

AUDIT COMMITTEE

Date of Meeting	Friday, 15 February 2019
Report Subject	Risk Management Update
Portfolio Holder	Leader of the Council
Report Author	Chief Executive

EXECUTIVE SUMMARY

This risk management update provides a position statement on the strategic risks at Quarter 3 (December 2018) contained within the Council's 2018/19 Council Plan.

A general risk management update is also provided to identify how risk management 'fits' in the financial and business planning cycle of the Council and also

Council Plan risks

The Council Plan 2018/19 was adopted by the Council in June 2018 this report provides an initial overview of the strategic risks contained within the Plan which were presented to Cabinet in December.

The 44 strategic risks within the Council Plan are being managed with the majority being assessed as moderate 28 (67%) or minor/insignificant 7 (17%). Detail around the 7 (16%) red risks is provided in the body of the report; the majority relating to the financial position of the Council. Two risks have been sufficiently mitigated to be closed.

Financial and Business Planning Cycle

A model to describe the Financial and Business planning cycle was requested at a recent joint meeting of Audit Committee members and Chairs of Overview and Scrutiny Committees. This model is attached and has been well received by members of Corporate Resources and Overview Scrutiny Committee earlier this month.

Strategic Risk Register

Chief Officers have initiated the development of a strategic risk register to further improve risk identification, escalation and mitigation.

This register has risks which are identified as the following types: Corporate Strategy; Corporate Governance; Portfolio Strategy and Portfolio Operational.

The capturing and monitoring of this risk register is being developed as a management resource, with a clear protocol as to where and when risks are escalated for public reporting.

RECOMMENDATIONS

1	To note the status of the initial overview of the strategic risks of the 2018/19 priorities of the Council.
---	---

REPORT DETAILS

1.00	STRATEGIC RISKS
1.01	<p>Council Priorities – Strategic Risks</p> <p>The Council adopted the Council Plan for 2018-19 in June 2018. The adoption of the plan and its priorities provides the opportunity to monitor the strategic risks aligned to those priorities and sub priorities; this is done on a quarterly basis by each of the Overview and Scrutiny Committees and reported to Audit Committee at the mid-year point. This report is to assure the Committee that the risk levels are being managed.</p>
1.02	<p>The Audit Committee's role is to ensure that the process and approach for managing risks is robust. As part of this process the Overview and Scrutiny Committees received their first quarterly progress report against the Council Plan for 2018/19 in November. These included a template for each risk capturing:</p> <ul style="list-style-type: none">• the nature of each risk;• the gross, net and target RAG status for each risk;• current actions already in place to mitigate the risk;• further activity to mitigate the risk. <p>The Quarter 3 monitoring reports (October to December 2018) have now been captured and the direction of risk trend from Q2 to Q3 is identified. This is shown by a comparison with the initial assessment against the current assessment to identify any change in risk significance.</p>
1.03	<p>The Council Plan has a total of 44 risks which have been assessed as shown in Table 1. The initial status of risk is assessed when the risk is first identified without any mitigating controls. The current assessment shows the latest status of the risk.</p>

Table 1: Initial assessment

Net risk status	Initial Assessment	Current Assessment
Insignificant: (green)	1 (2%)	3 (7%)
Minor: (yellow)	1 (2%)	4 (10%)
Moderate: (amber)	30 (69%)	28(67%)
Major : (red)	12 (27%)	7(16%)
Severe: (black)	0	0
Total	44	42

During the first 6 months of the year 2 risks were sufficiently mitigated to be “closed”. These are:

- i) “Delivery of social care is insufficient to meet increasing demand” - this is a specific risk related to the development of Marleyfield which is progressing well.
- ii) “Early Help Hub cannot deliver effective outcomes” – this has proven to be effective during its first year of operation.

In addition, one further risk has been closed at Q3, which is “reduction of land supply for Council housing construction”, which is now showing as Green in the current assessment.

During the year, one risk has increased from Amber to Red: “Debt levels will rise if tenants are unable to afford to pay their rent or council tax”. This risk is described in section 1.04 below.

1.04 The seven areas of major (red) risk assessed at the Quarter 3 period (October to December) of the Council Plan are described below. The text contains the most current description of mitigation of the risk. The end of year monitoring reports may show a change in status to these ‘red’ risks.

Priority: Supportive Council

Risk: Debt levels will rise if tenants are unable to afford to pay their rent or council tax.

Work has commenced on the identification of the impacts of Universal Credit on Council Tenants and their rent accounts. There is a team that works with tenants at the earliest opportunity on the basis that intervention at early stages allows support (if appropriate) to be identified earlier giving a more realistic chance of the rent account coming back under control and out of arrears.

The Council now has "Trusted Partner" status with the Department for Work and Pensions which means that processes and flow of information and payments is more streamlined and automated. Notwithstanding this, there will inevitably always be an element of cash flow arrears on accounts due to Universal Credit payments (whether direct to the council or directly to the tenant) being made in arrears.

During 2018/19 focus has been on early identification and intervention to prevent the problem from escalating. Council Tax Collection remains under pressure.

Risk: Demand outstrips supply for residential and nursing home care bed availability.

The expansion of Marleyfield to support the medium term development of the nursing sector continues under the direction of the Programme Board. The re-phasing of Integrated Care Fund (ICF) capital to fit in with the Council's capital programme has been agreed by Welsh Government. Recommendations from Social & Health Care Overview and Scrutiny Committee were that the Committee support the ICF programme and the initiatives of utilising short term funding streams to deliver against strategic and operational priorities for the council and key partners. Workstreams from the Strategic Opportunity Review are continuing. A strategic review of demand and supply in light of the new capital developments is being undertaken.

Priority: Learning Council

Risk: Sustainability of funding streams.

The sustainability of grant funding for education continues to pose a significant and live risk in a number of areas:

- A lack of clarity about the funding of the Teachers' Pay Award for 2019-20 remains. Through RSG and the Teachers Pay Grant from Welsh Government the schools budget will be funded for 1% of the impact of the pay award implemented in September 2018. The balance of 1.2% of the pay award is a cost pressure which will have to be absorbed by schools. Further it can be assumed that there will be a Teachers' Pay Award from September 2019 which unless national funding is made available will be an additional cost pressure which will need to be absorbed by schools.
- The increase in the teachers' employers' pensions costs remains a significant risk. From September 2019 the employers' contributions will increase from 16.48% to 23.6%. The impact of this on Flintshire schools will be £2.026m. The Chancellor announced £4.7billion nationally to cover public sector increased pension costs but at this stage there is no indication of whether there will be a consequential for Welsh Government.
- The recently announced £15m grant for schools across Wales appears to have been ring-fenced by the Cabinet Secretary for Education to support professional learning in advance of the introduction of the new curriculum, but distribution methodology and terms and conditions are not yet known.
- The MEAG (Minority Ethnic Achievement Grant) was not reinstated in full and there remains a lack of clarity about a new regional model for delivery of these services and the funding attached to them.

There are grants which are only short term to support Ministerial key priorities e.g. Infant Class Sizes; Small and Rural Schools etc but the grant conditions are often complex which makes them difficult to administer and their short term nature does not allow for proper strategic planning to maximise impact.

Risk: Numbers of school places not matching the changing demographics.

Reducing unfilled school places via school organisation change is an ongoing process. School change projects can take between three and five years from inception to delivery before reductions of unfilled places can be realised. This continues to be an ongoing process linked to the school

modernisation programme. To supplement this the Council will continue to work closely with schools to consider innovative ways for reduction in capacity on a school by school basis (i.e. alternative use of school facilities by other groups) with the objective of meeting national targets of circa 10% unfilled places in all school sectors.

Risk: Limited funding to address the backlog of known repair and maintenance works in Education & Youth assets.

Continuation of the School Modernisation programme is one of the strategic options available to address the repair and maintenance backlog. The programme continuation will also i) Support a reduction of unfilled places ii) Provide a more efficient school estate and concentrate resources on teaching by removal of unwanted fixed costs in infrastructure and leadership iii) Ensure that the condition and suitability of the school estate is improved. Additionally, in future years capital business cases will be submitted through the Council process to supplement the 21st Century Schools investment programme.

Priority: Green Council

Risk: Funding will not be secured for priority flood alleviation schemes.

As of 7th January 2019, the Council has a new statutory duty as a Sustainable Drainage Approving Body (SAB). This has placed significant resource demands on the relatively small Flood and Coastal Risk Management Team to implement, resource and fund this new statutory role. In the short-term (1-2 years) the impacts of developing this new service will lessen the ability of the Team to delivery non-statutory flood alleviation schemes. A service review is intended to identify a more effective structure that can deliver the statutory duties as the SAB in addition to existing duties and powers as a Lead Local Flood Authority. To help manage these changes, no major schemes are programmed to be put forward to Welsh Government's 'national pipeline of projects' for delivery in 2019/20. Limited work will continue where resources allow to refine existing projects and designs so that they might be considered for future grant applications and programming for delivery. In addition funding for smaller more affordable local works that can be delivered through Welsh Government's small scale scheme grant will continue to be pursued.

Priority: Serving Council

Risk: The scale of the financial challenge

The Council was projecting a budget gap of £13.7m in September. This increased to £15.3m following receipt of the provisional settlement due to a decrease in the Council's aggregate external funding of 1%. Stage 1 and Stage 2 budget options were approved by Council in November and a revised gap of £6.7m remained at that time. Following the receipt of the Final Settlement in December and some additional funding announcements, the budget Gap at the final Stage 3 remains at £3.1m. Balancing budget options will be considered by Cabinet and Council in January. Without further intervention from Welsh Government the only remaining options to balance the budget are Council Tax and a further use of reserves.

Six of the initial red risks have been mitigated in significance:

- The supply of affordable housing will continue to be insufficient to meet community needs

	<ul style="list-style-type: none"> - Annual allocation of the Integrated Care Fund (ICF) - Short term funding may undermine medium term service delivery - Rate of increase of adult safeguarding referrals will outstrip current resources - Knowledge and awareness of safeguarding not sufficiently developed in all portfolios - Failure to implement safeguarding training may impact on cases not being recognised at an early stage - Impact of Additional Learning Needs reforms.
1.04	<p>Financial and Business Planning cycle</p> <p>A model to describe the Financial and Business planning cycle was requested at a recent joint meeting of Audit Committee members and Chairs of Overview and Scrutiny Committees.</p> <p>The main parts of the finance and business planning cycle are medium term and annual financial planning, the Council Plan and supporting business strategies and plans, and external partnership strategic planning.</p> <p>Within each there are a number of outputs, some of which are statutory such as 'setting the budget', publication of the Improvement / Council Plan, the Annual Governance Statement, and the Well-being Plan. These have set dates and are supported by processes which involve planning, forecasting and reviewing.</p>
1.05	<p>The annual cycle of these processes and their final output are described across the calendar year as attached at Appendix 3.</p> <p>A presentation will be provided to assist with the understanding of this complex cycle.</p>
1.06	<p>Strategic Risk Register</p> <p>Chief Officers have initiated the development of a strategic risk register to further improve risk identification, escalation and mitigation.</p> <p>This register has risks which are identified as the following types:</p> <p><u>Corporate Strategy</u> – risks associated with the delivery of the Council's main corporate strategies:- People Strategy; Medium Term Financial Strategy; Digital Strategy; and Customer Strategy.</p> <p><u>Corporate Governance</u> – risks associated with governance, such as those within the Annual Governance Statement.</p> <p><u>Portfolio Strategy</u> – risks within each portfolio where there is a specific strategy e.g. Homelessness, LDP, Social Care Commissioning. These will also include risks as part of the Council Plan which are specific to that portfolio and capital projects such as Schools Modernisation.</p> <p><u>Portfolio Operational</u> – risks within the portfolio which need escalating for reporting and monitoring beyond the portfolio.</p>

	The capturing and monitoring of this risk register is being developed as a management resource, with a clear protocol as to where and when risks are escalated for public reporting.
--	--

2.00	RESOURCE IMPLICATIONS
2.01	There are no direct resource implications related to this report.

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	Consultations with Chief Officers, senior managers and both Internal and external audit (Wales Audit Office) have been undertaken whilst addressing various aspects of this report.

4.00	RISK MANAGEMENT
4.01	The Council's strategic Council priority risks are being effectively managed through the adopted risk management approach.

5.00	APPENDICES
5.01	Appendix 1: Council Plan Strategic Risk report Appendix 2: Council Plan risk register Appendix 3: Financial and Business planning cycle

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	Contact Officer: Karen Armstrong, Corporate Business and Communications Executive Officer Telephone: 01352 702740 E-mail: Karen.armstrong@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	<p>(1) Council Plan: the document which sets out the annual priorities of the Council. It is a requirement of the Local Government (Wales) Measure 2009 to set Council Objectives and publish a Council Plan.</p> <p>(2) Wales Audit Office: works to support the Auditor General as the public sector watchdog for Wales. They aim to ensure that the people of Wales know whether public money is being managed wisely and that public bodies in Wales understand how to improve outcomes.</p> <p>(3) Risk Management - the process of identifying risks, evaluating their</p>

	<p>potential consequences (<u>impact</u>) and managing them. The aim is to reduce the frequency (<u>likelihood</u>) of risk events occurring (wherever this is possible) and minimise the severity of their consequences (<u>impact</u>) if they occur. Threats are managed by a process of controlling, transferring or retaining the risk. Opportunities are managed by identifying strategies to maximise the opportunity or reward for the organisation.</p>
--	---