

AUDIT COMMITTEE

10 MARCH 2016

CORPORATE RISK UPDATE

REPORT OF CHIEF EXECUTIVE

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RECENT REFERENCES:

[AUD118](#) – Risk Management Policy, 22 June 2015

[AUD132](#) – Risk Management Update, 24 September 2015

[AUD134](#) – Risk Management Update, 3 December 2015

EXECUTIVE SUMMARY:

This Report provides an update on the risk scores for each of the Corporate Risks and of any changes since the last time these were reported (Report AUD134, 3 December 2015 refers). An explanation as to the reasons for the changes is also provided.

Also included in Appendix 1 is an update on the progress achieved against the future actions required to continue to manage or reduce the risks associated with each of the Corporate Risks.

RECOMMENDATION:

1. That the Committee considers the information for the each of the Corporate Risks including the progress against the future actions and recommends the risks that it wishes to further explore and receive detailed reports at future meetings.

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##### DETAIL:

1. Introduction
- 1.1 At its meeting on 6 July 2015, Cabinet approved the updated Risk Management Policy 2015 which defines the Council's arrangements for managing risk (Report AUD118 refers).
- 1.2 Included within the Policy were the updated Corporate Risks which had been reviewed and agreed by Performance Management Team and consisted of the risks that are of greatest significance to the Council, in the context of the Council's assessment of its risk appetite.
- 1.3 This was followed up with a report to this Committee's meeting in September 2015 that included details of the significant individual risks that contribute to each corporate risk, along with the impact and consequences of this occurring and how the Council currently manages these risks. A risk score was also given for each of the risks.
- 1.4 Furthermore, against each corporate risk was a high level list of the actions required to either reduce the probability or impact of each risk or to maintain the current risk score.
- 1.5 The approved Corporate Risk Register includes the following risks:
  - Silver Hill Development
  - Asset Management
  - Programme Management and Major Projects
  - Governance and Control Weaknesses
  - Financial Stability
  - Staff Engagement
  - Environmental Risks
  - Commissioning
  - Transformation

## 2. Corporate Risk Monitoring

- 2.1 Included in Appendix 1 to the Report is an update on any changes to the risks that were included in the previous report, for example, an increase or decrease in probability or impact of a risk occurring. Also provided is a brief explanation of the reasons for the change in risk score.
- 2.2 Also included in Appendix 1 is an update on the progress achieved against the future actions required to continue to manage or reduce the risks associated with each of the Corporate Risks.

## 3. Roll out of Risk Management Policy 2015

- 3.1 It is important that the Council consistently manages its risks and follows the principles included in the updated Risk Management Policy.
- 3.2 The roll out of the Risk Management Policy across the Council continues with Heads of Teams and service managers reviewing their operational risks as part of service planning for 2016/17.
- 3.3 Included as an appendix to the Budget and Council Tax 2016/17 report (CAB2763, 18 February 2016, refers) was an assessment of financial risks that was based on the corporate risk register..
- 3.4 Other reports that have required a detailed analysis of risks have also used the corporate risk template. These include the Programme Risk Register (Report AUD144, elsewhere on this Committee's agenda) and previous Silver Hill reports.

## 4. Escalation and de-escalation of risks

- 4.1 The Performance Management Team has considered the risks that are included on the Corporate Risk register and at this time agrees that there are no risks that should be either escalated or de-escalated.
- 4.2 The current Risk Management Policy will be refreshed during the Spring at the same time as a review of the Corporate Risks. This will ensure that the Policy remains fit for purpose and that the most significant risks that might have impact on the Council appear on the Corporate Risk Register.
- 4.3 The refreshed Policy and updated corporate risk register will be brought back to this Committee in June before approval by Cabinet.

## OTHER CONSIDERATIONS:

### 5. COMMUNITY STRATEGY AND PORTFOLIO PLANS (RELEVANCE TO):

- 5.1 Effective use of risk management supports the good governance arrangements at the Council and helps the Council manage threats and

opportunities in managing the Council's contribution to the Community Strategy.

6. RESOURCE IMPLICATIONS:

- 6.1 The main resource implication is the officer time to ensure risk assessments are undertaken efficiently and effectively and are adequately evidenced within Portfolio Plans, Business/Service Plans and Governance arrangements including performance management.
- 6.2 Effective management of council risks reduces the exposure to adverse events and in turn assists in the availability of insurance cover at affordable cost.

7. RISK MANAGEMENT ISSUES

- 7.1 Risk Management helps the Council set priorities and decide on the allocation of valuable resources. If Council risks are not managed effectively, and clearly evidenced, the Council will be open to legal challenge, financial loss or damage to its reputation resulting in reduced public confidence.
- 7.2 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/Risk and Insurance to inform Members and Officers.
- 7.3 The explicit and implicit reference to management of risks helps the Council achieve its strategic objectives and support the 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:

None.

APPENDICES:

Appendix 1 Progress updates for each of the Corporate Risks

<b>Risk Title:</b> Silver Hill Development		
<b>Risk Owner:</b> Corporate Director		
<b>Risk Description:</b>		
<p>1. Termination of the Silver Hill Development Agreement. It should be noted that this process has started as the Council has served termination Notices.</p> <p><b>leading to:</b></p> <ul style="list-style-type: none"> <li>- expiry of the Compulsory Purchase Order,</li> <li>- remedial works required to property owned by WCC,</li> </ul> <p>litigation against the Council for alleged breach of the Development Agreement</p> <p><b>resulting in</b></p> <p>additional costs at public expense and substantial delays to the regeneration of the area.</p> <p>2. That the site will not be regenerated in the near future, posing a threat to the quality of the City centre and local economy</p>		
<b>Current Risk Score:</b>	Likelihood = <b>Likely</b>	<b>Changes to risk scores:</b>
	Impact = <b>Significant</b>	
<b>Previous Risk Score:</b>		
3 December 2015	Likelihood = <b>Likely</b>	
	Impact = <b>Significant</b>	
<b>Financial Impact:</b>		
<p>The immediate identified financial consequences of termination have been reflected in the budget and medium term financial projections. However, there is no financial provision for any costs for the future regeneration of the area or any damages arising from the risk of successful litigation against the Council (which has been assessed as Highly Unlikely).</p>		
<b>Progress against actions to manage the risks:</b>		
<ul style="list-style-type: none"> <li>• Future actions based on sound legal advice.</li> <li>• Continuation of robust project and programme management,</li> <li>• Continued assessment of impact on Council's finance and associated actions</li> <li>• The required level of resources to deliver projects</li> <li>• Continued dynamic risk assessment</li> <li>• Continued robust assessment of the scheme development and approval process</li> <li>• <b>Site Regeneration</b></li> <li>• A report proposing how the regeneration of the site should be taken forward will be brought to Cabinet on 29 March. That will, <i>inter alia</i>, consider risks in</li> </ul>		

more detail

<b>Risk Title:</b> Asset Management		
<b>Risk Owner:</b> Chief Executive		
<b>Risk Description:</b> Lack of long term planning and prioritisation of maintenance and repairs <b>leading to</b> non-housing assets falling into disrepair <b>resulting in</b> unforeseen expenditure and inability to maximise income or capital receipts.		
<b>Current Risk Score:</b>	Likelihood = <b>Likely</b>	<b>Changes to risk scores:</b>
	Impact = <b>Significant</b>	
<b>Previous Risk Score:</b>	Likelihood = <b>Likely</b>	
3 December 2015	Impact = <b>Significant</b>	
<b>Financial Impact:</b> Property - Asset Management Plan Reserves forecast at £2.7m at 31 March 2016.		
<b>Progress against actions to manage the risks:</b>		
<ul style="list-style-type: none"> <li>• <b>Work closely with leadership team</b> – <i>the Head of Estates continues to work closely with the Leader, Portfolio Holder for Estates and CMT updating them of asset management issues as they arise.</i></li> <li>• <b>Better informed leadership team</b> – <i>as above.</i></li> <li>• <b>Improved engagement with broader spectrum of local people</b> – <i>the recent Station Approach consultation exercise utilised a new approach to consultation which reached out to a wide group of stakeholders. This approach will be used again in the future for similar consultation exercises. The Head of Estates is working closely with the practitioner's in respect of the development of a Creative Enterprise Centre.</i></li> <li>• <b>Review Estates team capacity</b> – <i>recruitment of a Corporate Property Surveyor underway. Review of Asset Management Plan has begun concentrating on risks and repairs, while developing a property investment strategy to help the Council's medium term financial position.</i></li> </ul>		

<b>Risk Title:</b> Programme Management and Major Projects		
<b>Risk Owner:</b> Assistant Director (Policy & Planning)		
<b>Risk Description:</b> Overambitious Council <b>leading to</b> staff being overburdened <b>resulting in</b> projects not being delivered within agreed timescales and anticipated income not received.		
<b>Current Risk Score:</b>	Likelihood = <b>Likely</b> Impact = <b>Major</b>	<b>Changes to previous risk scores:</b> No changes. The likelihood will reduce once additional resources have been allocated. A budget growth bid has been approved in the budget for 2016/17.
<b>Previous Risk Score:</b> 3 December 2015	Likelihood = <b>Likely</b> Impact = <b>Major</b>	
<b>Financial Impact:</b> £150,000 pa		
<b>Progress against actions to manage the risks:</b> <ul style="list-style-type: none"> <li>• <b>Programme Management to be improved through better allocation of staff resources in key areas</b> – <i>new roles have been established and a wider group of staff now involved.</i></li> <li>• <b>Additional resources required clearly identified and met</b> – <i>additional resources included in 2016/17 budget.</i></li> <li>• <b>Review remuneration package to improve staff recruitment and retention</b> – <i>the Head of Organisational Development is currently considering this issue.</i></li> <li>• <b>Embed improved approach to consultation and engagement throughout our programme</b> – <i>new consultation approach being utilised i.e. Station Approach model. The Council is also currently rolling out the new Citizen Space software for managing, publicising and archiving all consultation activity.</i></li> </ul>		



<b>Risk Title:</b> Governance and Control Weaknesses		
<b>Risk Owner:</b> Chief Executive		
<b>Risk Description:</b> Weak or ineffective internal control <b>leading to</b> financial loss <b>resulting in</b> damage to the Council's reputation and adverse publicity.		
<b>Current Risk Score:</b>	Likelihood = <b>Unlikely</b> Impact = <b>Moderate</b>	<b>Changes to Risk Score:</b> No Change
<b>Previous Risk Score:</b> 3 December 2015	Likelihood = <b>Unlikely</b> Impact = <b>Moderate</b>	
<b>Financial Impact:</b> Unknown at this time		
<b>Progress against actions to manage the risks:</b>		
<ul style="list-style-type: none"> <li>• <b>Actions to address issues raised by Claer Lloyd-Jones Independent Review</b> – <i>actions considered by Cabinet, awaiting input from The Overview &amp; Scrutiny and Audit Committees. Leader has established an IPG to take forward..</i></li> <li>• <b>Roll out embedding of updated Risk Management Policy</b> – <i>roll out underway including a review during December/January of all operational risks working with Heads of Teams. Template included in Risk Policy for evaluating risks adopted as the corporate template.</i></li> <li>• <b>Implementation of Local Government Boundary Commission Review and changes to governance arrangement accordingly</b> – <i>revised Electoral Register is being prepared .</i></li> <li>• <b>Review of Overview and Scrutiny procedures</b> – <i>paper presented to The Overview and Scrutiny Committee on 7 December 2015 likely to be reviewed.</i></li> <li>• <b>Ensure all managers understand governance requirements</b> – <i>ongoing.</i></li> <li>• <b>Undertake Community Governance Reviews</b> - <i>Now clarified it is not appropriate to undertake Community Governance Review until LGBC Electoral Review of the County is completed.</i></li> </ul>		

<b>Risk Title:</b> Financial Stability		
<b>Risk Owner:</b> Head of Finance		
<b>Risk Description:</b> Adverse impact of financial risks relating to assumptions made for medium term financial projections <b>leading to</b> an unbalanced budget <b>resulting in</b> financial instability for the Council.		
<b>Current Risk Score:</b>	Likelihood = <b>Unlikely</b> Impact = <b>Major</b>	<b>Changes to risk scores:</b> No Change
<b>Previous Risk Score:</b> 3 December 2015	Likelihood = <b>Unlikely</b> Impact = <b>Major</b>	
<b>Financial Impact:</b> A detailed assessment is included in the Budget report (CAB2763 REVISED, February 2016); Earmarked Reserves are set aside for identified specific financial risks and a General Fund Balance of £2m is retained for general/ unspecified financial risks inherent in the budget assumptions. The Housing Revenue Account makes similar assessments for financial risks and holds balances to mitigate them. Contingent Liabilities are assessed at the financial year end and relevant disclosure is made in the annual accounts.		
<b>Progress against actions to manage the risks:</b> <ul style="list-style-type: none"> <li>• <b>Develop financial resilience strategy</b> – see <i>financial resilience – Medium Term Financial Planning section in the Audit Results Report for the year ended 31 March 2015 (AUD130, September 2015)</i>. This is kept under review and development as evidenced in the <i>Medium Term Financial Strategy (CAB2732, October 2015)</i> and was further considered as part of the finalisation of the budget in February 2016.</li> <li>• <b>Clarify income generation strategy</b> – all income sources are reviewed annually as part of the budget setting process.</li> <li>• <b>Explore Invest to Save options</b> – investment in property considered where it is likely to produce stable long term income streams. Investment in energy efficiency measures to reduce the Council's operating costs. Use of Prudential Borrowing to fund investment in commercial property, or operational property where an income stream can be generated.</li> <li>• <b>Develop Reserves policies</b> – This was considered in the <i>Medium Term Financial Strategy (CAB2732, October 2015)</i> and further considered when the budget was finalised in February 2016.</li> <li>• <b>Develop cash-flow forecasting and borrowing strategy</b> - Proposed changes to the Finance Team structure (<i>Report PER272, November 2015</i>)</li> </ul>		

*will provide capacity for this to be done during 2016/17.*

<b>Risk Title:</b> Staff Engagement		
<b>Risk Owner:</b> Chief Executive		
<b>Risk Description:</b> Reduction in staff morale <b>leading to</b> increased turnover <b>resulting in</b> increased costs of recruitment.		
<b>Current Risk Score:</b>	Likelihood = <b>Likely</b> Impact = <b>Major</b>	<b>Changes to risk scores:</b> No Change
<b>Previous Risk Score:</b> 3 December 2015	Likelihood = <b>Likely</b> Impact = <b>Major</b>	
<b>Financial Impact:</b> Unknown at this time.		
<b>Progress against actions to manage the risks:</b>		
<ul style="list-style-type: none"> <li>• <b>Develop and implement a People Strategy for the Council</b> - <i>the draft People Strategy is currently being reviewed to ensure it is line with Council Priorities as part of the budget setting process. This will be consulted on with the Leader, Portfolio Holder and Corporate Management Team before being presented to Personnel Committee and Cabinet.</i></li> <li>• <b>Pay and Reward Strategy</b> - <i>work is continuing in conjunction with a significant number of Hampshire Council's to develop a co ordinated approach to pay policy. Investigation with the National Negotiating Bodies and the Local Government Association has helped to define the work that needs to be covered locally. It has enabled the authorities to put forward at a National Level what is required by authorities and clarify what will not be dealt with in the near future at a National Level.</i>  <i>Work has been completed on the Council's position in the pay market in conjunction with other pay and non pay benefits that are being offered. Further work is being undertaken looking at other pay mechanisms. The Council grading structure and the use of job family groups is being worked on with other districts. The Job evaluation scheme including local conventions used alongside the national scheme will be reviewed and compared with other Job Evaluation Schemes that are available.</i>  <i>A detailed report will be brought forward setting out options and a detailed action plan initially to Corporate Management, the Leader and Portfolio Holder followed by wider consultation.</i></li> <li>• <b>Talent Management and Succession Plan</b> – <i>this area is being looked at as part of the Employee Engagement Strategy.</i></li> <li>• <b>Work with partners to address issues and build capacity and resilience</b> – <i>the Council current has joint service delivery agreements, including for Learning and Development and IT services and reviews further opportunities</i></li> </ul>		

*as they arise.*

<b>Risk Title:</b> Environmental Risks		
<b>Risk Owner:</b> Assistant Director (Economy and Communities)		
<b>Risk Description:</b> Lack of planning for extreme weather events <b>leading to</b> delays in responding to situations <b>resulting in</b> increased costs and staff resources.		
<b>Current Risk Score:</b>	Likelihood = <b>Unlikely</b> Impact = <b>Moderate</b>	<b>Changes to risk scores:</b> No Change
<b>Previous Risk Score:</b> 3 December 2015	Likelihood = <b>Unlikely</b> Impact = <b>Moderate</b>	
<b>Financial Impact.</b> Unknown		
<b>Progress against actions to manage the risks:</b>		
<ul style="list-style-type: none"> <li>• <i>New carbon emissions reduction target agreed by Cabinet in April 2015 (CAB2682 refers),</i></li> <li>• <i>Implementation of agreed package of flood resilience measures across the District in hand,</i></li> <li>• <i>"Twelve Actions for a Lower Carbon Council" approved in December 2015 (PHD 660A refers) to help meet carbon emissions reduction target,</i></li> <li>• <i>Development of Park and Ride service, including the confirmation of low emission (Euro 6) buses for the new contract, greater frequency of buses and the opening of the new Park and Ride site at Pitt early in 2016,</i></li> <li>• <i>Review of waste rounds to reduce carbon emissions currently in hand,</i></li> <li>• <i>Delivery of Route Map for a Low Carbon Economy ongoing,</i></li> <li>• <i>Feasibility of a solar PV project for non-residential buildings in the city centre (Town Forum) in hand,</i></li> <li>• <i>New evidence received last month on which to base updated air quality action plan, ensuring that air quality is a key consideration in future transport/access plans for the city centre. Air quality action plan working group now convened.</i></li> </ul>		

<b>Risk Title:</b> Commissioning		
<b>Risk Owner:</b> Assistant Director (Economy and Communities)		
<b>Risk Description:</b> Failure of a contractor to deliver services <b>leading to</b> delays to the Council or public <b>resulting in</b> increased costs and adverse publicity.		
<b>Current Risk Score:</b>	Likelihood = <b>Unlikely</b> Impact = <b>Minor</b>	<b>Changes to risk scores:</b> No Change
<b>Previous Risk Score:</b> 3 December 2015	Likelihood = <b>Unlikely</b> Impact = <b>Minor</b>	
<b>Financial Impact:</b> Estimated to be up to £1 million		
<b>Progress against future actions:</b> <ul style="list-style-type: none"> <li>• <i>Officers currently exploring the potential for procurement support from another local authority</i></li> <li>• <i>Officers developing procurement 'toolkit' in response to commissioning audit report, to help determine which commissioning mechanism is most appropriate</i></li> <li>• <i>Increasing transparency of commissioning process through more widespread use of South East Business Portal and Contract Finder,</i></li> <li>• <i>Projects Team maintain 'lessons learnt' log from each project, which includes the commissioning associated with each project (eg procurement, partnership working).</i></li> <li>• <i>Web pages on commissioning process updated to provide current information, tailored appropriately for voluntary sector, small businesses, large contractors etc.</i></li> <li>• <i>Commissioning Assurance workshop being planned with Council insurers – planning session 01 March 2016, with workshop likely in late spring 2016.</i></li> </ul>		

<b>Risk Title:</b> Transformation		
<b>Risk Owner:</b> Chief Executive		
<b>Risk Description:</b> Inadequate and/or lack of dedicated resources allocated to the Transformation Programme <b>leading to</b> delayed progress <b>resulting in</b> the Council being unable to reach or achieve long term objectives.		
<b>Current Risk Score:</b>	Likelihood = <b>Unlikely</b> Impact = <b>Major</b>	<b>Changes to risk scores:</b> No Change
<b>Previous Risk Score:</b> 3 December 2015	Likelihood = <b>Unlikely</b> Impact = <b>Major</b>	
<b>Financial Risks</b> £250k p.a. savings to be identified as part of wider review of transformation plan.		
<b>Progress against future actions:</b>		
<ul style="list-style-type: none"> <li>• Agree and communicate long term objectives and aspirations for the Council to staff - ongoing</li> <li>• Provide adequate resources to deliver programme of reviews - <i>ongoing</i></li> <li>• Use suitable, recognised and tested approaches and processes – <i>the Council is currently using the Vanguard method to review the handling of planning applications within the Business Support and Development Management Teams. Further services are being identified to be reviewed during 2016/17.</i></li> <li>• Engage staff throughout the process in reviews - <i>ongoing</i></li> <li>• Clearly set out responsibilities for delivery of programme and ensure through regular monitoring that this is adhered to and that other priorities do not impact on delivery.</li> </ul>		