Risk management update

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1. Summary/link to the County Plan

1.1   The role of the Audit Committee is to ensure there is an effective process for managing risks across the County Council. This report seeks to provide assurance on risk management processes and management actions being undertaken in accordance with the Council's policies and procedures.

1.2   The aim of risk management is to identify business risks and effectively manage them in line with the County Council's Risk Management framework.

1.3   Effective risk management can have a major impact on the achievement of the objectives, policies and strategies of the authority and relates to all the priorities within the County Plan.

2. Issues for consideration

2.1   The Committee is asked to :
   i)   note the latest position with managing strategic risks as set out in this report and Appendix A.

   ii) note the latest position with services implementing recommended actions for SWAP internal audit partial assurance reports as set out in Appendix B

3. Background

3.1   SRMG meets monthly with nominated officer representation from across the organisation. SRMG identify, monitor, review and report strategic risks to Senior Leadership Team (SLT).

3.2 The role of the Audit Committee is to ensure there is an effective process for managing risks across the County Council and it receives a Risk Management update on a quarterly basis. If necessary, Audit Committee is able to question Cabinet Members and Senior Managers about their risk management actions and controls in order to ensure risks remain within tolerance.

3.3 **Critical Risks facing the Council**

SLT has recently reviewed the following critical strategic risks facing the Council and the management actions being taken:

ORG0043 Maintain a sustainable budget – since the last update the risk score has been reviewed and maintained at a level of 20 (very high) as at the end of May 2017. The risk score reflects the on-going financial difficulties that demand in care services is placing on our budgets as reported in the first financial projections for the Revenue Budget 2017/18.

3.4 As outlined in previous reports, the Government has significantly reduced the levels of funding in Local Government. The Council faces on-going challenges both within the current financial year and in developing a balanced budget for its Medium Term Financial Plan 2017/18 to deliver its 2020 Vision.

3.5 The financial climate for local authorities is particularly uncertain both in relation to the totality of resources available for the sector and the distribution of those resources. The Council continues to lobby for fairer funding for Somerset but Members need to be aware that many other councils face similar financial challenges.

3.6 The 2017/18 financial year cannot be considered in isolation as it is becoming increasingly important to hold reserves capable of smoothing transition and enabling the Council to manage service change in an effective manner.

3.7 As reported previously, not being able to balance the budget has more serious consequences for councils than the public may realise because it is a legal requirement under the Local Government Finance Act 1988.

3.8 The 2016/17 Revenue Budget outturn report was reported to Cabinet on 14 June. The outturn position showed an overspend of £7.049m (which represents 2.26% of the approved budget). The level of overspend took temporarily the Council's General Reserves balances below the minimum recommended range given the size of the budget and taking into account the annual financial risk assessment. The level of reserves will be replenished by the Council Tax collection fund surplus of around £5m. A survey of county councils recently showed that most councils had to use reserves to manage budgets and that on average around £4.5m was used.

3.9 An early review of the 2017/18 Revenue Budget projections is likely to show a potential significant overspend in key services such as Children's Social Care, Adults Social Care and Learning Disabilities services as they continue to manage considerable increases in demand. The risk is that this trend will continue for at least part of the 17/18 financial year. We need to be prepared to divert resources to support these areas of spend, recognising that the contingency budget is only £7.5m and this has been used in previous years to offset the non-delivery of agreed MTFP savings proposals. The availability and use of reserves is critical in being able to manage spikes in demand and costs incurred. This must be balanced against the risk of other services coming under financial pressure.

3.10 SCC faced similar financial challenges during 2016/17 and put in place a rigorous management plan to address overspend pressures. These management actions are likely to remain a constant feature of achieving a sustainable budget position for the next few years. Audit Committee can be assured that the Senior Leadership Team and Cabinet will continue to manage the financial position, robustly challenge any overspends, implement management actions and develop options in order to bring the overall budget back into balance. The Section 151 Officer will continue to provide financial support, present options and give advice to SLT and the Cabinet to help maintain a sustainable budget for 2017/18 and to generate sufficient savings options as part of the development of the MTFP 2018/19.

3.11 Strategic Risks – summary position

The summary position for the Council's corporate and strategic risks (attached at Appendix A) sets out the risk scores assessed by relevant SLT Directors.

3.12 Strategic risks are those which affect the council's strategic goals and objectives e.g. the council's statutory duties for safeguarding adults and children. The Senior Leadership Team and individual SLT Directors regularly review the strategic risks in Appendix A.

3.13 Officers have compared the latest position with the last update to the Audit Committee in January 2017 and the following is highlighted :

Dimension and Objective	RAG status	
	Jan 17	May 17
Very High risks (red)	4	4
High risks (amber)	5	4
Medium risks (yellow)	5	6
Low risks (green)	1	1

Overall our risk position remains the same as reported previously, and the main change has been:

- (ORG0010) – Safeguarding Adults score moved from 15 (high) to 12 (medium).

The four 'Very High' risks with a minimum score of 16 are:

- (ORG0043) Maintain sustainable budget – score of 20
- (ORG0036) Partnership working – score of 20
- (ORG0009) Safeguarding Children – score of 20
- (ORG0032) Information Governance – score of 16

3.14 In addition to details in 3.3-3.11 about ORG0043, the following provides further information regarding the other very high risks:

- ORG0009 (Safeguarding Children) remains at a score of 20 (very high). Progress for the first year of the Children and Young People's Plan has been reported to the Children's Trust Executive and the Cabinet. The Children's Trust Executive is pleased with the progress against the 7 Improvement Programmes, but recognises there is still much work to be done. Action plans for 2017/18 have been drawn up with a focus on a stepped improvement over this second year to ensure year 3 achieves the outcomes of the CYPP in 2019. Ofsted quarterly monitoring visits have concluded adequate progress is being made and DfE intervention has confirmed a "significant improvement" in Somerset's Children's Services, including more manageable case-loads, a more stable workforce and better partnership working as reported by the Minister in December 2016. Despite this, until a re-inspection, services are judged inadequate and there is a corporate risk for Safeguarding Children that has a very high risk rating. Change is evident but universal improvement remains is a challenge.

- ORG0032 (Information Governance) remains at its previous score of 16 (very high) due to the requirements of the European Union General Data Protection Regulation which comes into force in May 2018.

- ORG0036 (partnerships) remains at a score of 20 following the Brexit referendum result and changes in national government providing uncertainty for levels of future funding for significant strategic partnership programmes like the LEP and Devolution proposals.

3.15 Assurance on the overall risk management process is provided through the Annual Governance Statement and no significant issues have been identified for risk management from 2016/17. Nevertheless, there has been an increase in the level and scale of business risk that the Council faces to deliver its priorities and services. This has been evidenced not just by JCAD and specific reports but also an increase in Internal Audit reports with Level 4/5 recommendations for action by services. Audit Committee continues to take an active role in reviewing services' progress with actions relating to Level 4/5 recommendations.

3.16 The Council also recognises, however, that risk management is as much about exploiting opportunities as it is about managing threats. Risks need to be managed rather than avoided, and consideration of risk should not stifle innovation. In some cases the Council may wish to accept a relatively high level of risk because the benefits of the action outweigh the risk or disadvantages on the basis that the risk will be well managed.

3.17 Level 4/5 internal audit recommendations

At the 26 March 2015 meeting, Audit Committee members decided that all audits where SWAP can only offer "partial" assurance must come back to a future Audit Committee as part of the "follow up" process, and that agreed actions rated as 4 (Medium / High) or 5 (High) need to be formally recorded and tracked through to completion. Audit Committee receive six monthly updates setting a summary of progress.

A summary of the Level 4 / 5 partial assurance audits is set out in Appendix B. It should be highlighted that the Audit Committee has held a number of additional meetings during 2016 and 2017 to receive updates from relevant officers regarding progress with action plans.

3.18 Council wide mitigations and communicating the risk management culture

One of the key elements of the Risk Management Policy and Strategy is the review of risks and application of mitigations on a proportionate basis according to their risk score. This is intended to focus available resources on the areas of highest risk and reflect an increased tolerance of medium and high risks due to the scale of change and financial challenges to the Council.

4. Consultations undertaken

4.1 Strategic Risk Management Group (SRMG) continues to review risk management and the Strategic Risk Register regularly and escalate any issues as necessary to the Senior Leadership Team.

5. Implications

5.1 The risk management reporting arrangements ensure that both senior managers and elected members have regular review of key organisational risks on a regular basis. Coupled with the Performance Dashboard reporting this improves management information and where any urgent management action / resources need to be directed.

5.2   Risk Management is integral to the Corporate Governance Framework and supports the Annual Governance Statement. How successful we are in dealing with the risks we face can also have a major impact on the achievement of our corporate priorities and the delivery of services.

5.3   There is a risk of external challenge around the effectiveness of the decisions made if the Council's risk management process is not seen to be adhered to in these times of change.

6. Background papers

6.1   Council's Risk Management Policy and Strategy agreed by Cabinet in October 2016
Previous update reports to Audit Committee

Note For sight of individual background papers please contact the report author

RAG Priority Matrix

		Insignificant 1	Minor 2	Significant 3	Major 4	Critical 5
Likelihood (a)	**Very likely 5**	**5 Low** at least annual	**10 Low** At least annual	**15 High** Monthly	**20 Very High Monthly**	**25 Very High Monthly**
	Likely 4	**4 Low** At least annual	**8 Low** At least annual	**12 High** Monthly	**16 Very High Monthly**	**20 Very High Monthly**
					Escalate To SRMG	
	Feasible 3	**3 Low** At least annual	**6 Low** At least annual	**9 Medium** Quarterly	**12 High** Monthly	**15 High** Monthly
	Slight 2	**2 Low** No action required	**4 Low** At least annual	**6 Low** At least annual	**8 Medium** Quarterly	**10 High** **Business Continuity Plan Annual**
	Very unlikely 1	**1 Low** No action required	**2 Low** No action required	**3 Low** At least annual	**4 Medium** Quarterly	**5 High** **Business Continuity Plan Annual**

Impact (b)