

AUDIT COMMITTEE – 24 JULY 2018

PART I – DELEGATED

11. **FINANCIAL AND BUDGETARY RISKS** (DoF)

1. **Summary**

1.1 This report enables the Committee to monitor the Council's financial and budgetary risks.

2. **Details**

2.1 The Audit Committee's terms of reference include the consideration of the effectiveness of the authority's risk management arrangements. A key element of this is the monitoring of budgetary and financial risks, which officers report on a monthly basis. Appendix 1 shows the latest position of the risks monitored by this Committee. This report follows the current format of the risk register; this will be revised for the next meeting of the committee.

3. **Options/Reasons for Recommendation**

3.1 The recommendation enables the Committee to consider the financial and budgetary risks facing the Council, to note the latest position and comment on the officers assessment of the likelihood and impact of a risk occurring.

4. **Policy/Budget Implications**

4.1 The recommendations in this report are within the Council's agreed policy and budgets.

5. **Legal, Equal Opportunities, Staffing, Environmental, Community Safety, Customer Services Centre, and Website Implications**

5.1 None specific.

6. **Financial Implications**

6.1 There are no changes to the budget agreed by Members as a result of this report.

7. **Risk Management Implications**

7.1 There are no risks associated with the decision members are being asked to take.

8. **Recommendation**

8.1 That the Committee considers the financial and budgetary risks facing the Council, notes the latest position and comments on the officers assessment of the likelihood and impact of a risk occurring.

Report prepared by: Bob Watson - Head of Finance

APPENDICES

Appendix 1 – Financial & Budgetary Risks

Financial and Budgetary Risks

Risk No.	Type of Risk	Comment	Risk Impact	Risk Likelihood
7	The Medium term financial position worsens.	In that the general fund balance falls below the minimum prudent threshold and capital funding is insufficient to meet the capital programme. This appears as item no.8 in the Council's strategic risk register.	IV	D
8	Revenue balances insufficient to meet estimate pay award increases	The medium term planning period takes into account increases for the period 2018/19 to 2020/21. If there is a change due to government policy, then every effort would be made to secure extra funding for any increase.	III	D
9	Revenue balances insufficient to meet other inflationary increases	Other than contractual agreements, budgets have been cash limited where possible.	II	D
10	Interest rates resulting in significant variations in estimated interest income	The interest rate has a significant impact on the proceeds from capital receipts that are invested in the money market. The volatility of the global economy continues to place uncertainty on the investment strategy. The PIB strategy has diversified investment income to provide a more certain rate of return.	IV	C
11	Inaccurate estimates of fees and charges income	See Key Budget Indicators shown in the latest Budget Monitoring report. Green waste and Parking charges monitored by Management Board at each meeting.	V	E
12	Revenue balances insufficient to meet loss of partial exemption for VAT	If the council's expenditure on functions for which it receives income that is exempt for VAT purposes exceeds 5% of its total vat able expenditure, then the Council may lose its ability to recover VAT on all of its exempt inputs. This is mitigated by close monitoring of exempt supplies and prudent VAT planning. The Council elects to tax on development schemes.	III	E
13	The estimated cost reductions and additional income gains are not achieved	Savings identified and included in the budget will be monitored as part of the budget monitoring process. Property income target of £1m will be achieved once recent acquisitions are completed. See fees and charges above.	IV	E

Financial and Budgetary Risks

Risk No.	Type of Risk	Comment	Risk Impact	Risk Likelihood
14	The Council is faced with potential litigation and other employment related risks	The Council has no outstanding litigation cases.	III	E
15	The amount of government grant is adversely affected	The grant settlement for 2017/18 and provisional settlements for 2018/19 and 2019/20 have been factored into the MTFP. The Council decided to accept the Government's offer of a four year settlement.	II	E
17	Right to Buy Receipts & VAT Shelter Receipts	Under the housing stock transfer with Thrive Homes Limited (THL) the Council is entitled to use its share of the proceeds to fund the capital programme. The level of activity on these income streams are outside the Council's control.	II	E
18	Fluctuations in Business Rates Retention	The Council is legally obliged to cover the first 7.5% loss on its pre-determined baseline level.	IV	C
19	Failure to deliver the South Oxhey Initiative to desired outcomes and objectives	This is a key project. This appears as item no.7 in the Council's strategic risk register. Phase 1 delivered.	IV	D
20	Failure of ICT systems	The Council's integrated Financial Management System (FMS) is held on an ICT platform. If this were to fail then potentially there will be a loss of functionality occurring during any downtime.	III	E

Note: The risk numbers relate to the Council's risk register. Risk numbers 1-6 do not relate to finance or budgetary risks.

Financial and Budgetary Risks

Matrix Key

		Impact					Likelihood	Impact
		I	II	III	IV	V		
Likelihood	A						A equal to/or > 98%	V = Catastrophic
	B						B = 75% - 97%	IV = Critical
	C						C = 50% - 74%	III = Significant
	D						D = 25% - 49%	II = Marginal
	E						E = 3% - 24%	I = Negligible