



Audit Panel

Report title: Risk Management Update

Date: 7 December 2021

Key decision: No

Class: Part 1

Ward(s) affected: All

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Outline and recommendations

1. The purpose of this report is to update members of the Audit Panel on the Council's Strategic Risks, as detailed in the Strategic Risk Register, for the quarter ending 30 September 2021.
2. Audit Panel are recommended to:
 - (i) note this report
 - (ii) note the Strategic Risk Register
 - (iii) note the Update on management of financial risk

1. Recommendations

1.1 The Audit Panel are recommended to:

- (i) note this report
- (ii) Note the Strategic Risk Register
- (ii) note the update on management of financial risk

2. Policy Context

2.1 The contents of this report are consistent with the Council's policy framework. It supports the priorities set out in the Corporate Strategy 2018-2022:

- Open Lewisham
- Tackling the housing crisis
- Giving children and young people the best start in life
- Building an inclusive local economy
- Delivering and defending: health, social care and support
- Making Lewisham greener
- Building safer communities

2.2 It supports all of the Council's priorities generally through effective risk management for all of its activities and duties.

3. Background

3.1 Risk is identified and managed in accordance with the Council's Risk Management Strategy. The Risk Management Strategy was reported to, and approved by, Audit Panel in June 2021.

3.2 At the meeting in June 2021, Audit Panel requested an update on management of financial risk for this meeting and an update on Cyber risks for the March 2022 meeting.

3.3 A paper discussing options for the future management of risk was taken to EMT in October 2021.

3.4 EMT approved the Strategic Risk register on 24 November 2021.

3.5 EMT agreed that work to progress the reporting and management of risk, aligned with capital and project risk registers and Directorate service planning and performance monitoring is to be finalised by April 2022. The current arrangements will continue until then.

3.6 EMT will meet again in February 2022, by which time the new Head of Assurance will have taken up his post, to consider the arrangements further.

3.7 This reports summarises the risks identified as at the end of March 2021.

4. Summary of Strategic Risk Changes this quarter

4.1 There are two new risks added to the register this quarter. 4.A.2 Global commodity price increases/supply chain shortages and 4.B.3 Failure to comply with RSH Consumer Standards

4.2 There are four changes in the risk scores (current or targets) in this period.

- 1.A.1 Information Governance Failure has reduced from red to amber following implementation of actions.
- 2.B.1 ICT infrastructure score has reduced following participation in corporate PMO arrangements, The RAG remains amber.
- 3.A.3 Cultural resistance to change has been renamed as Pace of change negatively impacts service delivery and employee morale and this risk has been downgraded from red to amber.
- The Covid emergency response risk (5.B.2) has been downgraded from red to amber to reflect the Future Lewisham plans and work with partners.

4.3 Narrative and actions have been updated for each of the risks in the registers.

4.4 The key risks anticipated for the next 12 months are recorded in the Strategic Register and key risks are shown in the table below in order of the current risk ranking.

Key Risks	Ref	Title	Current	Target	Change
Red-Red High Risk and big variance current to target	2.A.1	Internal Control	16	8	None
	2.B.2	Cyber Security	15	5	None
	5.A.1	Un-balanced budget	20	4	None
Amber-Red Medium Risk and big variance current to target	1.A.1	Info Governance Failure	9	3	-7
	1.A.2	Implement service changes	12	4	None
	1.B.1	Health & Safety	12	6	None
	1.B.3	Climate change	12	6	None
	2.B.1	ICT infrastructure	6	4	-6
	3.A.2	Management Capacity	12	6	None

	3.B.1 Ineffective partnership working	8	4	None
	3.B.2 Integrated models for health & care	12	4	None
	4.A.1 Strategic supplies/procurement	12	6	None
	4.B.1 Performance failure	12	4	None
	5.A.2 Unforeseen expenditure	12	6	None
Red-Amber	2.A.3 Delivery of strategic change	15	10	None
Red-Green High Risk with minor variance to target	2.A.2 Failure in Child Safeguarding	25	20	None
	2.A.5 Serious Adult Safeguarding Concern	20	20	None
	3.A.3 Pace of change impacts negatively	12	12	-13
	5.B.2 Failure to contain impacts of Covid-19	10	9	-10

5. Completion of Planned Actions

- 5.1 Most actions in the Strategic Register are either completed or progressing satisfactorily in accordance with expected timescales. However, numerous dates have slipped or been extended, largely due to the diversion of resources as a result of COVID-19.
- 5.2 Various actions continue to have 'ongoing' with no next milestone date in the 'By when' column. EMT have previously confirmed that a milestone date is a requirement. This should be corrected for the next register, due in December.
- 5.3 A paper updating on the management of financial risk, as requested by the Audit Panel meeting in June 2021, is at Appendix 2.

6. Horizon Scan – Future Risks

- 6.1 The following circumstances, identified through the PESTLE framework, may impact on the Council in the near future. Audit Panel will wish to assure themselves that there have been no changes in circumstances that would lead them to recommend that these risks should be added to the strategic risk register now or change an existing risk. The external review of ASC practice, Merger of CCGs, Building Safety Bill, Commodity price increases and implications of end of furlough have been added to this scan this quarter.

Political

- Integration of elements of the Health system – including commissioning (Health & Care Bill)
- Changes to funding flows in respect of NNDR and CTax Benefit
- Risk of judicial review on impact of Covid changes made (e.g. LTN Covid changes)
- Trend to free schools and academies
- Governance and operational impact of Devolution agenda for London on Lewisham priorities
- potential policy changes following the Queen's speech may introduce risks

Economic

- Continuing austerity measures restricting work of local government
- Catford and Lewisham regeneration/development, including Bakerloo line, new build priorities organisation of housing service providers
- Impact of migration on demand for services (short and medium term)
- Consequence of Brexit
- Changes to National Funding Formula for schools and falling rolls
- Recession and contraction of the economy as a result of the COVID-19 pandemic
- End of furlough
- Building Safety Bill
- Adult Social Care reforms
- External review of ASC practice
- Merger of CCGs
- Global commodity price increases/shortages

Social

- Resourcing (skills) mix and staff churn from reorganisation changes
- 2021 Census outcomes and predicted demographic changes (population growth impacts)
- Consequence of Brexit economic and Hong Kong immigration changes
- Consequence of COVID-19 and widening inequalities
- Estate rationalisation and impact on ways of working
- Impact of Universal Credit reduction, Welfare Reform and Public Services legislation
- End of furlough

Technological

- IT and digital strategy and fit for purpose systems to support changing ways of working

Legislation

- Scale and pace of statutory/legislative changes, e.g. Social Care changes
- Flood and Water Management Act

Environment

- Carbon Reduction Commitment
- Environment Bill

7. Summary & Conclusions

- 7.1 The Council manages risk in accordance with its Risk Management Strategy 2017 – 2022.
- 7.2 The risk registers have been reviewed for the period ending 30 September 2021 and the Strategic Risk Register has been updated to reflect the current assessment of risk to the Council.
- 7.3 The register was reviewed and approved at EMT at its meeting on 24 November 2021 and is appended to this report at Appendix A.
- 7.4 There have been four score changes and two new risks have been added since the June register (RSH referral and Global commodity price and Failure to comply with RSH Consumer Standards).
- 7.5 The Risk Management Strategy will be updated and arrangements for more aligned procedures for the management of risk will take place during 2022.

8. Financial Implications

- 8.1 There are no direct financial implications arising from this report. However, this report advises on the identification and management of risk with the objective of aiding management of those risks and thereby reducing unanticipated financial pressures.

9. Equalities Implications

- 9.1 There are none arising directly from this report.
- 9.2 The Equality Act 2010 (the Act) introduced a public sector equality duty (the equality duty or the duty). It covers the following protected characteristics: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

In summary, the Council must, in the exercise of its functions, have due regard to the need to:

- eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
- advance equality of opportunity between people who share a protected characteristic and those who do not.
- foster good relations between people who share a protected characteristic and those who do not.

It is not an absolute requirement to eliminate unlawful discrimination, harassment, victimisation or other prohibited conduct, or to promote equality of opportunity or foster good relations between persons who share a protected characteristic and those who do not. It is a duty to have due regard to the need to achieve the goals listed above.

The weight to be attached to the duty will be dependent on the nature of the decision and the circumstances in which it is made. This is a matter for Mayor and Cabinet, bearing in mind the issues of relevance and proportionality. Members must understand the impact or likely impact of the decision on those with protected characteristics who are potentially affected by the decision. It is not an absolute requirement to eliminate unlawful discrimination, advance equality of opportunity or foster good relations. The extent of the duty will necessarily vary from case to case and due regard is such regard as is appropriate in all the circumstances.

The Equality and Human Rights Commission has recently issued Technical Guidance on the Public Sector Equality Duty and statutory guidance entitled “Equality Act 2010 Services, Public Functions & Associations Statutory Code of Practice”. The Council must have regard to the statutory code in so far as it relates to the duty and attention is drawn to Chapter 11 which deals particularly with the equality duty. The Technical Guidance also covers what public authorities should do to meet the duty. This includes steps that are legally required, as well as recommended actions. The guidance does not have statutory force but nonetheless regard should be had to it, as failure to do so without compelling reason would be of evidential value. The statutory code and the technical guidance can be found at:

<https://www.equalityhumanrights.com/en/advice-and-guidance/equality-act-codes-practice>

<https://www.equalityhumanrights.com/en/advice-and-guidance/equality-act-technical-guidance>

10. Legal Implications

- 10.1 The Authority has a duty to safeguard Council services and assets and seeks to meet that duty by having appropriate risk management arrangements in place.
- 10.2 The Audit & Accounts Regulations 2015 places a responsibility on relevant authorities to ensure that it has a sound system of internal control which:
 - (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;
 - (b) ensures that the financial and operational management of the authority is effective; and
 - (c) includes effective arrangements for the management of risk.
- 10.3 The Council’s Risk Management Strategy 2017-2020 aims to ensure that the Council’s arrangements reflect the current best management practice as detailed in *the Management of Risk in Government Framework* and the *HM Treasury Orange Book – Management of Risk – Principles and Concepts* and is compliant with the statutory requirements as defined in the Audit & Accounts Regulations 2015.

11. Climate change and environmental implications

- 11.1 There are none arising directly from this report however the impact of climate change (e.g. air quality, extreme weather, flooding, compliance with new requirements/standards for service delivery) is included in the Strategic Risk Register as a risk that is currently rated as amber.

12. Crime and disorder implications

- 12.1 There are none arising directly from this report however some of the risks recorded within the Strategic Risk Register have crime and disorder implications (e.g. 3.B.1 Multi-agency Governance).

13. Health and wellbeing implications

- 13.1 There are none arising directly from this report however some of the risks recorded within the Strategic Risk Register have health and wellbeing implications (e.g. Multi-agency Governance, Failure to agree with partners integrated delivery models for local health and care services) and others could impact indirectly.

Report Author

If there are any queries on this report, please contact Karen Eaton, Group Manager, Insurance & Risk, on extension 46849

APPENDICES

- 1. Strategic Risk Register**
- 2. Financial risk update – 5.A.1**

APPENDIX 2

UPDATE ON MANAGEMENT OF FINANCIAL RISK – AUDIT PANEL DECEMBER 2021.

Risk

This update provides more detail on the management of strategic risk 5.A.1 – financial failure due to being unable to maintain delivery within a balanced budget. The risk is scored Red at 20 with an impact of 5 and likelihood of 4 against a target score of 4 (impact 4 and likelihood of 1). Related but separate to this risk is 2.A.1 Adequacy of Internal Control discussed at the September Audit Panel.

Currently the activity in place to mitigate this risk includes:

- Audited financial statement and VFM – unqualified;
- Medium Term Financial Strategy, regular monitoring of reserves and provisions, and balanced budget;
- Financial planning addresses historic pressures, emerging demand / costs, and cuts needed in future years; and
- Financial planning considers commitments across collection fund, general fund, schools, housing, pension fund, and capital plans.

Assessment and Mitigations

The two main drivers of the risk are external and internal factors. External factors reflect recent short notice changes in government funding plans for local government, for example; one year only settlements, growth in reliance on one-off grants for pressures, onus on increasing local taxations (e.g. social care precept), and now the threat of levelling up and the impact for London. Internal factors reflect officers ability to realign and operate services within available resources to mitigate key service and community risks following over ten years of funding reductions at a time of rapid rising population presenting more need.

The key risk considerations for maintaining delivery within a balanced budget start with understanding and preparing for the level of resources available – the external factors – and then planning and operating within these constraints – the internal factors.

In 2020/21 and 2021/22 this risk became even more acute and difficult to mitigate due to the the Covid pandemic, the resultant pressures on services and budgets, the impact on residents and businesses, and the uncertainty as to the levels and timing of Government support to be received to meet this. These were not only additional but often interwoven with existing service priorities, in particular where focused on vulnerable needs and inequalities. This makes the management of this risk more challenging as the Council works to recover to a more stable but changed business model focused on residents, the community and local business.

As a result the Council set a balanced budget in 2021/22 without the use of reserves, but this was predicated on significant budget cuts. This has meant that the ability to maintain delivery within a balanced budget became more challenging.

External risk considerations:

1. Fair funding reset – now pushed back until 2023/24 at the earliest (since 2018/19).

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2. Levelling up agenda – what this means to London with priorities such as rurality given more weight than deprivation and more fairness in Council Tax levels.
3. Business rates reset – with the potential impact of lost growth since 2013/14 and risk to the local top-up either through the area cost model nationally or priorities for London coming first.
4. Adult social care and related Social Care reforms – increased discharges with more complex needs requiring more double-handed care packages or other expensive provision and rising number of children taken into care as community / family support weakens.
5. Increased demand pressures – Homelessness and availability of affordable quality housing stock, school places for special education needs, good quality local placements and support services for children and adults with physical and learning needs.
6. Priorities and pressures of climate change – on the cost of goods and services, need to change supply chains including waste, and the physical risks for London with much of the Borough on a flood plain.

Internal risk considerations

1. Overspending as services fail to align the cost of services or income collection for services provided in line with budget plans. For 2021/22 currently forecast at £8.5m.
2. COVID pressures, no new funding expected but the Council spent over £40m in 20/21 on its own services and a further £25m in 2021/22. These demand pressures if not quickly unwound will become overspending in 2022/23.
3. As a result of needing to address previously delayed cuts from using reserves, service overspending, new pressures and demands, and insufficient funding a significant level of savings £28m were required for 2021/22. Of these up to £15m remain undelivered as part of business as usual and covid pressures.
4. Following the delivery of £190m of budget reductions to 2020/21 services are already pared back to the bone reducing the options for what to cut next and making the need to stop certain activities more likely. Especially in the context that the majority – over 70% of service spend excluding schools is on social care – adults and children – and public health services.
5. Reserves position with £20m of general un-earmarked balances. There are other earmarked reserves but these are committed within current plans and to fund potential risks such as those related to change including redundancy and pension costs.
6. The Council's control framework is as set out in the Constitution, the financial controls are detailed in Section K – Financial Regulations, the Schemes of Delegation and is supplemented by the Financial Procedures. These are also supported by the procurement regulations at section I.
7. There is monthly financial reporting to EMT and quarterly financial reporting to Public Accounts Select Committee and Mayor and Cabinet for both capital and revenue.
8. The Medium Term Financial Strategy was presented to Mayor & Cabinet in July 2021 to enable robust financial planning for 2022/23 – 2025/26.
9. The Treasury Management Strategy update was presented to Mayor & Cabinet in September 2021 and the capital position is being presented in January 2022.

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Priorities and Actions

A number of priority actions to further support the established control framework and manage and mitigate the risks were introduced. These include:

- one Council approach led by the Executive Management Team, this includes greater engagement with Directors (Senior Leadership Team) and Senior Managers (Extended Leadership Team) on a regular basis;

This strengthened ownership and understanding to assist all budget holders with identifying pressures early and implementing measures to reduce in-year spend.

- utilising a thematic approach to generate savings to close the gap;

This has increased collaboration across services looking at whole ways of working and meant that cross-cutting initiatives are identified with greater scope for transformation.

- stronger financial engagement for all budget holders, including the introduction of SLT signing off their respective service budgets on the 1 April 2021;

This has increased financial accountability and ensured that all budget holders identify pressures early and implement measures to reduce in year spend.

- improving monthly monitoring to align performance activity with financial position;

This is ongoing and is being further embedded in the financial monitoring to ensure that trends and pressures can be identified early and exceptions focused on.

- specific and dedicated governance arrangements and extensive modelling of financial risks for the capital programme;

This includes thematic boards to monitor the delivery of all agreed cuts and a clearer profiling and allocation of capital to maximise delivery.

- lobbying government on shared financial pressures – e.g. social care, housing, business rates, etc..

This enables robust financial planning and reduces reliance on Council Tax to fund new or emerging pressures.

This work will continue as part of the ongoing mitigations being tracked and the risk scoring reassessed. The key upcoming other factors are the local government finance settlement for 2022/23 expected in September ahead of the Council needing to set a balanced budget by the 11 March 2022. The overall status forming part of the professional considerations and report to Council of the Section 151 Officer in their Section 25 statement to accompany the budget.