

# WYRE FOREST DISTRICT COUNCIL

## CABINET

21<sup>ST</sup> DECEMBER 2006

### RISK MANAGEMENT AND THE BUDGET PROCESS

<b>COMMUNITY STRATEGY THEME:</b>	-
<b>CORPORATE THEME:</b>	Improving Corporacy & Performance
<b>KEY PRIORITY:</b>	Financial & Asset Management
<b>STRATEGY:</b>	Budget & Policy Framework
<b>CABINET MEMBER:</b>	Councillor John Gampion
<b>RESPONSIBLE OFFICER:</b>	Head of Financial Services
<b>CONTACT OFFICER:</b>	K. Bannister Ext. 2100
<b>APPENDIX 1</b>	Risk Matrix
<b>APPENDIX 2</b>	Budgetary Response
<b>AN OPEN ITEM</b>	

#### **1. PURPOSE OF REPORT**

- 1.1 To provide members with information on risk management and the budget process.

#### **2. RECOMMENDATION**

The Cabinet is asked to **RECOMMEND** :-

- 2.1 **That the Cabinet endorse the Budget Risk Management process and consider the contents of this report in arriving at the Budget Strategy for 2007/2010.**

#### **3. BACKGROUND – LOCAL AUTHORITIES AND RISK**

- 3.1 The assessment of significant risks and the recommendation of appropriate financial provision to cover them has always been an integral part of the budget process.
- 3.2 This Council faces the following types of risks, these play an intrinsic part in the budgetary process and examples of cross reference points in other sections of the suite of budgetary reports are given in a format suggested by the Chartered Institute of Public Finance and Accountancy (CIPFA).

##### **a) Governance/ Regulatory Framework Changes**

Examples include : Changes in Grant Settlement e.g. Housing Benefit Subsidy changes  
: Central Government's push for T Government  
: Central Government's increased recycling targets  
: New/changed legislation e.g. change in Concessionary Travel responsibilities

**b) Operational**

Examples Include : Any changes in the delivery of service i.e. Recycling  
: Worcestershire Hub  
: Centralised Office Accommodation/Depot  
: New Civic Hall

**c) Financial**

Examples include : Reserves, balances and contingencies  
: Budgetary Control

**d) External**

Examples include : External Funding, Partnerships, Worcestershire Hub,  
Shared Services  
: Demographic/economic changes e.g. inflation, pay/price  
increases, pension contributions  
: Impact of interest rate movements on affordability  
assessment  
: Increased demand for services/new services.

**4. KEY ISSUES**

4.1 All local authorities are required to formalise their approach to risk management and evidence it more directly as part of the budgetary process. This requirement has arisen as a result of :-

a) *The Accounts and Audit Regulations 2003:-*

**Regulation 4-** “The relevant body shall be responsible for adequate and effective financial management and a sound system of internal control which includes risk management arrangements.

**Regulation 5-** “The Chief Financial Officer to be responsible for accounting records and control systems including measures to ensure risk is appropriately managed.

b) *New CPA 2005 - Use of Resources - Auditor Assessment*

The Audit Commission has introduced a new annual assessment on how well the Council manages and uses its financial resources. The assessment focuses on the importance of having sound and strategic financial management to ensure resources are available to support the Council’s priorities and to improve services. It covers :-

- Financial Reporting;
- Financial Management;
- Financial Standing;
- Internal Control; and
- Value for Money.

The overall Use of Resources score judgement will be based on combining the auditors' scores for each of the five areas covered. The judgement for each area consists of a number of key lines of enquiry (KLOE) and areas of audit focus and evidence. Risk management comes under the area of internal control. The KLOE in respect of risk management assesses how effectively the Council manages its significant business risks, including risk management of the budget process.

c) *Prudential Framework:-*

The assessment of affordability of financial plans requires a judgement about risk. Prudential Indicators are the monitoring tool to assess performance and risk.

d) *CIPFA Guidance on Reserves and Balances:-*

Highlights the need to consider risks facing the authority.

4.2 The objective of risk management within the budget process is to agree acceptable levels of exposure to risk so the probability of these factors preventing the Council from achieving our corporate objectives is minimised whilst being clearly identified and managed.

4.3 The risk management issues relating to the budget process in this report are included in the Council's Corporate Risk Management Strategy.

## **5. FINANCIAL IMPLICATIONS - MANAGING (MINIMISING THE RISK TO ACCEPTABLE LEVELS)**

5.1 Once identified, risk within the budgetary process can be managed in a number of ways as follows:-

- a) Transferring
- b) Avoiding
- c) Management/mitigation
- d) Accepting

Evidence to show the Authority manages the budgetary process is as follows :-

5.2 The Role of the Council's Finance Strategy.

This plays a key role in managing the risk of exposure for the Council. This Strategy and guidance gives:-

- A clear timetable with individual responsibilities ;
- Monitoring of progress – Details of how this will be achieved;
- Consultation details;
- Level of resources available;
- Savings required (when applicable);
- Service priorities and pressures; and
- Budget Monitoring – Regular quarterly reports to the Cabinet with presentations of financial forecast.

5.3 The budget process adopted within Wyre Forest is such that it is an open and inclusive approach involving Service Managers who have a great degree of ownership, the Council:-

- Uses the Corporate Management team to “lead” the budget process;
- Consults Service Managers when developing new guidance;
- Communicates clearly with involved parties;
- Ensures Service Departments are given the opportunity to present their budgets to the Budget Review Group, and
- Devolves budget responsibility.

The integration of service and financial processes via the Corporate Plan, Finance, Community and other various Strategies has resulted in increased member awareness, this Council continues to ensure :-

- Members are involved at an early stage;
- Officers work with members in developing the budget strategy, and
- Decision making in Policy and Scrutiny Panels is informed by joint consideration of service plans and available resources.

The Authority is progressing with embedding risk management and corporate/divisional risk registers have been finalised. These risk registers detail risk and how they are being managed. These registers have been reviewed to ensure that all items have been reflected as appropriate in the Appendices.

5.4 Performance Management during the financial year is such that the quarterly Budget Monitoring Report is informed by the Risk Management process. Its development will continue and it will be further enhanced to report in the context of overall aims and objectives and ensure the information is accessible and provided in a “user friendly” form.

The system on the monitoring of Prudential Indicators promotes “early warning” of problem areas as they will be recalculated based on budget proposals and reported to members.

The new Financial Management System implemented in July 2005 will continue to be developed to enhance financial and performance information provided to managers, in order to enable better monitoring and to lead to improved financial performance for the Authority.

## **6. LEGAL AND POLICY IMPLICATIONS**

6.1 Sound corporate governance requires budgets be regularly and rigorously monitored. This best practice in place at Wyre Forest gained statutory footing on 1<sup>st</sup> April 2004 under Sections 25 to 29 of Part 2 of the Local Government Act 2003. This Act imposes duties on local authorities designed to ensure they make prudent

allowance for risk, and uncertainties in their budgets and they regularly monitor their finances during the year.

## **7. RISK MANAGEMENT ASSESSMENT – THE BUDGET RISK MATRIX**

- 7.1 Appendix 1 shows this Council's Budget Risk Matrix highlighting the issues which have been dealt with in the budgetary process. Appendix 2 details the budgetary response to each issue which is largely dependant on its assigned "Risk Quadrant" which is explained below:-

Note: High impact is risk assessed to be in excess of £100,000 in line with the Risk Management Implementation Strategy.

### **7.2 Risk Quadrant 1**

Issues which have Low Risk and Low Impact – most of these do not represent an immediate problem and are kept under periodic review.

### **7.3 Risk Quadrant 2**

Issues which have High Risk but Low Impact for which we should consider action.

### **7.4 Risk Quadrant 3**

Issues which have Low Risk but High Impact for which we should review the risk and consider making contingency plans.

### **7.5 Risk Quadrant 4**

Issues which have High Risk and High Impact – for which immediate action is needed.

## **8. CONCLUSION**

- 8.1 Risk Management has a high profile within the budgetary process and this report aims to focus on the key issues for members and senior officers.
- 8.2 The adoption of the Risk Matrix facilitates the identification, assessment enabling appropriate management of risks.

## **9. CONSULTEES**

- 9.1 CMT/Councillor John Campion

## **10. BACKGROUND PAPERS**

- 10.1 Local Government Act 2003  
10.2 Local Authorities (Capital Finance and Accounting Regulations) 2003  
10.3 CIPFA Prudential Code for Capital Finance in Local Authorities  
10.4 Risk Management Policy - Council 17<sup>th</sup> April 2002  
10.5 Risk Management Implementation Strategy - Executive 13<sup>th</sup> February 2003  
10.6 Audit Commission Use of Resources Guidance for Councils June 2005