from changes in local government funding	R. Pension liability cannot be funded
I. Constraints on council tax increases	

The budget risks may be ranked, based on the scores shown below, as follows:

Risk	Ranking	Financial impact (in any one financial year)				
		Lower £000	Upper £000	Mid- point £000	Likelihood %	Weighted £000
P. Financial impact from resurgence of COVID-19 virus	1	250	750	500	95	475
G. Inflation rate is higher than 2% government target	2=	200	600	400	95	380
L. Collection targets for Council Tax and Business Rates missed	2=	200	600	400	95	380
H. Adverse impact from changes in local government funding	4	100	900	400	75	300
J. Capital programme cannot be funded	5	250	750	500	50	250
M. Business Rates pool fails to generate sufficient growth	6	150	450	300	75	225
Q. Financial impact from IT security failure	7	100	600	350	50	175
D. Planned savings are not delivered	8	250	750	500	25	125
A. Failure to contain expenditure within agreed budgets	9=	200	600	400	25	100
B. Fees and Charges fail to deliver sufficient income	9=	200	600	400	25	100
C. Other income fails to achieve budget	9=	200	600	400	25	100
I. Constraints on council tax increases	9=	100	300	200	50	100
R. Pension liability cannot be funded	9=	200	600	400	25	100
O. Litigation costs exceed budgeted provisions	14	100	500	300	25	75
K. Increased complexity of government regulation	15	50	100	75	50	38
E. Shared services fail to meet budget	16	50	150	100	25	25
F. Council holds insufficient balances	17	100	300	200	5	10

Chart - Budget risks



Budget Strategy Risk Register

The following risk register sets out the key risks to the budget strategy. The register sets out the consequences of each risk and the existing controls in place.

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
59 A	<p>Failure to contain expenditure within agreed budgets</p> <p>The Council overspends overall against its agreed budget for the year</p>	<p>Failure to meet the budget makes it more likely that the Council will have to rely on short term expedients to balance the budget from year to year, rather than following a coherent long term strategy.</p>	<ul style="list-style-type: none"> - Embedded and well established budget setting process - Medium Term Financial Strategy - Balanced budget agreed by Council for 2022/23. - Strong controls over expenditure and established process for recovering from overspends 	4	2	8
B	<p>Fees & Charges fail to deliver sufficient income</p> <p>Fee charging services may be affected if there is a downturn in the economy, resulting in Fees and Charges failing to deliver the expected level of income.</p>	<p>The total value of all Council income from fees and charges is around £20 million. A loss of income for service budgets will require restrictions on expenditure levels and delivery of all objectives may not be met.</p>	<ul style="list-style-type: none"> - Fees and charges are reviewed each year, paying careful attention to the relevant market conditions - Where the Council is operating in a competitive market, the aim is to ensure price sensitivity does not lead to a loss of income. - Procedures are in place to ensure that fees and charges are billed promptly (or in advance) and that collection is maximised. 	4	2	8
C	<p>Other income fails to achieve budget</p> <p>In addition to fees and charges, the Council relies on other income from capital investment, which may not deliver the expected level of income.</p>	<p>The medium term financial strategy includes a contribution from investment opportunities, so any shortfall would have an impact on the overall strategy.</p> <p>Income generation from investment activities supports the revenue budget and is required in order to pay back capital investment.</p>	<ul style="list-style-type: none"> - The Council set aside a provision of £0.5m against losses from activities that do not deliver. This provision is cash limited but available to cover short term losses. - Individual risks associated with specific projects within the capital strategy will be assessed, both as part of the project 	4	2	8

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
			appraisal process and during the course of delivering the projects.			
D	<p>Planned savings are not delivered</p> <p>Failure to deliver savings and / or failure to monitor savings means that the Council cannot deliver a balanced budget</p>	<p>The level of saving required to achieve a balanced budget is significant and non-delivery of these savings will have a major consequence on managing financial viability of the organisation.</p> <p>Not achieving savings will impact the overall delivery of the Medium Term Financial Strategy and would require appropriate action, which might include the suspension of some Council services, redundancies, etc.</p>	<ul style="list-style-type: none"> - The risks associated with delivery of savings proposed in the current Medium Term Financial Strategy have been reviewed as part of the budget setting process. - Savings proposals are separately identified and monitored in the Council's general ledger. - The ability to achieve the targeted savings is monitored quarterly in budget monitoring reports to the Corporate Leadership Team and to Service Committees. 	4	2	8
60 E	<p>Shared Services</p> <p>Shared services, which are not entirely under the Council's control, fail to perform within budgeted levels.</p>	<p>Failure of a shared service to manage within the existing budget will have the same consequences as for any overspending budget, ie it would require appropriate action, which might include the suspension of some Council services, redundancies, etc.</p>	<p>The arrangements governing shared services include a number of controls that minimise the risk of budget overspends and service failure, including quarterly reporting to a Shared Service Board comprising representatives of the authorities involved. The shared services are required to report regularly on financial performance and key indicators.</p>	2	2	4
F	<p>Insufficient Balances</p> <p>Minimum balance is insufficient to cover unexpected events</p> <p>OR</p> <p>Minimum balances exceed the real need and resources are held without identified purpose with low investment returns</p>	<p>Additional resources would be needed which would result in immediate budget reductions or use of earmarked reserves.</p> <p>The Council would not gain best value from its resources as Investment returns are low in the current market.</p>	<ul style="list-style-type: none"> - The Council has set a lower limit below which General Fund balances cannot fall of £4 million. - At the beginning of the 2021/22 financial year unallocated General Fund reserves stood at £9.2 million. 	3	1	3
G	<p>Inflation rate is higher than 2% government target</p>	<p>Unexpected rises will create an unbudgeted drain upon resources and the Council may not achieve its objectives without calling upon balances.</p>	<ul style="list-style-type: none"> - Allowances for inflation are developed from three key threads: 	4	5	20

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
	Actual levels are significantly above or below target	Services have supported the budget strategy through savings. Levels below those expected would result in an increase in balances or unused resources that could be used to achieve strategic priorities.	<ul style="list-style-type: none"> ○ The advice and knowledge of professional employees ○ The data available from national projections ○ An assessment of past experience both locally and nationally <p>- MTFS core inflation projections are based on the government's 2% inflation target but an additional contingency of £1.3 million is included in the 22/23 budget</p>			
61 H	<p>Adverse impact from changes in local government funding</p> <p>The financial implications of the new local government funding regime, now unlikely to be introduced until 2022/23, remain unclear.</p>	The Council no longer receives Revenue Support Grant (RSG), but the amount of Business Rates that it retains depends on the funding regime set by central government.	<p>- The Medium Term Financial Strategy to 2026/27 includes an adverse scenario which allows for a significant impact on the Council's resources,</p> <p>- The Council has developed other sources of income to ensure it can maximise its resources while dealing with the consequences of government strategy.</p>	4	4	16
I	<p>Constraints on council tax increases</p> <p>The limit on Council Tax increases means that the Council must manage expenditure pressures even if these potentially give rise to cost increases greater than the referendum limit.</p>	The limit on Council Tax increases means that additional pressures, such as those arising from providing temporary accommodation, have to be absorbed by making savings elsewhere.	<p>- The budget for 2022/23 incorporates a Council Tax increase of 2%.</p> <p>- Budget planning is based around the assumption of ongoing 2% increases in subsequent years.</p>	3	3	9
J	<p>Capital Programme cannot be funded</p> <p>Reduction or total loss of funding sources means that the capital programme cannot be delivered or demands on funding exceed available supply</p>	<p>The main sources of funding are:</p> <ul style="list-style-type: none"> ○ Internal borrowing ○ PWLB borrowing ○ New Homes Bonus ○ Capital Grants 	<p>- Council has access to borrowing.</p> <p>- Council has confirmed in the past that borrowing is acceptable if it meets the prudential criteria.</p>	4	3	12

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
		<ul style="list-style-type: none"> ○ Developer contributions (S106) <p>A reduction in this funding will mean that future schemes cannot be delivered.</p>	<ul style="list-style-type: none"> - Capital expenditure is monitored carefully against the borrowing limits that the Council sets itself. 			
K	<p>Increased volume and complexity of government regulation</p> <p>Covid-19 and the range of government support for local authorities and the community have led to a rapid increase in the volume and complexity of reporting and regulation.</p>	<p>Scaling up administrative resources to address the increased volume and complexity of reporting and regulation may divert attention from other priorities.</p> <p>Ultimately, failure to comply with new regulatory requirements could pose financial and reputational risk for the Council.</p>	<ul style="list-style-type: none"> - The Council has formal procedures for monitoring new legislation, consultations and policy / guidance documents. - Our relationships with organisations such as the Council's external auditor provide access to additional knowledge regarding relevant future events. 	2	3	6
62 L	<p>Business Rates & Council Tax collection</p> <p>Council fails to maintain collection targets for business rates and council tax</p>	<p>Failure to achieve collection targets will reduce the level of key resources to ensure a balanced budget. This will mean further cuts in other budgets or the cost of financing outgoing cash flow to other agencies in relation to taxes not yet collected.</p> <p>Business rates amount to around £60 million in 2021/22 and Council Tax due amounts to around £120 million.</p>	<ul style="list-style-type: none"> - The Council has a good track record of business rates and Council Tax collection. - Steps are taken to maximise collection rates, such as active debt collection, continual review of discounts, etc. - Nonetheless, Covid-19 has led to a reduction in collection rates, particularly in relation to business rates. 	4	5	20
M	<p>Business Rates pool</p> <p>Changes to rateable value (RV) or instability of business rates growth within the pool may not generate projected levels of income</p>	<p>Changes in RV or instability in growth will result in a reduction in income from business rates and a potential consequence for the Council.</p>	<ul style="list-style-type: none"> - The pool is monitored quarterly Kent wide and Maidstone is the administering authority. The projected benefit of the pool across Kent as a whole is projected to be around £12m in 2021/22. - Provisions have been made when projecting business rates income for bad debts and losses on appeal so any loss of income would relate to the excess over the provisions already made. 	3	4	12

Ref	Risk (title & full description)	Consequences	Key Existing Controls	Overall Risk rating		
				I	L	Σ
O	<p>Litigation costs exceed budgeted provisions. The Council is often engaged in litigation and generally the costs of any award against the Council and associated costs of legal advice can be met from within budgets. However, it is prudent to acknowledge the risk that provisions may not in fact be sufficient to cover all likely costs.</p>	<p>Costs in excess of budget would require a drawing on reserves and the identification of savings in subsequent years in order to replenish the level of reserves.</p>	<ul style="list-style-type: none"> - Corporate Leadership Team is updated regularly on outstanding legal cases. - Appropriate professional advice is taken at all times. 	4	2	8
P	<p>Financial impact from a resurgence of COVID-19 A resurgence of the pandemic would see similar impact to those experienced in the first wave, eg reduction in fees and charges income arising from lower levels of economic activity and the effect of a broad reduction in economic growth on public finances.</p>	<p>In the short term the Council would need to draw on reserves to cover the financial costs, but in the longer term savings would be required to replenish reserves.</p>	<ul style="list-style-type: none"> - Senior officer group mobilised to address short term impacts - Mitigations to be developed over longer term 	5	5	25
Q	<p>Financial impact from IT security failure Local authorities have been subject to cyber attacks over the past few years, often with severe financial and service implications.</p>	<p>The Council might have to suspend normal financial transactions for a period of time.</p>	<ul style="list-style-type: none"> - Anti-virus software - Regular communications with staff to warn about risks - Back-up arrangements with neighbouring authorities 	4	3	12
R	<p>Pension liability cannot be funded There are a range of risks associated with the pension liability, including pension fund investment performance, inflation in salaries and pensions, changes in longevity, and capacity of the organisation to support pension fund contributions.</p>	<p>Additional revenue costs will arise from an increased pension liability</p>	<ul style="list-style-type: none"> - Regular actuarial valuations - Mitigating actions in the form of increases to employer pension contributions 	4	2	8

Impact & Likelihood Scales

RISK IMPACT

Level	Service risk	Reputation Risk	H&S	Legal Risk	Financial Risk	En'ment Risk
Catas-trophic (5)	Ongoing failure to provide an adequate service	Perceived as failing authority requiring intervention	Responsible for death	Litigation almost certain and difficult to defend. Breaches of law punishable by imprisonment or significant fines	Uncontrollable financial loss or overspend over £500k	Permanent, major environmental or public health damage
Major (4)	Failure to deliver Council priorities Poor service. Disrupted 5 days+	Significant adverse national publicity	Fails to prevent death, causes extensive perm injuries or LT sick	Litigation expected, but defensible Breaches of law punishable by fines	Financial loss or overspend greater than £250k	Long term major public health or environmental incident (1yr+)
Moderate (3)	Unsatisfactory performance Service disrupted/ stopped 3-5 days	Adverse national publicity or significant adverse local publicity	Fails to prevent extensive, permanent injuries or LT sickness	Complaint likely, litigation possible Breaches of regs or standards	Financial loss or overspend greater than £50k	Medium term major public health or environmental incident (up to 1yr)
Minor (2)	Marginal reduction in performance Service disrupted/ stopped 1-2 days	Minor adverse local publicity	Medical treatment required, potential long term injury or sickness	Unlikely to cause complaint Breaches of local procedures	Financial loss or overspend greater than £10k	Short term public health or environmental incident (weeks)
Minimal (1)	No significant service impact Service disruption up to 1 day	Unlikely to cause adverse publicity	First aid level injuries		Financial loss or overspend under £10k	Environmental incident with no lasting detrimental effect

RISK LIKELIHOOD

Type	Probability	Detail description
Almost certain (5)	90%+	Without action is likely to occur; frequent similar occurrences in local government/Council history
Probable (4)	60%-90%	Strong possibility; similar occurrences known often in local government/Council history
Possible (3)	40%-60%	Might occur; similar occurrences experienced in local government/Council history
Unlikely (2)	10%-40%	Not expected; rare but not unheard of occurrence in local government/Council history
Rare (1)	0%-10%	Very unlikely to occur; no recent similar instances in local government/Council history