

## Quarterly Risk management update

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Cabinet Member: Cllr D Hall, Cabinet Member for Resources and Member

Champion for Risk

Division / Local Member: All

### 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 note the latest position with managing strategic risks as set out in this report and Appendix A.

### 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 July 2017. Last year, 2016/17, there was a year-end overspend of £7.049m, with the main areas of overspend in Adults and Children’s services. The demands upon these services have not reduced in the early part of this financial year and are not likely to over the course of the year. The transformational work under way to improve demand management and simultaneously improve outcomes for vulnerable children and adults is well under way. The additional funding from government alongside the management action in adults is keeping this budget under control. There has been no additional funding for children services and management action is struggling to change patterns of expenditure.

- 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 2018/19 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 Revenue Budget monitoring report being considered at Cabinet on 27 September sets out a projected net overspend of £10.054m (further details of this can be found in the Cabinet report) when compared to the Revenue Budget. This represents 3.22% of base budget. The majority of the overspend lies in the Children’s Services budgets and most other areas of the Council are within reasonable tolerance although some corporate and support budgets are under pressure.

**3.9** The implication of this early forecast is that Cabinet and the Senior Leadership Team will need to take some immediate actions to address the overspend projections. Given last year's position, there are already 5 high priority projects under way (all but one of which are affecting children's services budgets) to identify ways of reducing spending and managing demand. These are having some success in reducing overspend and delivering MTFP savings but are projects that in some cases span last year, this year and next before coming to fruition.

**3.10** If the overspend were to be at the same level by year end, this would significantly reduce the Council's General Balances placing them well below the recommended range.

We have to face up to the increasing demand and devise better ways of managing the increases while continuing to provide statutory services.

The availability and use of reserves is critical in being able to manage spikes in demand and costs incurred. Our corporate risk register recognises this and we will put mitigating actions in place to reduce the level of overspends wherever possible.

**3.11** SCC faced similar financial challenges during 2016/17 and put in place a rigorous management plan to address overspend pressures. 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.

### **3.12 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.

**3.13** 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.

**3.14** Officers have compared the latest position with the last update to the Audit Committee in June 2017 and the following is highlighted :

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

Overall our risk position remains the same as reported previously.

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

- (ORG0043) Maintain sustainable budget – score of 20 (no change)
- (ORG0036) Partnership working – score of 20 (no change)
- (ORG0009) Safeguarding Children – score of 20 (no change)
- (ORG0032) Information Governance – score of 16 (no change)

**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 and changes in national government providing uncertainty for policy directions and levels of future funding for significant strategic partnership programmes like integrated working with the NHS and CCG, 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 and the next update is scheduled for the meeting on 25 January 2018.

**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  
Revenue Budget monitoring report as at end of July 2017 to be considered at Cabinet on 27 September 2017

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

# RAG Priority Matrix

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