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## **Strategic Risk Report for Somerset Council**

Executive Member(s): Deputy Leader of the Council and Lead Member for Resources and Performance, Cllr Liz Leyshon

Lead Officer: Executive Director, Resources and Corporate Services, Jason Vaughan

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### **Summary**

1. Audit Committee is a key component of the Council's governance framework. The purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. The Committee's role to ensure that there is sufficient assurance over governance risk and control gives greater confidence to all those charged with governance that those arrangements are effective.
2. The Account and Audit Regulations 2015 require the Council to have in place effective arrangements for the management of risk. These arrangements are reviewed annually and reported as part of the Annual Governance Statement (AGS).
3. The management of risk has a direct link to the Council's 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.
4. This report to Audit Committee reflects on the current position of Somerset Council in its approach to risk management, following the meeting on 25<sup>th</sup> January 2024 where Members considerations included whether the current approach to risk reporting provides sufficient assurance over risk governance and control for Somerset Council.

## **Recommendations**

5. It is recommended.
  - a) Audit Committee receives a risk deep dive report from an Executive Director each meeting, providing a narrative of their strategic risks and the steps they have taken to mitigate and manage each risk, starting at the 30 May 2024 meeting, with a report from the Executive Director of Resources and Corporate Services.
  - b) Workshop will be held with CLT in April/May 2024 to explore the challenges and identify solutions in continuing to improve the quality of strategic risk identification and management at Somerset, whether this is regarding governance, reporting, accountability, clarification of roles and responsibilities and any other necessary step.
  - c) A proposed revised RAG matrix will be reported to Audit Committee following the CLT workshop and presentation to Statutory Officers Board (SOB) and/or Performance, Risk & Budget Board (PRBB)
  - d) A proposed risk appetite approach will be reported to Audit Committee following the CLT workshop and presentation to SOB and/or PRBB
  - e) Note the current strategic risks for Somerset Council set out in Appendix One.
  - f) To note the responses to the questions raised by the Committee's Independent person in a meeting on the 14 February 2024 that was held following the January committee. This can be seen in Appendix Three.

## **Reasons for Recommendations**

6. This report considers the steps that Somerset Council needs to take in the coming weeks to establish more robust risk management reporting arrangements and improve the quality of strategic risk management within the Council.
7. It is noted that none of the current strategic risks have changed since the last report to Audit Committee; directors need to consistently prioritise risk management, establishing the approach for the Council as a whole, recognising that embedding a risk culture is an ongoing process to drive positive behaviours facilitated by the Risk Management Team.

## **Embedding a Culture of Risk Management**

8. Grant Thornton presented their 'Interim Auditor's Annual Report' to Audit Committee in January 2024, and found no weaknesses in the management of risk in the former District Councils or County Council that now comprise Somerset Council but did recommend that risk reporting to Members would be strengthened if risks on the corporate risk register were mapped to corporate priorities. The risk report in Appendix One does provide this link.
9. In the same report Grant Thornton made a governance improvement recommendation on risk, relating to "implementing robust risk management reporting arrangements at Somerset Council".
10. In February 2024, the LGA published its findings into a desktop study on five councils with experience of finance and governance challenges which led to either a S114 report or a capitalisation direction with a governance review at the time the research that it had commissioned.
11. The aims and objectives for this research were three-fold:
  - synthesise the main messages from publicly available reports
  - identify factors impacting financial resilience and the reasons for this
  - identify common factors which apply to all three councils which published S114 notices and the two councils receiving capitalisation directives.
12. The following learning points and recommendation were identified regarding the quality of strategic risk management. "The research found that annual governance statements in some of the five councils had identical risk statuses and mitigating actions year on year. This was despite the inclusion of statistics showing changes in circumstances at the council. Action plans had been presented, agreed and timelines for reporting progresses set out, but there is no evidence that these had been presented back to Members. Often risk management policies/ strategies did not clearly set out respective roles and responsibilities for risk between Members and Officers".
13. To improve the quality of strategic risk management, it is recommended that Councils:
  - adopt stronger approaches for the management of long-term strategic risks and ensure appropriate awareness of the knock-on impacts of such risks.

- assign clearer roles and responsibilities for the implementation of mitigating actions.
  - have processes to ensure that Internal Audit recommendations are addressed by the Council's leadership.
  - scrutinise mitigating actions to ensure they are implemented and have had the anticipated impact.
  - report transparently on where mitigating actions have been successful and unsuccessful in managing risk levels.
  - be more explicit in the recognition of the severity of the risks identified.
14. At the Audit Committee meeting on 25<sup>th</sup> January 2024 there was extensive discussion concerning the information that Audit Committee should receive going forward so that it had sufficient assurance over governance risk and control for Somerset Council.
15. At that meeting, Audit Committee expressed concern regarding the need for improved reporting across the strategic risk register to give assurance that actions are in place, including.
- the proactive controls and reactive actions
  - mitigating and management of risks reporting
  - the review and implementation of target dates reporting and monitoring
  - accountability of officers not meeting target dates
  - organisational culture
  - explanatory notes as to why targets are not met
  - the need for clear presentation of position and pathway to targets
  - improvement of Equality Impact Assessments
  - a Council direction of travel statement.
16. The Strategic Risk Manager undertook to share the risk report with Executive Lead Members.
17. As part of that discussion, a number of points were raised as areas of concern and therefore requiring a corrective action. These are summarised in Appendix two with progress to date against each. Appendix three outlines further questions raised by the Independent Person on the committee at a meeting held on 14<sup>th</sup> February 2024.
18. Somerset needs to take the learning from LGA (section 10-12 above), and the issues being addressed from the January meeting of Audit Committee in order to strengthen its approach to risk management and embed this within the culture of the Council. As such, a combination of Appendix Two and Section 15

above will comprise the steps that Somerset Council will take in the coming weeks to establish more robust risk management reporting arrangements and improve the quality of strategic risk management within the Council.

19. A strong risk culture is a critical aspect for organisations seeking to manage risks effectively. It encompasses the shared values, beliefs, knowledge, attitudes and understanding about risk and Somerset needs to continue to work towards this and its aim that risk will be an integral part of both strategic and operational planning, as per the Risk Management Strategy & Policy.

### **Initial Changes from 1 April 2024**

20. As work continues to strengthen and improve the Council's risk management function the following actions will be put in place from 1 April 2024:

- **CLT** will hold workshop(s) with the Risk Management Team to explore the challenges and identify solutions in continuing to improve the quality of strategic risk identification and management at Somerset and put in place a coherent strategy to establish more robust risk management reporting arrangements and improve the quality of strategic risk management within the Council
- **Executive Directors** will be assigned to all risks scoring 25.
- **Executive Directors** will hold quarterly meetings with risk team, to actively review the risk environment of their service areas
- **Service Directors** will be assigned to all risks with a current score of 0 – 20
- **Service Directors** will hold quarterly meetings with risk team, to actively review the risk environment of their service areas
- **Statutory Officers Board (SOB)** will continue to receive risk reporting monthly and act where directors cannot demonstrate consistently prioritise risk management
- **Risk Management Team** will develop the risk appetite and the RAG matrix for the Council, in consultation with officers and Members
- **Risk Management Team** will work alongside the Transformation Programme Manager in documenting the risks to the Council / programme to incorporate into the risk register, as appropriate
- **Risk Management Team** will continue to work with SWAP Internal Audit to understand potential areas of risk arising from internal audit recommendations on an ongoing basis.

## Strategic Risk Update

21. Of the 18 strategic risks currently identified within the risk register.
  - a. Nine are red (very high risk)
  - b. Five are amber (high risk)
  - c. Four are yellow (medium risk).
  
22. There has been one change to a current risk score, ORG0062 Health & Safety has reduced from 5x5(25) to 4x5(20) due to successful recruitment process. ORG0081 Local Government Finance, has been merged with ORG0057 Sustainable MTFP. No new risks have been identified since the last report. Whilst the Risk Management Team aim to engage with Directors to maintain a register of risks that reflects the current position, it is the responsibility of each director to regularly review and update their risk.
  
23. For the nine very high risks, only two has a complete profile in terms of the risk mitigation in JCAD, those that need further attention are listed below.
  - **ORG0057 - Sustainable MTFP (25)**  
Partial completion of target dates
  - **ORG0070 - Budget Overspend (25)**  
Target date for mitigations required
  - **ORG0053 - Organisational Resilience (20)**  
Target date for mitigations required
  - **ORG0065 - Workforce - inability to recruit and retain staff (20)**  
Target date for mitigations required
  - **ORG0061 Climate Change (16)**  
Partial completion of target dates
  - **ORG0063 Commercial investments (16)**  
Target completion date required
  - **ORG0064 General Housing (16)**  
No mitigations with target date for mitigations yet to be completed
  
24. Whilst one of the requests at the last meeting of Audit Committee was to provide explanatory notes as to why targets are not met, it was felt it would be better to do this after the workshop with CLT in April/May. Part of this workshop which is outlined above will be reinforcing that Directors need to consistently prioritise risk management, establishing the approach for the Council as a whole, recognising that embedding a risk culture is an ongoing process to drive positive behaviours facilitated by the Risk Management Team.

25. As the Council progresses through its current reshaping, it is inevitable that the risk profile of Somerset Council will evolve. The Risk Management Team will work alongside the Transformation Programme Manager in documenting the risks to the Council of the programme to incorporate into the risk register, as appropriate, in response to the current position and the consideration of interdependency scores.

## **Background Papers**

Reference documents used in producing this report.

- Grant Thornton Interim Auditor's Annual Report presented to Audit Committee January 2024
- Learning from Councils which faced financial and governance challenges, LGA report 27 February 2024 [Learning from councils which faced finance and governance challenges | Local Government Association](#).

## **Appendices**

- **Appendix One** – Strategic Risk Report
- **Appendix Two** - Points for Action Raised at Audit Committee 25 January 2024
- **Appendix Three** – Overview of meeting with independent person February 2024.