

AUDIT COMMITTEE

11 March 2014

ANNUAL GOVERNANCE STATEMENT AND CORPORATE RISK MONITORING
UPDATE

REPORT OF CHIEF EXECUTIVE

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RECENT REFERENCES:

[AUD057](#) Risk Management Policy and Update, 25 June 2013

[AUD067](#) Annual Financial Report 2012/13, 24 September 2013

[AUD074](#) Annual Governance Statement and Corporate Risk Monitoring Report, 3
December 2013

EXECUTIVE SUMMARY:

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

Appendix 1 provides an update on the progress that has been made in addressing the issues included in the Council's Annual Governance Statement.

An update on the progress in mitigating and treating the risks included on the Corporate Risk Register is given in Appendix 2.

RECOMMENDATION:

1. 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.

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11 March 2014

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 address the issues identified in the Annual Governance Statement (AGS).
- 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 evidences Council responsibilities in managing risk and these have been embedded within the terms and reference of the relevant Committees and Teams.

2. Monitoring Report

- 2.1 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.
- 2.2 Appendix 1 provides an update on the progress that has been achieved in addressing the issues identified in the Council's Annual Governance Statement. These issues have been identified as having a significant impact in 2013/14 and/or future years and as such are included in the Annual Governance Statement.
- 2.3 Appendix 2 provides 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 included on the Corporate Risk Register.
- 2.4 A small number of issues included on the Annual Governance Statement are also identified as corporate risks. Where this is the case the corporate risk reference has been included against the issue on the AGS monitoring report (Appendix 1).
- 2.5 The criteria for the risk scores are defined within the Council's Risk Rating Card and is included in the Risk Management Policy 2013. A copy of the Risk Rating Score Card is also 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 3 refer to the score as at December 2013 were included in the previous Risk Management Update (Report [AUD074](#), 3 December 2013 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 June 2013 in mitigating or treating the risks although it may not always be possible to reduce either the impact or likelihood of a risk occurring and in these examples the actions undertaken are to manage the risk.

OTHER CONSIDERATIONS:

3. SUSTAINABLE COMMUNITY STRATEGY AND PORTFOLIO PLANS (RELEVANCE TO):

- 3.1 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 projects and action included in Portfolio Plans.

4. RESOURCE IMPLICATIONS:

- 4.1 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.
- 4.2 The value to the Council is the effective use of the risk assessments used to inform decision making supporting the delivery of Portfolio Plans, Business/Service Plans and Governance arrangements. This in turn assists in the availability of insurance cover at affordable cost.
- 4.3 The costs associated with the actions themselves are covered within individual team budgets.

5. RISK MANAGEMENT ISSUES

- 5.1 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.
- 5.2 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.
- 5.3 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 – update on progress

Appendix 2 – Corporate Risk Register – update on progress treating/mitigating Corporate Risks

Appendix 3 – Risk Rating Scorecard and Matrix

ANNUAL GOVERNANCE STATEMENT

Progress monitoring report – March 2014

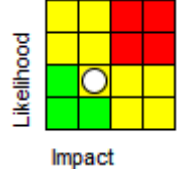
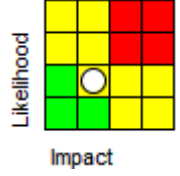
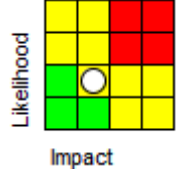
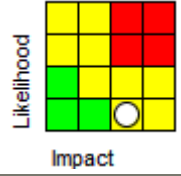
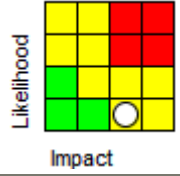
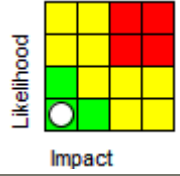
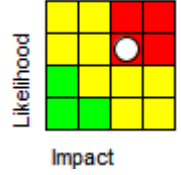
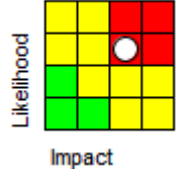
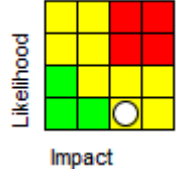
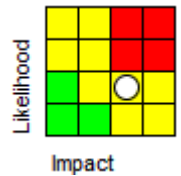
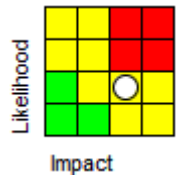
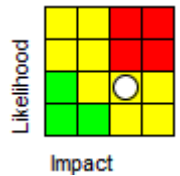
Issue	Action to be taken	Progress/Comments
<p>Asset Management</p> <p><i>Also Corporate Risk: CR5003</i></p>	<p>Maintain an up to date Asset Management Plan and ensure that financial aspects of the Council's fixed assets are appropriately incorporated into the financial planning process, taking account of the possible impact of the current economic situation on the Council's properties.</p>	<p><i>Work has been completed on the new Depot which will release the old site for development.</i></p> <p><i>Renovation/conversion of Abbey Mill is underway with a letting to a restaurateur. Avalon House renovation and letting agreed to Southern Health Trust, with work commencing on site by April 2014. Other opportunities for maximising use/income generation of the portfolio are being considered, Earmarked reserves have been increased to fund future planned expenditure.</i></p> <p><i>However there are still some future capital requirements that will need funding identified including the River Park Leisure Centre, and City Offices. This will be considered further during 2014/15. Poor condition of Friarsgate MSCP led to partial closure – due to be replaced in Silver Hill scheme.</i></p>
<p>Setting and achieving priorities within the context of recession and reduced resources for local government</p> <p><i>Also Corporate Risk: CR5004</i></p>	<p>Continued improvement in consultation on Council priorities/budget, for 2013/14 based on the refresh of the Community Strategy.</p> <p>Improvement of links between corporate and departmental business planning, aligning departmental business plans to priority outcomes derived from the Sustainable Community Strategy over a five year period.</p> <p>The financial strategy to be more effectively linked with Change Plans, and with asset, IT and human resource management.</p> <p>Effective Flexible Resource Management to achieve target savings.</p> <p>More effective use of officer capacity through agile working Developing a robust approach to Programme Management</p>	<p><i>The Council set a balanced budget for 2013/14, but there are a number of further challenges for the medium term financial plan. These include; - changes in Government funding - changes arising from the Government's Welfare Reforms I, including new arrangements for housing and council tax benefits; -changes implemented in the Government's Localism Act, including arrangements for funding social housing and for enabling local groups to take over community facilities and services. A balanced budget for 2014/15 was set in February 2014.</i></p> <p><i>The processes for delivering the Council's priorities, which are drawn from the Community Strategy have been further strengthened by the recent refresh of the Strategy for 2014/15.</i></p> <p><i>Employee cost savings targets for 2012/13 were achieved, and the "1team" approach is embedded.</i></p>

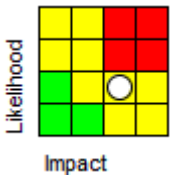
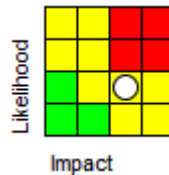
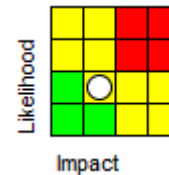
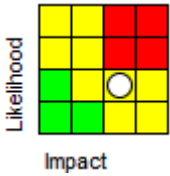
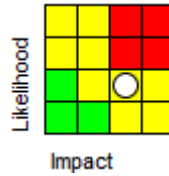
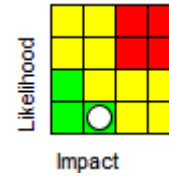
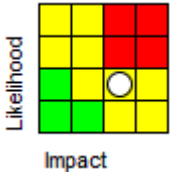

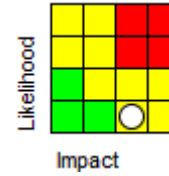
Issue	Action to be taken	Progress/Comments
Partnership Arrangements <i>Also Corporate Risk: CR5012</i>	Continue to develop partnership arrangements where there is an efficiency or improvement led case to do so.	<p><i>A number of delivery partnerships are in place to help realise priority outcomes, for example the Community Safety partnership, Health & Wellbeing Partnership or Housing Forum.</i></p> <p><i>The Council continues to develop a range of partnership and shared services projects including:</i></p> <ul style="list-style-type: none"> <i>- Housing services (based on the Hampshire Home Choice service)</i> <i>- Fully Integrated Merger of Museums services</i> <p><i>Shared services already in place include IT, Revenues & Benefits, Environment Services / Grounds Maintenance Contract and Internal Audit. Each will be developed further over time, including new arrangements now in place for Internal Audit.</i></p> <p><i>During 2013/14 an Internal Audit Protocol on information sharing between parties and their respective assurance providers will be put in place.</i></p>
Housing Finance Reform	Implementing the consequential changes to the Housing Revenue Account and the Treasury Management procedures, of the Government's Housing Finance Reform effective from 1 April 2013. Delivering the Council's new homes programme.	<p><i>The Council took on debt and paid £157.622m to the Government in March 2012 in accordance with the requirements of housing finance reform.</i></p> <p><i>Treasury management procedures for the management of the cashflow and the debt are under further development.</i></p> <p><i>Preparations are being made for accounting changes for depreciation and componentisation.</i></p>
Capacity <i>Also Corporate Risk: CR5006</i>	Ensure capacity to deliver priorities.	<p><i>Performance Management Team leads in monitoring progress of key projects and managing capacity to ensure delivery of priorities. The 1team approach to staff deployment is assisting with directing staff resource to priority areas.</i></p> <p><i>The budget target for vacancy management savings has been maintained for 2013/14, and resources have been identified for the Major Projects Team.</i></p>

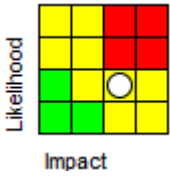
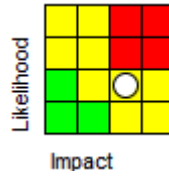
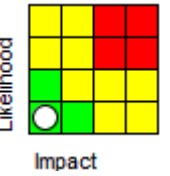
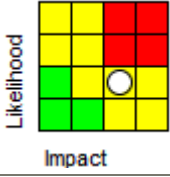
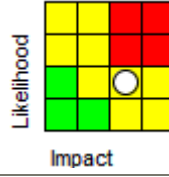
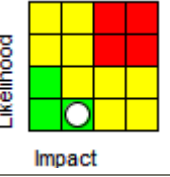
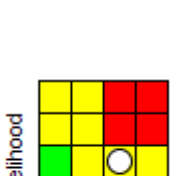
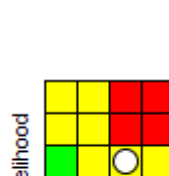
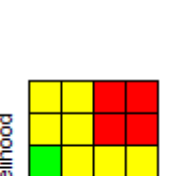
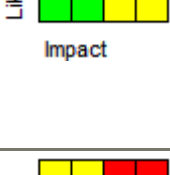
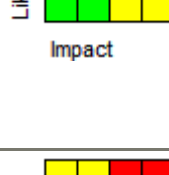
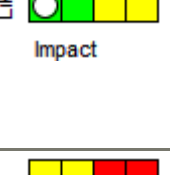
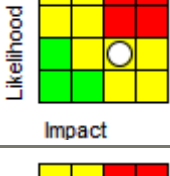
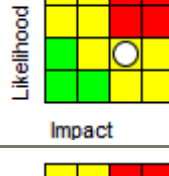
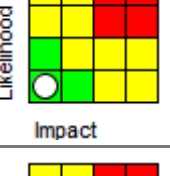
Issue	Action to be taken	Progress/Comments
Silver Hill Development <i>Also Corporate Risk: CR5002</i>	To work with the Council's development partner Henderson Global investments to progress the scheme.	<i>The Secretary of State has confirmed the CPO for Silver Hill and a legal challenge has now been withdrawn. A revised planning application is expected in the Summer of 2014 while a start on site in Q4 2014 remains the target.</i>
Governance Review <i>Also Corporate Risk: CR5015</i>	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.	<i>More use being made of PHDs and streamlining of cross referencing between committees. Recent ISG reviewed how ISGs work in the future and the need to identify higher level strategic issues for consideration in future. Member Briefing on Electoral Review process held on 7 November 2013 which will have a significant impact on the next stages of the review. Report to Cabinet 4 December 2013. Council to consider Electoral Cycle options and review of financial limits in the Constitution at its meeting on 2 April 2014. Further work due to take place throughout 2014.</i>
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.	<i>No significant impact on rent arrears to date which continue to be monitored regularly. Government Provision for "discretionary housing payments" of £130,000 has been provided for the City Council and is likely to be fully committed by 31 March 2014.</i>
Business Rates/NNDR	Respond appropriately to the implications of the changes to the system of National Non Domestic Rates (NNDR) from 1 April 2013, with 50% of any future growth in rates being retained by local authorities rather than collected centrally and redistributed. The risks/benefits associated with future NNDR income levels are shared between central and local government.	<i>Income and expenditure is being monitored regularly during the year to identify financial pressures at an early stage. There remains a high level of uncertainty regarding potential fluctuations in income levels.</i>
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	<i>Operation of CIL will commence on 7 April 2014.</i>

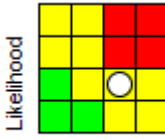
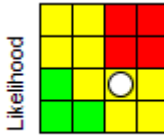
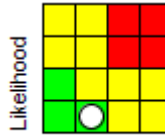
Issue	Action to be taken	Progress/Comments
	development to mitigate its impact on infrastructure.	
Local Public Audit – change in External Auditors	The outsourcing of external audit in 2012/13 to Ernst & Young, with a reduction in fees of 40%, is expected to provide a different approach to the audit which may result in additional work, initially	<i>This is being closely monitored by the HLOWLA Chief Finance Officers. All of the audits for 2012/13 have now been completed and there is general agreement that all audits went well. The approach has been different and this has resulted in more demands on officer time in certain areas.</i>

Corporate Risk Register
Progress monitoring report – March 2014

Risk	Full Name (Cause/Effect/Impact)	Risk Ownership	Previous Risk Score	Current Risk Score	Target Risk Score	Progress Update (risk treatment or mitigation)
Climate Change Adaptation Ref: CR5001	Climate Change Plan is unrealistic leading to an ineffective use of resources resulting in non delivery of Council projects and increased energy cost	Robert Heathcock				<i>The Climate Change Plan has been refreshed into a more realistic and clearer programme of work managed by the Climate Change Programme Board. Specific projects have been commissioned including a Low Carbon Route Map and Carbon Smart accreditation and Board is multi agency. Programme only includes projects with specific resources allocated to it. Energy costs being addressed through an energy reduction programme led by the Estates Team.</i>
Silver Hill Development Ref: CR5002	Complexities of development process leading to delays in regeneration resulting in deterioration of Council assets and lost opportunity	Steve Tilbury				<i>See comments on Silver Hill in Appendix 1.</i>
Asset Management Ref: CR5003	Asset Management Plan not fit for purpose leading to non housing property assets falling into disrepair resulting in unforeseen expenditure and inability to maximise income or capital receipts	Stephen Whetnall				<i>See comments on Asset Management in Appendix 1.</i>
Financial Strategy Ref: CR5004	Unpredictable external changes affecting the economy or the finance's of the Council leading to the inability to respond to the changes resulting in the Council unable to meet objectives and deliver services	Alexis Garlick				<i>The Council has effective budget management procedures and reporting in place and is able to respond to external factors in a managed way.</i>

Risk	Full Name (Cause/Effect/Impact)	Risk Ownership	Previous Risk Score	Current Risk Score	Target Risk Score	Progress Update (risk treatment or mitigation)
Develop a Flexible, Responsive Workforce Ref: CR5006	Lack of skills and flexibility amongst staff leading to the failure to take opportunities to improve services and/or make efficiency savings resulting in poor delivery and failure to manage budget	Simon Eden				See comments on Capacity in Appendix 1.
Programme Management Ref: CR5007	Failure to co-ordinate programme of major projects leading to ineffective use of resources resulting in poor project outcomes and missed opportunities for improvement.	Simon Eden				Performance Management team continues to meet regularly to consider the progress of significant projects. The Council's Project Office in 2013 was strengthened with the appointment of a Head of Major Projects who will focus on the delivery of the major projects and programmes which will lead to change in our community.
Business Continuity Ref: CR5009	Unforeseen event or circumstance leading to an extended delay in returning to normal working	Steve Tilbury				The latest updated version of the Council's Business Continuity Plans and supporting policy documents were circulated to all lead officers in October 2013. Copies are kept on the Council's Intranet and under secure off site storage on the Engage website. Publicity was included for all staff in the weekly briefing note and to Members in the Democratic Services Update. There will be significant changes to business continuity arrangements from autumn 2014 as the Council will no longer operate the Adams Continuity DR site at Basingstoke but will replicate data and telephone services with Test Valley Borough Council. A requirement will be to test the new arrangements.

Risk	Full Name (Cause/Effect/Impact)	Risk Ownership	Previous Risk Score	Current Risk Score	Target Risk Score	Progress Update (risk treatment or mitigation)
Control Weakness Ref: CR5011	Weak or ineffective internal control leading to financial loss resulting in damage to reputation and adverse publicity	Stephen Whetnall				Regularly reviewed in officer Corporate Management Group; Internal Audit Progress and Annual Governance reports to Audit Committee.
Shared Services Ref: CR5012	Weak governance or breakdown of consensus between authorities, leading to wasted resource time resulting in less efficient service delivery and loss of opportunity.	Simon Eden				See comments on Partnership Arrangements in Appendix 1.
LDF and Local Plan Ref: CR5014	Failure to have Local Plan Pt 1 found sound leading to requirement to reconsider and resubmit resulting in lack of appropriate control on planning policy.	Steve Tilbury				Cabinet LDF on the 27 November was presented with a report that included the Revised Local Development Scheme 2014 (report CAB2528 (LDF) refers) which set out a new timetable for the Local Plan Part 2 and included a detailed risk register for the Winchester District Development Framework. The current risk score reflects the legal challenge that has been received to the adoption of the Winchester District Local Plan Part 1.
Changes to governance arrangements Ref: CR5015	Local governance structures not fit for purpose leading to poor democratic oversight of business resulting in poor decision making.	Stephen Whetnall				See comments on Governance review in Appendix 1.
Treasury Management Ref: CR5016	Poor treasury management leading to sub-optimal investment and borrowing decisions resulting in lower interest income and higher interest costs.	Alexis Garlick				Investment performance has been improved and management of borrowing is being developed.

Risk	Full Name (Cause/Effect/Impact)	Risk Ownership	Previous Risk Score	Current Risk Score	Target Risk Score	Progress Update (risk treatment or mitigation)
Performance Management Ref: CR5018	Failure to spot and rectify poor service performance leading to service decline resulting in poor value for money, poor customer service and damaged reputation.	Simon Eden				<p><i>Performance Management Team continues to meet regularly to consider the progress of significant projects, key performance indicators and financial monitoring.</i></p> <p><i>Work underway to review performance management arrangements within teams.</i></p>

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

