

**MAIDSTONE BOROUGH COUNCIL**

**AUDIT COMMITTEE**

**MONDAY 10 FEBRUARY 2014**

**REPORT OF DIRECTOR OF REGENERATION AND  
COMMUNITIES**

**Report prepared by Paul Riley**

**1. BUDGET STRATEGY 2014/15 ONWARDS – RISK ASSESSMENT**

**1.1 Issue for Decision**

- 1.1.1 On 18 December 2013 the Cabinet agreed an update for the Budget Strategy 2014/15 Onwards and referred that update to 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 decision is 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 12 February 2014.

**1.3 Reasons for Recommendation**

- 1.3.1 On 18 December 2013 the Cabinet considered an update to the 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 18 December 2013 meeting.
- 1.3.2 Members should note that some detail in the reports on the agenda for the Cabinet meeting was superseded by the finance settlement announced in parliament on the day of the Cabinet meeting. Because of the announcement Cabinet took a verbal update to the reports and the records of decision vary from the detail of the reports in some respects.

- 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 2014/15. 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 2014/15 include:
    - i. employee costs due to value;
    - ii. major contracts such as the new waste contract due to significant single contract;
    - iii. business rates collection levels due to new retention proposals;
    - iv. council tax support take-up levels due to new local scheme; and
    - v. income from fees and charges due to the variable influence of demand upon actual levels of income.
  - 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 2014/15.

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 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 8 and 12. These are the risk from horizon scanning and the risk from the medium term strategy.

- a) Risk 8 in relation to Horizon Scanning arises from the developing complexity and speed of financial developments in central government. This is indicated by the increasing delays to announcements and the continual change to regulations and information produced by government departments such as the department of Communities & Local Government. The Council mitigates these issues by engagement in nation initiatives and supporting national working parties along with the use of briefings and updates from professional organisations along with links to Kent authorities as well as authorities wider afield.
- b) Risk 12 in relation to the medium term strategy arises from the recent indications from central government that the austerity measures are expected to continue through the life of the next parliament to 2020. During 2014/15 the Council will be developing a new strategic plan for the period 2015 to 2020

and it is intended that the budget strategy will be completely reviewed in line with the strategic plan and the most likely levels of reduction.

1.3.8 Other critical risks, considered less likely are numbers 3, 5, 6, 9 and 11. These are:

- a) Risk 3 is the potential failure of national strategy which has become less likely to produce unexpected consequences however the strategy will continue for longer and the outcome for local government becomes less clear over such an extended period of time. Effective use of planning through the budget strategy helps mitigate this risk;
- b) Risk 5 is the consequence of the failure of service based income sources such as fees and charges. As the financial support from central government diminishes such income sources will need to be resilient to enable the Council to increase its self-sufficiency;
- c) Risk 6 is the availability of funding for the capital programme which relies almost entirely upon new homes bonus at this time. The Council has an ambitious capital programme given the economic climate and evidence shows that it is successful. The government has announced a review of the new homes bonus scheme during 2014/15 and the Council needs to be prepared to manage its programme within the parameters identified by the review;
- d) Risk 9 is the efficiency targets sets by the budget strategy which are becoming more and more difficult to identify and manage. While regular monitoring enables failure of a given efficiency to be identified and managed it does not assist in enabling proposals that are not successful and can only enable mitigation of failed proposals to the extent that other resources can be identified; and
- e) Risk 11 is the business rates pooling arrangements with Kent County Council which requires the Council to be confident that business rates income will grow from the government set baseline in 2014/15. There are a number of possible causes of loss and each has been assessed and to the extent possible provisions have been made for potential loss. While it is expected that the outturn will be at or slightly above the target set it remains a risk that a major loss of business rates could occur in year meaning a greater loss to the Council due to the removal of the safety net.

1.3.9 The other likely risk considered less critical in impact is 4b. This is the referendum limit and arises because, at the time of writing this report, the Government has not announced the referendum limit for 2014/15. Should the limit be a percentage less than 2% then the strategy will have to be revised in order to avoid the potential cost of a referendum. As it would be difficult to identify further savings that could be delivered with immediate effect this risk remains significant enough for consideration. The referendum limit will be announced before the Council meeting that sets the Council tax for 2014/15 and as such this risk will expire by the necessary date.

1.3.10 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 2014/15 and will be reported verbally to Cabinet for consideration along with the Medium Term Financial Strategy on 12 February 2014.

#### 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 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
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 2014-15 Onwards – Capital
- Appendix B – Record of decision Budget Strategy 2014-15 Onwards – Fees & Charges
- Appendix C – Record of decision Budget Strategy 2014-15 Onwards - Revenue
- Appendix D – Risk Analysis.

**IS THIS A KEY DECISION REPORT?**

Yes

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No

☒ X

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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