AUDIT COMMITTEE

4 DECEMBER 2014

ANNUAL GOVERNANCE STATEMENT AND CORPORATE RISK MONITORING UPDATE

REPORT OF CHIEF EXECUTIVE

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RECENT REFERENCES:

AUD078 Annual Governance Statement and Corporate Risk Monitoring Report, 11 March 2014

AUD095 Risk Management Policy 2014, 26 June 2014

AUD100 Annual Governance Statement for 2013/14, 25 September 2014

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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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 2014 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 2014/15 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 is defined within the Council's Risk Rating Card and included in the Risk Management Policy 2014. 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 June 2014 were included in the Risk Management Policy 2014 (Report AUD095, 26 June 2014 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 2014 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.   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 – December 2014

Issue	Action to be taken	Progress / Comments
Asset Management *Also Corporate Risk: CR5003*	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 the possible impact of the current economic situation and of opportunities to encourage regeneration through the use of the Council's property portfolio.	*Significant capital expenditure was incurred on projects during 2013/14. The new Depot was completed which will release the old site for redevelopment. The Council has recently undertaken renovation/ conversion works at Abbey Mill which has been let as a restaurant to River Cottage. An agreement for lease has been concluded for Avalon House with Southern Health NHS Trust and the Council's improvement works commenced in June 2014 and will be completed in January 2015. The Council has also contracted to purchase County Council land near the Winchester station which together with the adjacent City Council car park will provide an opportunity for a major redevelopment.* *Earmarked reserves have been increased to fund future planned expenditure. However there are still some future capital requirements that will need funding to be identified including the River Park Leisure Centre and City Offices. This will be considered further during 2014/15 and the Plan updated in January 2015.*

Issue	Action to be taken	Progress / Comments
Setting and achieving priorities within the context of reducing resources for local government. *Also Corporate Risk: CR5004*	Continued improvement in consultation on Council priorities/budget, and of links between corporate planning, and Medium Term Financial Strategy. The Finance and Organisational Development Portfolio Plan for 2014/15 sets out the key actions which include: -Strengthen the financial resilience of the Council by building further on the principles established in the Asset Management Plan; -Develop a savings and income plan to balance the medium term forecast deficit position; and - Develop the Council's Treasury Management Strategy to support the Council's increased capital spending requirements, with an acceptable level of risk.	*The Asset Management Plan is under review and an update will be presented to Cabinet in January.* *The 2014/15 budget was revised in October providing an updated baseline budget for 2015/16, reflecting income growth and savings identified. The Medium Term Financial Strategy has been approved and budget consultation will take place in December.* *The Treasury Management Strategy is constructed to support the whole of the Council's cash management requirements; investments and borrowing and will be developed alongside the determination of the spending plans for both the General Fund and the Housing Revenue Account.*

Issue	Action to be taken	Progress / Comments
Partnership arrangements *Also Corporate Risk: CR5012*	Continue to develop partnership arrangements where there is an efficiency or improvement led case for doing so.	*A number of delivery partnerships are in place to help realise priority outcomes, for example the Community Safety Partnership, Health & Wellbeing Partnership, and Housing Forum.* *The Council continues to develop a range of partnership and shared services projects including:* - *Housing services* - *Fully Integrated Merger of Museums services – Cultural Trust handover occurred on 1 November 2014.* - *Treasury Management Services* *Shared services already in place include IT, Revenues, Environmental Services, Internal Audit and Learning and Development.*
Housing Finance	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.	*The Council took on debt and paid £157.6m to the Government in March 2012 in accordance with the requirements of housing finance reform.* *Treasury management procedures for the management of the cash flow and the debt are kept under review.* *Preparations are being made for accounting changes for depreciation and componentisation.*

Issue	Action to be taken	Progress / Comments
Capacity *Also Corporate Risk: CR5006*	Ensure capacity to deliver priorities. More effective use of officer capacity through agile working. Effective Flexible Resource Management to achieve target savings. Developing a robust approach to Programme Management.	*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.* *The Major Projects Team is supporting the prioritisation of resources for the Council's significant projects.* *A review of strategic finance capacity is underway.*

Issue	Action to be taken	Progress / Comments
Silver Hill *Also Corporate Risk: CR5002*	To work with the Council's development partner TIAA Henderson Real Estate to progress the scheme.	*Henderson has proposed revisions to the consented scheme to improve design and commercial prospects. Cabinet approval to the next stage was given under the Development Agreement on 6 August 2014.* *The planning applications are now subject to public consultation and are due to be considered by the Planning Committee on 11 December.* *An application by Councillor Gottlieb for judicial review of the Cabinet decision was made on 9 September 2014 and was defended by the Council. The Judge determined that permission for the claim be refused and the Council was awarded costs of £7,500. Councillor Gottlieb then applied for a preliminary oral hearing on whether the matter should proceed further and it was considered on 18 November. He was given permission to proceed on one of three grounds and the case will be heard in late January 2015. It will be robustly defended by the Council. Councillor Gottlieb has also given advance notice of his intention to seek another judicial review to challenge the planning application.* *Subject to Henderson obtaining the necessary consents, start on site could be achieved in 2015.*
Issue	Action to be taken	Progress / Comments

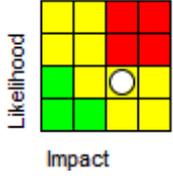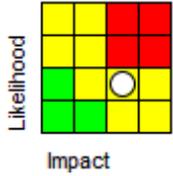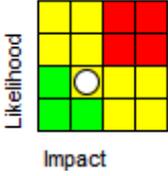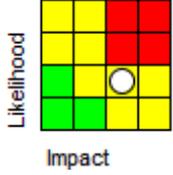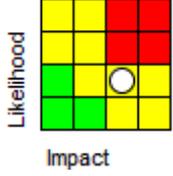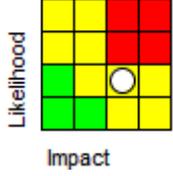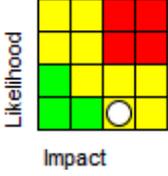| Issue	Action to be taken	Progress / Comments
Changes to Governance Arrangements *Also Corporate Risk: CR5015*	To input into the Local Government Boundary Commission review to reflect the Council's aspiration for its future governance arrangements and to continue to implement the Council's own improvements to its decision making arrangements.	*Input into the Review,* *Stage 1 July 2014* *Stage 2 6Nov 2014 – comments on some key points agreed by Council, but detailed warding submissions left to individual parties/groups in the absence of cross party agreement.* *Changes made to the Council's Constitution in 2013/14 to streamline decision making need to be embedded in 2014/15.*
Performance and Risk Management *Also Corporate Risk: CR5018*	Respond appropriately to recommendations included in recent Internal Audit report on Performance and Risk Management.	*Portfolio Plans that were approved earlier in the year are now well embedded into the Council's performance monitoring arrangements with the first half year monitoring reports presented to The Overview and Scrutiny Committee in October and December.* *Portfolio Plans for 2015/16 will be considered by Cabinet on 3 December and The Overview and Scrutiny Committee on 8 December (report CAB2633 refers).* *A revised set of performance metrics based on key areas of the Council's business are now reported quarterly to Performance Management Team* *Risk workshops to allow for the updating of operational, project and partnership risks are being held with risk owners and will be completed by 31 December 2014.*

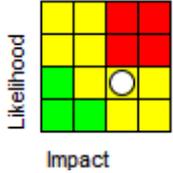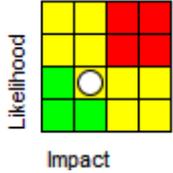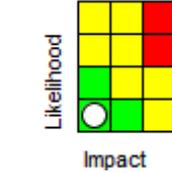| Issue	Action to be taken	Progress / Comments
Recruitment and Retention	Analyse the workforce profile and monitor trends to develop a revised Workforce Strategy and detailed plans to ensure that the Council has the right people with the right skills at the right time.	*Work is on going to review the Workforce Strategy and refresh it to meet future needs. This will be reported to Personnel Committee for consideration and approval at its meeting on 9 March 2015.* *A review of the Pay and Reward profile of the Council is underway to establish the current position within the employment market and assessing future requirements before a report setting out the Council's Pay and Reward Strategy is presented to Cabinet and Personnel Committee for consideration.* *Developing detailed plans to address any specific areas of concern.*
Consultation and engagement	Seek to embed best practice of consultation and engagement across all areas of the Council including engaging with residents to aid their understanding of the Council's major projects.	*Programme Management arrangements being developed to provide reassurance that communication is embedded in each project plan and project management training to be delivered to key staff in Spring 2015 will support this.* *The 'Engage' website is being revised to provide best practise guidance to officers on consultation and engagement and training on e-surveys and how to deliver effective consultation is being developed.*

Issue	Action to be taken	Progress / Comments
Internal Audit Issues Arising. *Also Corporate Risk: CR5011*	Accounts Payable and main accounting internal audit management actions to be resourced and implemented as a priority, in accordance with the timescales set out in the respective audit reports.	*Work is on-going to ensure effective controls are in place over key processes.* *Substantial progress has been made in clearing audit actions with the majority being completed within agreed timescales.* *An action plan is being prepared to deal with the remaining few.*

Corporate Risk Register
Progress monitoring report – December 2014

Short Name	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	Eloise Appleby				Climate Change Programme reviewed and Low Carbon Board membership/Terms of Reference revised in 2014 to ensure more effective delivery. Energy emissions (usage) by Council declining overall according to figures for 2013/14. New, realist target for carbon reduction to be agreed by Cabinet in January 2015.
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				Robustly defend challenge by judicial review.
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				Plan to be updated in January 2015 following consideration of reports on City Offices and RPLC by Cabinet at its meeting on 3 December 2014 (reports CAB2628 and CAB2634 refer).
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	Alexis Garlick				Medium Term Financial Strategy provides a detailed consideration of financial risks.
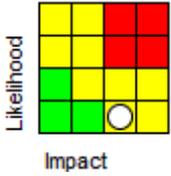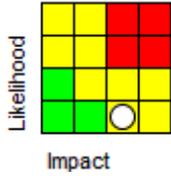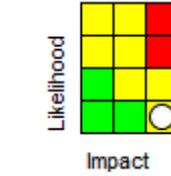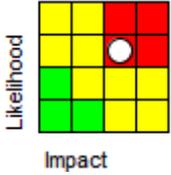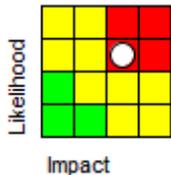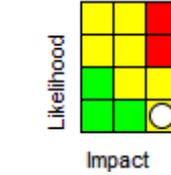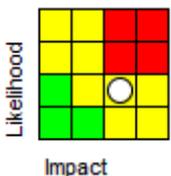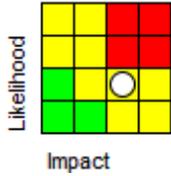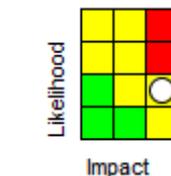
Short Name	Full Name (Cause/Effect/Impact)	Risk Ownership	Previous Risk Score	Current Risk Score	Target Risk Score	Progress Update (risk treatment or mitigation)
	deliver services					
Develop a Flexible, Responsive Workforce Ref: CR5006	Lack of skills and flexibility amongst staff *leading to* the failure to take opportunities to improve services and/or make efficiency savings *resulting in* poor delivery and failure to manage budget	Simon Eden	Likelihood / Impact	Likelihood / Impact	Likelihood / Impact	Workforce Strategy and Plan developed and covering the period 2015 to 2018 to be presented to Personnel Committee in March 2015
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	Likelihood / Impact	Likelihood / Impact	Likelihood / Impact	Performance Management team continues to meet regularly to consider the progress of significant projects.
Business Continuity Ref: 5009	Unforeseen event or circumstance *leading to* an extended delay in returning to normal working	Steve Tilbury	Likelihood / Impact	Likelihood / Impact	Likelihood / Impact	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 May 2015 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.
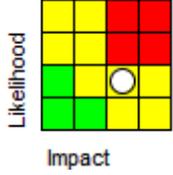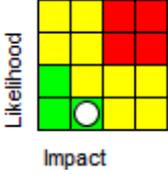
Short Name	Full Name (Cause/Effect/Impact)	Risk Ownership	Previous Risk Score	Current Risk Score	Target Risk Score	Progress Update (risk treatment or mitigation)
Control Weakness Ref: CR5011	Weak or ineffective internal control **leading to** financial loss **resulting in** damage to reputation and adverse publicity	Stephen Whetnall	Likelihood / Impact matrix	Likelihood / Impact matrix	Likelihood / Impact matrix	Annual Governance Statement processes at officer Corporate Governance Group and at the Audit Committee assist in identifying key issues and monitoring progress.
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	Likelihood / Impact matrix	Likelihood / Impact matrix	Likelihood / Impact matrix	The Council continues to assess and evaluate opportunities for shared working as they arise.
LDF and Local Plan Ref: CR5014	Failure to have Local Plan found sound **leading to** requirement to reconsider and resubmit **resulting in** lack of appropriate control on planning policy.	Steve Tilbury	Likelihood / Impact matrix	Likelihood / Impact matrix	Likelihood / Impact matrix	Local Plan Part 1 has been found to be sound and a legal challenge to its adoption has been rejected. Considerable evidence work and local consultation has been undertaken in developing the draft Local Plan Part 2. This will continue, along with appropriate officer and Member training, in order to minimise the risk of the Plan being found unsound.
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	Likelihood / Impact matrix	Likelihood / Impact matrix	Likelihood / Impact matrix	Proposal to consider establishment of Cabinet (Major Projects) Committee could assist with improving efficiency in decision-making and cross party consultation.
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	Likelihood / Impact matrix	Likelihood / Impact matrix	Likelihood / Impact matrix	Mid year report to Audit Committee (Dec) provides assurance that performance is fully compliant with Treasury Management Strategy.
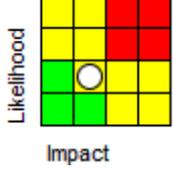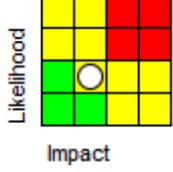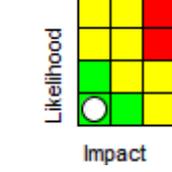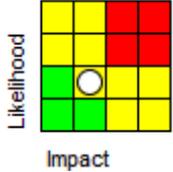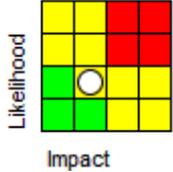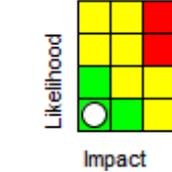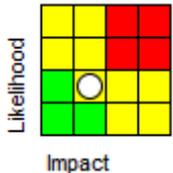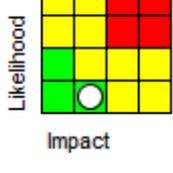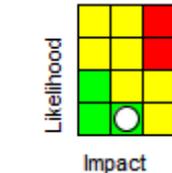
Short Name	Full Name (Cause/Effect/Impact)	Risk Ownership	Previous Risk Score	Current Risk Score	Target Risk Score	Progress Update (risk treatment or mitigation)
Performance Management Ref: CR5018	Failure to spot and rectify poor service performance *leading to* service decline *resulting in* poor value for money, poor customer service and damaged reputation	Simon Eden				Performance Management Team (PMT) has reviewed the areas of performance that it should monitor and an updated dashboard is now presented to PMT on a quarterly basis.
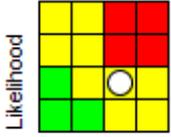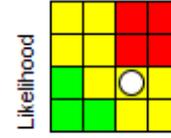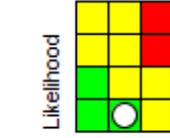
Risk Rating Card

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

<u>Likelihood</u>

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

		1	2	3	4
High	A (4)	orange	orange	red	red
	B (3)	orange	orange	red	red
Likelihood	C (2)	green	orange	orange	orange
Low	D (1)	green	green	orange	orange
		Low	Impact		**High**