

Risk Management Update

Lead Officer: Peter Lewis, Director of Finance and Scott Wooldridge, Strategic Manager-Governance and Risk

Author: Pam Pursley, Risk Manager, Democratic Services

Contact Details: 01823 359062, ppursley@somerset.gov.uk

Cabinet Member: Cllr Mandy Chilcott

Division and Local Member: All

1. Summary / link to the County Plan

- 1.1. This report contains the latest information, obtained from our risk management system JCAD, on the Strategic risks to SCC.
- 1.2. The management of risk has a direct link with the County Vision, Business Plan, the Medium Term Financial Plan, forms an integral part of the Annual Governance Statement (AGS) and is a major component of the External Auditor's Value for Money Audit. Risk management is an essential component of good corporate governance.

2. Items for consideration

That the Committee are assured that management actions and compliance are sufficient regarding:

- 2.1. The management of the Council's Strategic Risks (latest position dated 22 January 2019) is attached as **Appendix A**
- 2.2. Strategic risk **ORG0043** - Maintain a sustainable budget: Reserves will not be sufficient to manage any in-year overspends for the forthcoming financial year 2018/19. That we don't set a balanced budget for 2019/20. Risk that we don't have a short and medium term financial plan for SCC.
- 2.3. 2019 Review of the strategic risks. The Strategic Risks will be reviewed by the Senior Leadership Team during the next quarter. Further work is being undertaken ahead of 1 April 2019 to ensure that any new strategic risks are developed. To support this work, the attached table (**Appendix B**) shows the current strategic risks mapped to the Business Plan.
- 2.4. The SWAP Partial Audit Tracker Report, **Appendix C**. All internal audit reports that contain level 1 or 2 recommendations are tracked using JCAD. A number of follow-up audits are in progress.

3. Background

- 3.1. Strategic risk management is the process of identifying, quantifying, and mitigating any risk that affects or is inherent in an organization's business strategy, strategic objectives, and strategy execution.

The benefits of strategic risk management are

1. greater likelihood of achieving strategic objectives;
2. more systematic decision-making leading to better quality decisions;

3. improved allocation of resources.

3.2. Strategic risk ORG0043 – Sustainable Budget (5x5(25) very high)

This strategic risk has been regularly reported to Audit Committee since early 2016 and remained a focus for assurance on management actions. This key risk includes the following risk areas:

1. Slippage or under achievement of the proposed savings within the 2018/19 budget as there are limited resources available to address any significant in-year overspends and maintain a sustainable budget;
2. The failure to address areas of overspend that are occurring in 2018/19, which may impact in the next financial year.

The Committee is aware that the :

- Government's continued deficit reduction programme has significantly reduced the levels of funding available to local government.
- The Council faces substantial on-going challenges to achieve a sustainable balanced budget due to this and the increasing demand on its key services, especially those for vulnerable children and adults.

At Cabinet on 23 January, the Section 151 Officer reported for the first time in this financial year, a projected revenue outturn underspend for 2018/19; of £0.921m. This projection is based upon actual spending to the end of November 2018 (month 8) and compares to the available budget of £317.882m. The last reported projection, based on spend to the end of October, was an overspend of £2.368m. It should also be highlighted that the contingency has a residual sum of £3.382m uncommitted at this stage.

The main change between the month 7 and month 8 projections is that a revised approach to the calculation of the Minimum Revenue Provision (MRP) has been applied, taking advantage of new and more flexible regulations. The MRP is a provision made in the accounts for the repayment of long term debt when it becomes due. The revised calculation has reduced the budget required for MRP by £4.178m in 2018/19. It is, however, important to recognise that the adoption of the MRP approach for 2018/19 (and future years) is subject to formal consideration by the Council in February 2019; should this approach not be approved at that time then the impact on the projected outturn for 2018/19 will need to be reassessed.

Controlling the 2018/19 budget has been a priority of the Council for several months and it is welcome that the focus and efforts are producing the benefit of a projected underspend. This is particularly important considering the challenging financial position the Council must address from 2019/20 onwards to ensure a financially sustainable position. Delivering robust control of current spending is essential to laying the foundations for managing a challenging budget for 2019/20. In addition, producing an underspend in 2018/19 will enable a partial replenishment of the reserves, which will improve the resilience of the Council and hence its ability to address the financial uncertainties beyond 1 April 2020.

Looking beyond 2018/19, the Council recognises the on-going financial challenges confronting it and hence the importance of setting a robust budget

for 2019/20 as well as laying foundations for the financial plans for 2020/20 and 2021/22. That means that all the known funding and service demand pressures have been reflected in the budget alongside proposals for reducing spend and hence producing a balanced budget for 2019/20.

Against a gross revenue budget of more than £800m annually, and a net revenue budget need for 2019/20 of £338m, (as reported in December 2018), the MTFP Strategy paper to Cabinet in December 2018 showed that funding falls short of spending need by £28m across the next three years. This means the Council must consider what it delivers and how it is delivered to reduce spending in line with funding.

It is highlighted to the Committee that the Cabinet will be recommending a balanced budget for 2019/20 and this is due to be considered by Scrutiny Committees during January ahead of its consideration by Full Council on 20 February.

It is important that Members understand the risks to approved budgets, maintaining sufficient reserves, balances and contingencies as well as their ongoing management by the Senior Leadership Team including a range of mitigations to limit as much as possible potential impacts on core services, especially those prioritised in the County Plan. As savings become ever more difficult to identify and then deliver, it is imperative that expenditure is kept within existing budgets.

This Risk (ORG00043) has a broad perspective, encompassing both current year spending and future years' budgets. Hence, while the projected outturn position has improved and a balanced budget will be proposed for 2019/20, it is still not appropriate for the "likelihood" score to be reduced at this time given that there are more steps in the democratic process to resolve the budget for 2019/20.

3.3. During the next quarter, a workshop will be held to revise the strategic risks with SLT, to confirm that the 11 risks already identified are fit for purpose, if not, they will be closed down or if still a risk but no longer a strategic risk, moved to the service level risk register of the appropriate service area. The workshop will also;

1. Identify emerging risks, establish ownership, identify mitigation
2. Ensure the strategic risks are mapped to the Strategic Outcomes in the Business Plan.

All amendments and identified new risks will be recorded in JCAD

3.4. The Heat Map below maps the changes to the strategic risks since the last heat map reported to Audit Committee in September 2018.

5 - Very Likely (1)	0	0	15	0	25 ORG0043
4 – Likely (1)	0	0	12	16 (ORG0022)	0
3 – Feasible (9)	0	0	9 ORG0042	12 ORG0022 ORG0002 ORG0007 (ORG0010) ORG0024 ORG0032	15 ORG0009 ORG0011 ORG0040
2 – Slight (1)	0	0	0	8	10 ORG0001 ORG0010
1 - Very unlikely (0)	0	0	0	4	0
	1 Insignificant (0)	2 Minor (0)	3 Significant (1)	4 Major (6)	5 Critical (5)

15 January 2019 / 11 strategic risks / 2 moved in current score / 1 closed

ORG0022 – “ICT: Unintentional events, including changes to our IT system, or intentional attempts that damage our systems, property, reputation or one of our other resources”. Risk owner has reduced the current score from 4x4(16) to 3x4(12) but has provided no explanation as to why.

ORG0010 – “Safeguarding Adults: We fail to deliver our statutory safeguarding activity in relation to adults”. Risk owner has changed the current score from 3x4(12) to 2x5(10), the review summary states; “New strategic manager now in post responsible for safeguarding and mental health social care. Recent improvement in safeguarding referral rates performance, with Nov 2018 performance locally at 63.2%. We have also now had the national SAC report for 2017/18 published (Nov 2018) which shows that Somerset is comparing very positively with the national average for safeguarding conversions (38%), but also that the range of conversion rate varied dramatically across the different local authorities from 3.9% to 100%. Work being undertaken locally to target training and education at providers making highest inappropriate referrals to ensure our resources are spent most appropriately and effectively”.

ORG0040 - “Benefit Realisation: Failure to deliver service transformation (financial and non-financial benefits), and necessary cost savings, performance improvements, and legislative changes requiring significant service re-design through our Core Council Programme”. Risk owner has closed this risk, closing comments state “Closed as superseded by ORG 0043- Maintaining a sustainable budget. Service transformation and necessary cost savings now

being managed through the FIT intervention. Actions associated with this risk are complete”.

4. Consultations undertaken

- 4.1. Each relevant SLT Director is responsible for reviewing their risks, in many cases in conjunction with the Risk Manager, and assuring themselves that the actions for mitigation are appropriate and delivering the expected outcome, as outlined in the Councils Risk Management Policy. Peter Lewis, Interim Director Finance

5. Implications

- 5.1. How successful we are in dealing with the risks we face can also have a major impact on the achievement of our business outcomes and the delivery of services.

6. Background papers

- 6.1. Councils Risk Management Policy & Strategy – approved by Cabinet on 19 October 2016
Medium Term Financial Strategy 2019 – 2022 – Cabinet meeting on 19 December 2018
Revenue Budget Monitoring Update – Cabinet meeting on 23 January 2019

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