Somerset County Council
Audit Committee – 25 January 2018

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 and in particular the critical risk outlined in paragraphs 3.3-3.20.

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 Strategic Risk facing the Council

SLT has recently reviewed the following critical strategic risk 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 increased to the maximum score of 25 (very high) as at the end of December 2017. Last financial year, 2016/17, there was a year-end overspend of £7.049m, with the main area of overspend being in Children's and Adults services. The demands upon these services have not reduced throughout 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.

SCC is therefore in a position where we are trying to mitigate pressures across the whole Council as well as in those core care services to off-set the overspend while transformation takes place in line with our MTFP themes as trailed in budget papers throughout last financial year.

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 for month 6 was considered at Cabinet on 15 November and this set out a projected net overspend of £9.098m (further details of this can be found in the Cabinet report) when compared to the Revenue Budget. This represents 2.92% 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. The position is exacerbated by 32% of agreed MTFP savings for 2017/18 no longer being deliverable.

3.9 Cabinet and the Senior Leadership Team have taken 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 In terms of the MTFP 2018/19, in July 2017, the Cabinet agreed to continue the approach of identifying savings using the previous MTFP themes. This is an outcome led, commissioning approach to redefining services to meet residents' needs and maximise available resources in favour of the Council's priorities. It is fundamental that the Council takes a longer-term approach but funding uncertainty is making that more difficult.

3.12 The main requirement is to ensure that the Council has a balanced budget for 2018/19 in time for approval at February's Full Council Meeting. Future years can be further refined as the MTFP cycle continues.

3.13 The MTFP gap increases and decreases constantly as various factors affect our budgetary position. On the positive side, the increased levels of funding received via the Improved Better Care Fund along with a stabilisation of costs in Adult Social Care and Learning Disabilities have helped to reduce forecasted pressures in these services.

In terms of our funding, estimates have been received from District Councils for Taxbase numbers and collection fund surplus and these are sufficiently buoyant to include as an additional income of £0.550m regarding taxbase and £1m in terms of the collection fund.

However, on the negative side, as part of the annual roll-over process of the MTFP, we have reviewed the existing and future delivery of savings agreed for the 2017/20 MTFP, and it is clear that some of those savings are no longer considered to be deliverable. In line with setting a robust budget we have taken these into account and had to re-adjust savings values required to balance the budget. In addition, the probable pay award pressure at 2% will add to SCC costs by approximately £2.2m and this has been included in our estimates at present. These factors have resulted in the overall gap in 2018/19 being £13m.

3.14 In terms of the Revenue Budget, the Cabinet and the Senior Leadership Team have taken a strategic approach to the development of savings proposals required to close the gap of £13m. The focus for delivering savings will be primarily through a comprehensive review of all existing and planned contracts reducing our third party spend.

Some of the savings in our contractual expenditure will be made via better procurement, working with our supply chain to reduce rates and unit costs but we must also try to reduce demand and the volume of activity put through those contracts. In some instances we will have the opportunity to revisit contracts about to expire and this provides the chance to rethink how we approach the market for the provision required and really examine what outcomes are most needed.

3.15 The second area of focus will involve trying to identify a number of smaller projects that will manage demand or find efficiencies within services. This will entail looking at our staffing and particularly management levels throughout the organisation to see if we can use technology better to try and see where any further efficiencies can be made. Inevitably, with the pressures we face, having lost a further £10m in government grant with no permanent solution likely until 2020/21, we need to look to fund services through a combination of these savings and by increasing council tax to ensure we meet our statutory functions.

3.16 In terms of the proposed Capital Investment Programme, the shortage of capital funds is a known issue for all county councils and representations have been made to DCLG through the consultations on the Fairer Funding Review last summer that government has to recognise the pressures on councils to meet the growing need.

The national push to increase the number of houses built is being addressed in Somerset but the consequence is a need to match this with highways and schools infrastructure. Of course, there is a lag between the investment required by councils and the additional council tax that ensues from the new housing. The increase in the taxbase may be as much as £2m if the scale of development is approved under the HIF bid.

The developer contributions have never been enough to cover this up-front investment and it seems the viability in some developments is putting a downward pressure on their willingness or ability to agree to s106 contributions. This only serves to create a bigger pressure on SCC and other councils to meet the infrastructure costs themselves.

3.17 The level of funding SCC will receive as a minimum from Government for 2018/19 in the form of grants will be £29.7m.

3.18 However, the likely scale of the capital investment needed will exceed our available resources but we have to await the outcome of announcements by government before we can gauge the real gap. The provisional Capital Investment Programme may therefore be amended when presented to the February Cabinet and Full Council meetings.

3.19 The MTFP 2018/19 will be considered at the three Scrutiny Committees during late January ahead of Cabinet on 12 February then making recommendations to Full Council's February meeting. Until the proposed budget for 2018/19 and the necessary savings targets are approved at Full Council then the risk score for ORG0043 will remain 25.

Cabinet and the Senior Leadership Team introduced the 10-Point Plan in September 2016, to help reduce the in-year deficit. This is now being brought into use again, to help mitigate against projected deficits in 2017-18 and 2018 - 19.

3.20 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 proposals to achieve a balanced budget for 2018/19.

3.21 **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.

3.22 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.

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

Dimension and Objective	RAG status	
	Dec 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 generally the same as reported previously.

The four ‘Very High’ risks with a minimum score of 16 are:
- (ORG0043) Maintain sustainable budget – score of 25 (increased)
- (ORG0009) Safeguarding Children – score of 20 (no change)
- (ORG0036) Partnership working – score of 20 (no change)
- (ORG0032) Information Governance – score of 16 (no change)

3.24 In addition to details in 3.3-3.21 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 the Ofsted re-inspection report is published in late January, 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.

3.25 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.

3.26 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.

3.27 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 latest position with Level 4 / 5 partial assurance audits will be reported to the next Audit Committee meeting in March as part of the proposed Internal Audit Plan. It should be highlighted that the Audit Committee has held a number of additional meetings during 2017 to review progress with action plans on specific partial audits.

3.28 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 month 6 2017 considered at Cabinet on 15 November 2017
Medium Term Financial Plan 2018/19 update considered at Cabinet on 15 November 2017

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

RAG Priority Matrix

Likelihood (a)						
	Very likely 5	**5 Low** at least annual	**10 Low** At least annual	**15 High** Monthly	**20 Very High Monthly** Escalate To SRMG	**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**
	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**
		Insignificant 1	**Minor 2**	**Significant 3**	**Major 4**	**Critical 5**

Impact (b)