

AUDIT COMMITTEE

12 MARCH 2013

ANNUAL GOVERNANCE STATEMENT AND CORPORATE RISK MONITORING
UPDATE

REPORT OF CHIEF EXECUTIVE

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RECENT REFERENCES:

[AUD032](#) Risk Management Update, 26 June 2012

[AUD043](#) Annual Financial Report 2011/12, 25 September 2012

[AUD045](#) Annual Governance Statement and Corporate Risk Monitoring Update

EXECUTIVE SUMMARY:

This report provides an update on the progress that has been made to date against the programmes and projects that mitigate or treat the emerging issues included in the Annual Governance Statement and the risks included in the Corporate Risk Register.

Although separate documents in their own right, because of the overlap of the issues identified in both the Annual Governance Statement and the Corporate Risk Register, monitoring reports are combined.

The report also gives an early indication of the proposed emerging issues for the coming financial year and will be included in the forthcoming Annual Governance Statement that will be reported to this Committee for approval in June.

RECOMMENDATIONS:

1. That the Committee notes the progress made against the issues identified in the Annual Governance Statement 2011/12, Corporate Risk Register and the proposed emerging issues for the Annual Governance Statement 2012/13.
2. That the Committee raises with the relevant Portfolio Holder any issues arising from the information in this report and considers whether any items of significance need to be drawn to the attention of Cabinet.

AUDIT COMMITTEE

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ANNUAL GOVERNANCE STATEMENT AND CORPORATE RISK MONITORING UPDATE

REPORT OF CHIEF EXECUTIVE

DETAIL:

1. Introduction

- 1.1. This report provides an update on the progress that has been made against the programmes and projects that mitigate or treat the risks that are included in the Corporate Risk Register and the emerging issues identified in the Annual Governance Statement.
- 1.2. The effective management of Council risks is a key component to its Corporate Governance and Performance Management.
- 1.3. The Council's Risk Management Policy 2011 evidences Council responsibilities in managing risk and these have been embedded within the terms and reference of the relevant Committees and Teams.
- 1.4. The report also provides an early indication of the proposed new emerging issues that will appear in the forthcoming Annual Governance Statement which will be reported to this Committee for approval in June.

2. Monitoring Report – Appendix 1

- 2.1 The Committee previously resolved that the monitoring reports which would provide an update on the progress made against the issues included in the Annual Governance Statement and the risks included in the Corporate Risk Register should be combined into one single report.
- 2.2 The information contained within the Council's Risk Register and the Annual Governance Statement is recorded in the Council's Performance Management System; Covalent. Furthermore the actions and progress against these actions is also recorded on Covalent.
- 2.3 Appendix 1 to the report gives an update on the progress that has been achieved so far in the current year for each of the actions that are in place to mitigate or treat the risks.
- 2.4 Appendix 2 provides an update against the risks included in the Corporate Risk Register that do not correspond with any of the issues included in the Annual Governance Statement.
- 2.5 The criteria for the risk scores is defined within the Council's Risk Rating Card and was approved as part of the Risk Management Policy (Report [AUD02](#),

Risk Management Update, 29 June 2011 refers). A copy of the Risk Rating Score Card is attached as Appendix 3 to this report.

- 2.6 Each risk is assessed for impact and likelihood, using the Risk Rating Score Card and a four by four matrix. The system is then used to assess the risk as follows:-
- a) Impact is measured on a scale of 1 to 4, with 4 being the highest and 1 being the lowest.
 - b) Likelihood is measured on a scale of 1 to 4, with 4 being the highest and 1 being the lowest.
- 2.7 Risk scores are calculated by multiplying the impact score by the likelihood score.
- 2.8 The previous risk scores against each of the risks and issues shown in the tables in Appendix 1 refer to the score as at December 2012 and were included in the previous Risk Management Update (Report [AUD045](#), 4 December 2012 refers).
- 2.9 The risk score has been recalculated and is shown in the current risk score column in the Appendix. This risk score takes into consideration the work progressed since December 2012 in mitigating or treating the risks.
3. Annual Governance Statement 2012/13 – Emerging Issues
- 3.1 The officer Corporate Governance Group has begun to prepare the updated Annual Governance Statement by reviewing the evidence relating to the governance and control systems in operation during the financial year.
- 3.2 This exercise also provides the opportunity to identify any new emerging issues for the forthcoming year or future years that are significant enough to appear in the Annual Governance Statement.
- 3.3 The updated Annual Governance Statement will be reported to this Committee for approval in June. It will include any items that still need to be carried forward from the 2011/12 Statement where the task or risk remains significant. However to give Members an early indication of new emerging issues, details have been included below.
- 3.4 **Democratic Change Review**
- A review of the Council's decision making process, including reviewing how the Portfolio Holder Decision making process can be used and how non-Executive Members can contribute to policy development at an early stage is planned for 2013/14.

This project is also included in the Efficient and Effective Council Change Plan and progress will be monitored and reported through the year.

3.5 Welfare Reform

The changes being implemented to the benefits system in relation to size criteria, benefit caps and the direct payment of universal credits may all impact on Housing rent arrears. Additional provision for bad debts as well as increased resources to support tenants to manage the impact of the change have been included within the Housing Revenue Account budget for 2013/14.

Government Provision for “discretionary housing payments” of £105,000 has been provided for the City Council. It is unlikely that this will be sufficient to meet all potential claims for assistance and each application will be assessed on their individual merits. A review of progress with regard to the impact of the changes and demand for discretionary payments will be provided to Cabinet and Cabinet (Housing) Committee in July 2013.

3.6 Business Rates/NNDR

From 1 April 2013, the system of National Non Domestic Rates (NNDR) is changing, with 50% of any future growth in rates being retained by local authorities rather than collected centrally and redistributed. The reform relates to the distribution of NNDR income rather than changes to the system of NNDR taxation. The central and local share of NNDR income has been set as a percentage so that the risks/benefits associated with projected NNDR income levels are shared between central and local government. The Council’s share of future growth is 40%. The rate retention scheme will protect local authorities from significant reductions in income through a safety net payment. The Government will pay a safety net to authorities who see their income from rates drop by 7.5% below their baseline funding level. This presents a risk to the Council, as should NNDR income fall, the Council would bear a significant proportion of this loss. There are a number of uncertainties in forecasting what income will be achieved for business rates around future adjustments to the rating list particularly those relating to rateable value appeals which cannot be predicted with any certainty and can be retrospective for several years.

The replacement of Council Tax Benefit with a local Council Tax Reduction Scheme and the introduction of changes to Council Tax discounts on empty properties and second homes also introduces a level of uncertainty from 2013/14 although the possible financial impact of these changes are not considered to be as significant as the NNDR localisation.

Income and expenditure will be monitored regularly during the year to identify financial pressures at an early stage.

3.7 Community Infrastructure Levy (CIL) implementation

The introduction of the Community Infrastructure Levy (CIL) will be a major change in the mechanism for collecting contributions from development to mitigate its impact on infrastructure. A work programme has been established which enables the Council to implement CIL in a timely fashion with the next key decision to be taken at Council on 20 March 2013. The report to Council will provide full details of the timetable and key milestones.

3.8 Local Public Audit – change in External Auditors

The outsourcing of external audit in 2012/13 to Ernst & Young, with a reduction in fees of 40%, is expected to provide a different approach to the audit which may result in additional work, initially.

OTHER CONSIDERATIONS:

4. SUSTAINABLE COMMUNITY STRATEGY AND CHANGE PLANS (RELEVANCE TO):

- 4.1 Effective use of risk management helps the Council manage risks and opportunities in managing the Council's contribution to the Sustainable Community Strategy and delivery of Change Plans.

5. RESOURCE IMPLICATIONS:

- 5.1 There is a resource implication in terms of the officer time to complete the risk assessments and record them within the Council's Covalent system which generates the Risk Register. However, the main resource is in identifying and managing the risks, which of course is less costly than if the risks were not managed.
- 5.2 The value to the Council is the effective use of its risk assessment within decision making within from Change Plans, Business/Service Plans and Governance arrangements. This in turn assists in the availability of insurance cover at affordable cost.
- 5.3 The costs associated with the actions themselves are covered within team budgets.

6. RISK MANAGEMENT ISSUES

- 6.1 Risk Management helps the Council set management priorities and decide on the allocation of valuable resources. If Council risks are not managed effectively, and clearly evidenced, the Council may be open to legal challenge, financial loss or damage to its reputation resulting in reduced public confidence.
- 6.2 The Council's Risk Register, reflecting the Council's exposure to risk, is contained within the Covalent Performance System. Monthly extracts of the Risk Register are located in the Council's Intranet to inform Members and Officers.
- 6.3 The explicit and implicit reference to management of risks helps the Council achieve its strategic objectives and support the Sustainable Community Strategy and exploit opportunities. To this end Members and Officers need to challenge and support the Council with their risk assessment and their treatment plans.

BACKGROUND DOCUMENTS:

Annual Governance Statement.

Corporate Risk Register.

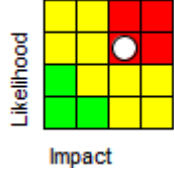
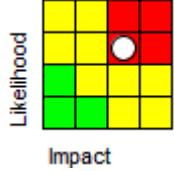
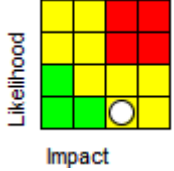
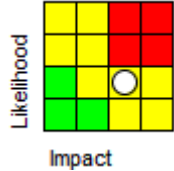
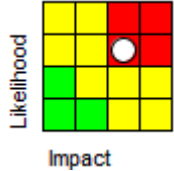
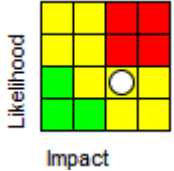
APPENDICES:

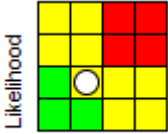
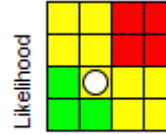
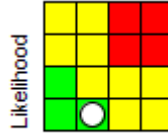
Appendix 1 – Annual Governance Statement and Corporate Risk Monitoring Report.

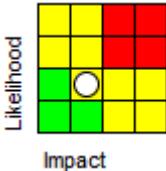
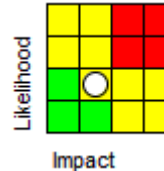
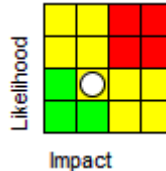
Appendix 2 – Lower Level Corporate Risks not included in the Annual Governance Statement.

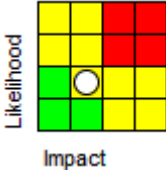
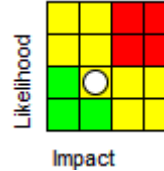
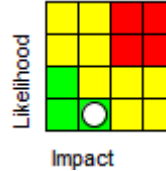
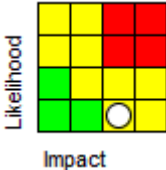
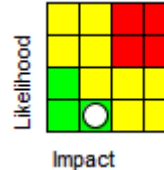
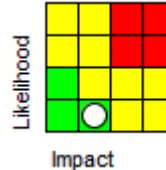
Appendix 3 – Risk Rating Score Card.

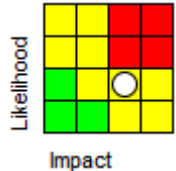
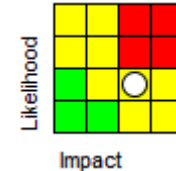
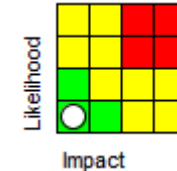
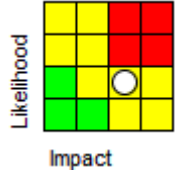
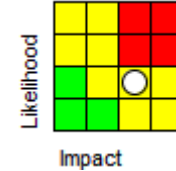
ANNUAL GOVERNANCE STATEMENT AND CORPORATE RISK MONITORING REPORT

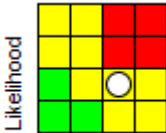
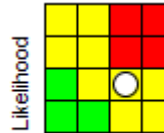
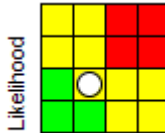

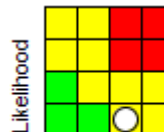
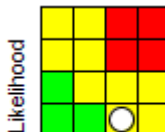

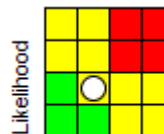
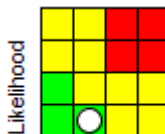
Issue	Action To Be Taken	Lead Officer	Previous Risk Score	Current Risk Score	Target Risk Score	Progress / Comments
Asset Management <i>Corporate Risk: CR5003</i>	Maintain an up to date Asset Management Plan and ensure that financial aspects of the Council's fixed assets are appropriately incorporated into the financial planning process, taking account of the possible impact of the current economic situation on the Council's properties.	Stephen Whetnall	 Likelihood Impact	 Likelihood Impact	 Likelihood Impact	Significant capital expenditure was incurred on the Council's fixed assets in 2012/13 e.g. Hyde House, Hockley Viaduct and new Depot construction in progress. A programme has been established for replacement of IT assets. However there are still some future capital requirements that will need funding identified including the River Park Leisure Centre, and City Offices where studies are underway on future options. This will be considered further during 2013/14.
Setting and achieving priorities within the context of recession and reduced resources for local government	Continued improvement in consultation on Council priorities / budget. Improvement of links between corporate and departmental business planning, aligning departmental business plans to the Sustainable Community Strategy and Change Plans over a five year period.	Alexis Garlick	 Likelihood Impact	 Likelihood Impact	 Likelihood Impact	The Council set a balanced budget for 2012/13 and is on course to deliver within this. However there are a number of further challenges for the medium term financial plan. These include; <ul style="list-style-type: none"> - changes proposed in the Government's Welfare Reform Bill, including new arrangements for housing and council tax benefits;

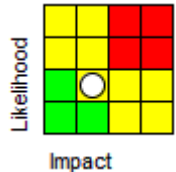
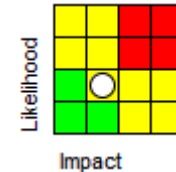
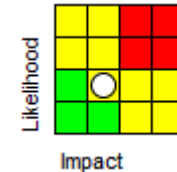
Issue	Action To Be Taken	Lead Officer	Previous Risk Score	Current Risk Score	Target Risk Score	Progress / Comments
<i>Corporate Risk: CR5004</i>	<p>The financial strategy to be more effectively linked to asset, IT and human resource management.</p> <p>Effective Flexible Resource Management to achieve target savings.</p>					<ul style="list-style-type: none"> - changes proposed in the Government's Localism Act, including new arrangements for funding social housing and for enabling local groups to take over community facilities and services; and - Government proposals to allow local authorities to keep a proportion of their business rates. <p>The link between the Council's priorities and the SCS has been strengthened by the Change Plans introduced from 2011/12. Employee cost savings targets continue to be achieved, and the "1team" approach is embedded. A balanced budget has been set for 2013/14. However, there is an urgent need to develop robust plans beyond that in the context of the localisation agenda and reductions in government support.</p>
<p>Partnership arrangements</p> <p><i>Corporate Risk: CR5012</i></p>	Continue to develop partnership arrangements where there is an efficiency or improvement led case for doing so and ensure that	Simon Eden				A number of delivery partnerships are in place to help realise priority outcomes, for example the Community Safety Partnership, Health & Wellbeing

Issue	Action To Be Taken	Lead Officer	Previous Risk Score	Current Risk Score	Target Risk Score	Progress / Comments
	robust governance arrangements are in place.					<p>Partnership or Housing Forum. The Council continues to develop a range of partnership and shared services projects including:</p> <ul style="list-style-type: none"> - Housing services (based on the Hampshire Home Choice service) - Destination Management Organisation - Fully Integrated Merger of Museums services <p>Shared service already in place include; IT, Revenues & Benefits and Internal Audit. Each will be developed further over time with emphasis on ensuring that robust governance arrangements are in place for each partnership.</p>
<p>Equality Assessments</p> <p><i>Corporate Risk: CR5008</i></p>	<p>The Council has completed all Equality Impact Assessments (EqIAs) covering priority areas as set out in the programme along with a number completed in new areas of work. Work continues with the programme of EqIAs and compliance with the Equality</p>	Alison Gavin				<p>Equality Strategy, which sets the framework, was agreed by Cabinet in June 2011. Assistant Directors will co-ordinate EqIAs of Change Plan projects which are considered to have potential for significant impact, as advised by the Council's Equalities Advisor. However, need to keep under</p>

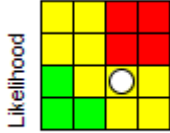
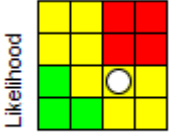
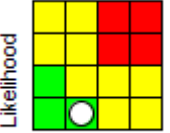
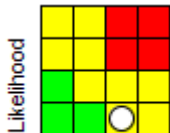

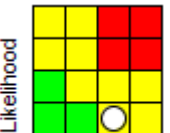
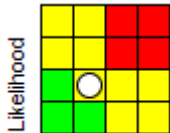

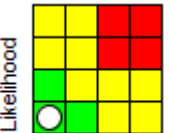
Issue	Action To Be Taken	Lead Officer	Previous Risk Score	Current Risk Score	Target Risk Score	Progress / Comments
	Framework.					consideration in 2012/13 to ensure that it is fully embedded. All appropriate EqlAs are up to date.
Financial Management <i>Corporate Risk: CR5010</i>	Further development and strengthening of the internal control financial procedures, by the introduction of control accounts for subsidiary financial systems.	Alexis Garlick				Payroll control account procedures were implemented in 2011/12 and further systems controls are under development, for implementation in 2012. Some procedures are still to be embedded.
Housing Finance Reform <i>Corporate Risk: CR5005</i>	<p>Responding to the Government's proposals and Housing Finance Reform and implementing the consequential changes to the Housing Revenue Account and the Treasury Management procedures.</p> <p>Delivering the Council's new homes programme</p>	Richard Botham/ Andrew Palmer				<p>The Council took on debt and paid £157.622m to the government in 2011/12 in accordance with the requirements of housing finance reform.</p> <p>Sustainable HRA Business Plan in place, as is the Treasury Management Strategy and procedures. Borrowing fixed. Detailed sensitivity analysis completed. Plan is sensitive to a change in rent policy, although this remains within Council Control.</p> <p>The Cabinet has set up a separate Cabinet Committee to ensure that the new homes programme is delivered.</p>

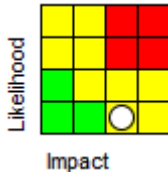
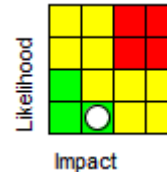
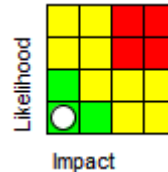
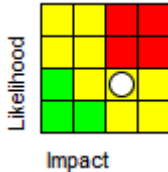
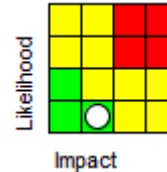
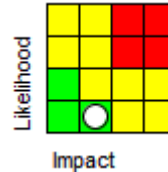
Issue	Action To Be Taken	Lead Officer	Previous Risk Score	Current Risk Score	Target Risk Score	Progress / Comments
<p>Changes arising from the Localism Act 2011</p> <p><i>Corporate Risk: CR5015</i></p>	<p>To consider and implement appropriate responses to changes arising from the Localism Act 2011, taking account of the current uncertainty surrounding the regulations and guidance, for example, those relating to the Standards Regime; Neighbourhood Plans; Community Assets, wider governance issues.</p>	<p>Stephen Whetnall</p>				<p>A new Code of Conduct was approved in September 2012. Standards implementation is ongoing. A procedure has been adopted for Community Assets cases and two applications approved. Denmead pilot project is formally designated as a Neighbourhood Plan area under the Regulations and some other areas seeking to give input to Local Plan part 2 rather than using Neighbourhood Plan Regulations. Member/Parish Training given on all these aspects of the Localism Act implementation.</p>
<p>Leading the response to Climate Change</p> <p><i>Corporate Risk: CR5001</i></p>	<p>Ensure commitment to achievement of the Council/WDSP target on carbon reduction across the District and provide leadership to obtain commitment from key organisations currently not involved in the partnership. Make resources available to reduce the carbon footprint of the Council which will in turn impact on the efforts for</p>	<p>Rob Heathcock</p>				<p>Climate Change Programme Board functioning well and delivering revised programme. Work now better linked to Economic aspects and outcome of low carbon route map recently commissioned will be known shortly. £136K of DECC funding secured for Green Deal Project.</p>

Issue	Action To Be Taken	Lead Officer	Previous Risk Score	Current Risk Score	Target Risk Score	Progress / Comments
	reduction in the wider community.					
Capacity <i>Corporate Risk: CR5006</i>	Ensure capacity to deliver priorities.	Simon Eden				Performance Management Team leads in monitoring progress with key projects and managing capacity to ensure delivery of priorities. The 1-team approach to staff deployment continues to assist with directing staff resource to priority areas. Work is in hand to review how capacity is most effectively deployed.
Silver Hill <i>Corporate Risk: CR5002</i>	To work with the Council's development partner Henderson Global Investments to progress the scheme.	Steve Tilbury				Public Inquiry to consider Compulsory Purchase Order completed in July 2012. Overall project management arrangements continue to keep the scheme under review.
The management of significant contracts <i>Corporate Risk: CR5013</i>	Ensure that appropriate management arrangements are in place for the Council's most significant contracts including Housing Term maintenance and Environmental Services Contracts.	Robert Heathcock				Governance and functioning of the Joint Environmental Services Committee has improved over the last year. Action plan in place to improve the effectiveness of the Joint Client Team. Contract performance considered both by the JESC and the Overview & Scrutiny Committee recently.

Issue	Action To Be Taken	Lead Officer	Previous Risk Score	Current Risk Score	Target Risk Score	Progress / Comments
<p>Commissioning</p> <p><i>Not identified as a Corporate Risk on the Risk Register</i></p>	<p>Developing approach to allocating resources to secure priority outcomes, in particular through closer working with voluntary and community sector.</p>	<p>Assistant Directors</p>				<p>Commissioning approach has developed over the last year and contracts are awarded in line with the Council's Financial Procedures. Approach will now be expanded following latest organisational development and will be considered in more detail as part of proposed service reviews and an audit planned for 2013/14.</p>

Corporate Risks not identified in the Annual Governance Statement

Issue	Action To Be Taken	Lead Officer	Previous Risk Score	Current Risk Score	Target Risk Score	Progress / Comments
Performance and Project Management <i>Corporate Risk: CR5007</i>	Failure to agree SMART objectives, matched to known resources leading to an incomplete programme of activity resulting in loss of confidence and alternative delivery of local services	Simon Eden				Updated Change Plans approved by Council on 21 February which will be monitored through 2013/14. Portfolio Plans to be approved by Portfolio Holders during March.
Business Continuity <i>Corporate Risk: CR5009</i>	Maintain an effective corporate wide Business Continuity Plan.	Steve Tilbury				Individual plans for all critical functions have been updated. Supporting Plan documentation is currently being reviewed. There is a requirement to hold an exercise to test the updated Plan and this will be undertaken in June 2013 when IMT have capacity to resource the parallel IT Disaster Recovery.
Control Weaknesses identified by Internal Audit <i>Corporate Risk: CR5011</i>	Maintain effective internal control by having an internal audit service.	Stephen Whetnall				Revised Internal Audit Plan included elsewhere on this Committee's agenda (Report AUD053 refers). Also update on Partnership Review on agenda.

Issue	Action To Be Taken	Lead Officer	Previous Risk Score	Current Risk Score	Target Risk Score	Progress / Comments
LDF and Local Plan <i>Corporate Risk: CR5014</i>	Await Inspector's Report into Local Plan Part 1.	Steve Tilbury				Examination of Local Plan Part 1 completed November 2012 and for this reason this issue will not be carried forward as a Corporate Risk into next year.
Health and Safety <i>Corporate Risk: CR5017</i>	Working to the Health and Safety Corporate Action Plan and providing regular updates to Corporate Management Team to ensure compliance and completion.	Alison Gavin				Regular update reports continue to be presented to Corporate Management Team on a regular basis. There are no outstanding Health & Safety issues and for this reason Corporate Governance Group agreed that for next year this issue would not be carried forward as a Corporate Risk.

Risk Rating Card

Each risk is assessed for impact and likelihood, using the Risk Rating Score Card and a four by four matrix. The scoring system is then used to assess the risks as follows:

1. Impact is measured on a scale of 1 to 4 with 4 being the highest and 1 being the lowest,
2. Likelihood is measured on a scale of 1 to 4, with 4 being the highest and 1 being the lowest.

Risk Scores are calculated by multiplying the Impact score by the likelihood score.

IMPACTS				
	(1) Minor	(2) Medium	(3) Major	(4) Catastrophic
Financial Impact	£0K - £20K	£20k - £200K	£200K - £2M	£2M plus
Service Provision	No effect	Slightly Reduced	Service Suspended Short Term / reduced	Service Suspended Long Term/Statutory duties not delivered
Health & Safety	Sticking Plaster / first aider	Broken bones/Illness Lost time accident or occupational ill health	Loss of Life/Major illness-Major injury incl broken limbs /hospital admittance Major ill health	Major loss of life/Large scale major illness
Corporate Objectives		Objectives of one section not met	Directorate Objectives not met	Corporate objectives not met
Morale		Some hostile relationship and minor non cooperation	Industrial action	Mass staff leaving/Unable to attract staff
Reputation	No media attention / minor letters	Adverse Local media Leader	Adverse National publicity	Remembered for years!!
Government relations	One off single complaint	Poor Assessment(s)	Service taken over temporarily	Service taken over permanently

Likelihood

LIKELIHOOD	PROBABILITY
Unlikely D (1)	1% to 25% chance in 5 years
Possible C (2)	26% to 50% chance in 5 years
Probable B (3)	51% to 75% chance in 5 years
Certain A (4)	76% to 100% chance in 5 years

High Likelihood	A (4)				
	B (3)				
	C (2)				
	D (1)				
Low Likelihood		1	2	3	4
		<u>Low</u> Impact <u>High</u>			