

Quarterly Risk management update

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Cabinet Member: Cllr M Chilcott, 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 3.3-3.15.

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 remains at the maximum score of 25 (very high) as at the end of May 2018. The 2017/18 Revenue Budget outturn report was reported to Cabinet on 11 June 2018. This showed an outturn position of £ 2.182m overspend which represents 0.07% of the annual budget. This is an improvement on 2016/17, when there was a year-end overspend of £7.049m, with the main area of overspend being in Children’s and Adults services. The 2017/18 outturn is a significant achievement given the pressures on budgets and the known specific pressure within Children’s Social Care. The majority therefore of Council services have either stayed within budget or delivered an underspend. However, the large variance in one area is clearly a key concern and the Peer Review work highlighted what is a number one priority for the Council in addressing the current and future budgets for Children’s Social Care. The Council as a whole, is focussed on identifying, with the Local Government Association’s assistance, the appropriate level of budget for the service at the same time as analysing where we can reduce costs safely. In 2017/18, the Council benefited again from the additional funding from government alongside the management action in adults which helped keep this budget under control. There has been no additional funding for children services and management action continues to struggle 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 developing a balanced budget for its Medium Term Financial Plan 2019/20 to deliver its 2020 Vision and the future priorities within the new County Vision which was approved at Council in May 2018.
- 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 Since the last risk update, Northamptonshire County Council Director of Finance issued a Section 114 notice. CIPFA reported that this was anticipated and it has advised both the Ministry of Housing, Communities and Local Government (MHCLG) and the LGA that we are likely to see

other councils reach this point in the two to three years if the government does not provide a more sustainable framework for local government finances.

- 3.7** 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.
- 3.8** 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.
- 3.9** Cabinet and the Senior Leadership Team have taken some immediate actions to address the overspend projections. The 10-Point Plan remains in operation to help reduce the in-year deficit. SLT are meeting weekly to review financial projections, delivery of MTFP savings and development of in-year savings options. In addition the Core Council Programme is being reviewed and reprioritised to focus on key lines of enquiry for financial performance.
- 3.10** Officers are compiling the Month 2 2018/19 Revenue Budget report for Cabinet to consider on 9 July. If there are significant potential projected overspends, this will be major risk to maintaining the Council's General Balances within 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 2019/20, the proposed approach is due to be presented to the Cabinet meeting on 9 July. This should continue with 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. The main requirement is to ensure that the Council has a balanced budget for 2019/20 in time for approval at the Full Council Meeting in 2019.
- 3.12** In terms of the Revenue Budget 2019/20, the Cabinet and the Senior Leadership Team will need to take a strategic approach to the development of savings proposals required to close the current projected gap of £9m.
- 3.13** 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 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.

3.14 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.

3.15 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 2018/19 and to generate proposals to achieve a balanced budget for 2019/20.

3.16 Strategic Risks – summary position

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

3.17 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.

3.18 Officers have compared the latest position with the last update to the Audit Committee in January 2018 and the following is highlighted :

Dimension and Objective	RAG status
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	Jun 18	Jan 18
Very High risks (red)	2 (red)	4 (red)
High risks (amber)	4 (amber)	4 (amber)
Medium risks (yellow)	5 (yellow)	6 (yellow)
Low risks (green)	1 (green)	1 (green)

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

- (ORG0043) Maintain sustainable budget – score of 25 (increased Likelihood increased to 5 – Very Likely)
- (ORG0032) Information Governance – score of 16 (no change)

Other significant changes:

- (ORG0036) Partnership working – score of 20 (very high (risk closed by P Flaherty)
- (ORG0009) Safeguarding Children – score reduced to 15 (Likelihood reduced to 3 - Feasible)

3.19 In addition to details in 3.3-3.15 about ORG0043, the following provides further information regarding the other very high risks:

- ORG0009 (Safeguarding Children) the current score has been reduced by the Director of Children's Services following the Ofsted Safeguarding Review, which moved SCC from Inadequate to Requires Improvement. 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 CYP 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.
- 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 came into force in May 2018.
- ORG0036 (partnerships) The Risk Sponsor, Patrick Flaherty, has closed this risk due to external factors beyond the Council's control.

3.20 Assurance on the overall risk management process is provided through the Annual Governance Statement and no significant issues have been identified for risk management. Nevertheless, there has been an increase

in the level and scale of business risk that the Council faces to deliver its priorities and services.

3.21 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.

3.22 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.

There is evidence of 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.

Members will be aware that SCC is having to tolerate more risk than previously and this approach will be explained further in the revised Risk Management Strategy that is being prepared. This could be where relevant Directors agree that their services are prepared to ‘tolerate’ a risk at a level which would not cause SCC financial, reputational or legal costs that are not budgeted for. Risks identified following a SWAP internal audit need to be considered carefully by services as they could be as a result of system / process failure and Directors should only tolerate these after a follow-up audit has been completed and the service provide assurance on management controls.

A summary of the latest position with Level 4 / 5 partial assurance audits is attached as Appendix B

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 2017/18 outturn report considered at Cabinet on 11 June 2018
Medium Term Financial Plan 2018/19 approved at Full Council on 21 February 2018

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

RAG Priority Matrix

	Very likely 5	5 Low at least annual	10 Low At least annual	15 High Monthly	20 Very High Monthly	25 Very High Monthly
Likelihood (a)	Likely 4	4 Low At least annual	8 Low At least annual	12 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
		Insignificant 1	Minor 2	Significant 3	Major 4	Critical 5
Impact (b)						