

**MAIDSTONE BOROUGH COUNCIL**

**AUDIT COMMITTEE**

**MONDAY 26 JANUARY 2015**

**REPORT OF HEAD OF FINANCE & RESOURCES**

**Report prepared by Paul Riley**

**1. BUDGET STRATEGY 2015/16 ONWARDS – RISK ASSESSMENT**

**1.1 Issue for Decision**

- 1.1.1 On 17 December 2014 the Cabinet agreed a draft Budget Strategy 2015/16 Onwards and referred the decision to Strategic Leadership and Corporate Services Overview and Scrutiny Committee for consideration.
- 1.1.2 As the remit of the Audit Committee includes consideration of risk it is also appropriate that the decisions are considered by this Committee, with a specific emphasis on the consideration of the risk analysis produced for the Finance Section's service plan.

**1.2 Recommendation of Head of Finance & Resources**

- 1.2.1 That Audit Committee considers the risk assessment of the Budget Strategy provided at Appendix D and makes comment or recommendations to Cabinet for consideration on 11 February 2015.

**1.3 Reasons for Recommendation**

- 1.3.1 On 17 December 2014 the Cabinet considered a draft Budget Strategy 2014/15 Onwards. The update covered three reports one on the revenue strategy, one on the capital strategy and one on fees and charges. The Cabinet decisions are attached as Appendices A - C. Members may wish to review the reports to Cabinet and these are contained within the agenda for 17 December 2014 meeting.
- 1.3.2 Members should note that some of the detail in the reports on the agenda for the Cabinet meeting was superseded by the finance settlement announced in parliament shortly after the Cabinet meeting.

- 1.3.3 A full risk assessment of the proposals agreed by Cabinet are set out in Appendix D of this report.
- 1.3.4 The strategic risk in relation to the budget relates to failure to deliver a balanced budget. The risk assessment given at Appendix D considers operational risks rather than the strategic risk and the actions to mitigate these risks form part of the service plan of the Finance Section for 2015/16. In some cases the risks will also be reflected in other service plans.
- 1.3.5 To assist the Committee's consideration of the risks set out in Appendix D the details of the major monitoring and control processes in place at the Council to identify and act upon any emerging factors that trigger such risks are:
- a) The key control is monitoring and reporting of the budget throughout the year. A reporting process exists that ensures budget managers receive monthly reports and Cabinet and Management Team receive quarterly reports.
  - b) Additional monitoring and reporting occurs in relation to specific financial risk areas examples for 2015/16 include:
    - i. employee costs due to value;
    - ii. major contracts such as the waste contract due to significant single contract;
    - iii. business rates collection levels due to new pooling arrangements;
    - iv. council tax support take-up levels due to the local scheme having significant cost implications;
    - v. income from fees and charges due to the variable influence of demand upon actual levels of income; and
    - vi. outcome of agreed commercial activity due to the added risks during start-up of such activities.
  - c) The Constitution also requires additional reports on the under recovery of any income budget where this is greater than £40,000.
  - d) All of these reports are produced with full accrual of the cost of works or goods received but not paid for at the effective date. They are therefore as accurate as possible.
  - e) The monthly management reports are produced within 10 working days making them as timely as possible. Reports to Management Team and Cabinet are prepared for the next available meeting and incorporate a projected outturn for the

year. The reports identify all necessary actions that must be taken to resolve developing problems and consider other major balance sheet items such as collection rates and treasury management activity.

- f) Officers and senior members have well developed relationships with organisations similar to this Council, such as through the Kent Finance Officers' Association. These relationships ensure a broader range of information flow to and from the Council on financial matters.
- g) The Committee will be aware of a number of governance controls in place including the Corporate Governance group and the Council's relationship with its external auditor which take a high level overview of the controls in place to mitigate these risks. The Council has contractual relationships with advisors such as Sector Treasury Management who advise the Council on specific projects. Also, through links to the Kent Finance Officers' Association, to other advisors who provide specific analysis of major issues such as business rates retention and analysis of the finance settlement for 2015/16.

1.3.6 With monitoring such as this in place the Council is well placed to recognise and act upon emerging trigger events. The mitigating actions taken in each case will be the most appropriate. Depending on the value or consequence of the event it may be reported to the relevant Cabinet Member or Cabinet along with any mitigating action for approval.

1.3.7 Each risk detailed in Appendix D now includes an assessment of the specific situation. This will enable members to set each risk in the context of any mitigation that exists. Each risk also shows the "likelihood / impact" value used to plot the risk on the risk profile chart set out on the final page of Appendix D

1.3.8 Considering the risk profile on the final page of Appendix D it can be seen that the highest risks in terms of both likelihood and impact are risks 4, 6, 10 & 11. These risk areas will receive enhanced monitoring during 2015/16.

- a) Risk 4 in relation to the council tax increase has risen as a risk due to the greater potential for changes to the budget at Council on 25 February 2015. This council now operates in a "no overall control" environment and this makes the potential for late change to the budget greater than in previous years.
- b) Risk 6 in relation to commercial activity has arisen due to the fact that the proposals have been considered by overview and

scrutiny and informally by cabinet members but have not been submitted for formal approval at this time.

- c) Risk 10 in relation to the collection fund is a high risk due to the value of council tax and business rates collected. A small proportionate change in collection rates can be a significant financial value.
- d) Risk 11 in relation to the business rates pool is a high risk issue due to its value, the increase in members of the pool for 2015/16 and the high level of influence over the value of business rates held by central government and the valuation office agency.

- 1.3.9 Should the Committee wish to consider further risks not detailed in Appendix D or vary the impact or likelihood of any risks this will amend the Finance Section's service planning for 2015/16 and will be reported to Cabinet for consideration along with the Medium Term Financial Strategy on 11 February 2015.

#### 1.4 **Alternative Actions and why not Recommended**

- 1.4.1 There is no constitutional requirement for Cabinet to consult with the Audit Committee on this matter. Irrespective of the constitutional requirement the Audit Committee's role in consideration of risk and governance make it appropriate that the Committee considers the risks identified in such a significant strategy and make recommendations to Cabinet regarding their assessment.

#### 1.5 **Impact on Corporate Objectives**

- 1.5.1 The Budget Strategy is developed to complement the Strategic Plan. Resources identified within the budget are therefore focused on delivering the Council's strategic priorities.
- 1.5.2 Any failure to identify and/or adequately mitigate a risk within the Budget Strategy may have a direct consequence on the delivery of strategic priorities.

#### 1.6 **Risk Management**

- 1.6.1 Risks identified within the strategy and considered in this report will be monitored by the Finance Section as part of the section's service plan objectives. Any risk not identified will not be formally monitored and could increase the possibility of failure of the strategy.
- 1.6.2 The risks identified are comprehensive and have been subject to debate with Internal Audit, Corporate Leadership Team and Cabinet

and are now presented to Audit Committee. If unidentified risks remain the key mitigation is horizon scanning and coordinated working across Kent to ensure the risk is identified as early as possible.

## 1.7 **Other Implications**

1. Financial	X
2. Staffing	
3. Legal	
4. Equality Impact Needs Assessment	
5. Environmental/Sustainable Development	
6. Community Safety	
7. Human Rights Act	
8. Procurement	
9. Asset Management	

1.7.1 The financial implications are set out in the body of the report.

## 1.8 **Relevant Documents**

### 1.8.1 Appendices

- Appendix A – Record of decision Budget Strategy 2015-16 Onwards – Revenue
- Appendix B – Record of decision Budget Strategy 2015-16 Onwards – Capital
- Appendix C – Record of decision Budget Strategy 2015-16 Onwards – Fees & Charges
- Appendix D – Risk Analysis.

**IS THIS A KEY DECISION REPORT?**

Yes

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No

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If yes, when did it first appear in the Forward Plan?

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This is a Key Decision because: .....

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Wards/Parishes affected: .....

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