

CORPORATE RISK MANAGEMENT - QUARTERLY UPDATE

Governance and Audit Committee	23 September 2020
Report Author	Chris Blundell, Head of Financial and Procurement Services
Portfolio Holder	Councillor Duckworth, Portfolio Holder for Estates and Economic Development
Status	For information
Classification:	Unrestricted
Key Decision	No
Ward:	All

Executive Summary:

This report provides the Governance & Audit Committee with a quarterly review of corporate risks.

Recommendation(s):

1. To approve the review of corporate risks.

CORPORATE IMPLICATIONS

Financial and Value for Money	<p>The way in which the council manages risks has a financial impact on the cost of insurance and self-insurance. The council maintains reserves including a risk reserve, the size of which is commensurate with the financial impact of current and future risks. There are no specific financial implications arising from this report.</p> <p>It is the role and responsibility of the Section 151 Office to have active involvement in all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered.</p>
Legal	<p>Whilst the corporate risk register includes consideration of legal matters in as far as they relate to risks to the council, there are no legal implications for the recommendation required by this report.</p>

Corporate	Governance & Audit Committee approved the revised Risk Management Strategy on 6 March 2019, which includes a requirement to provide regular corporate risk updates to G&A Committee.								
Equalities Act 2010 & Public Sector Equality Duty	<p>Members are reminded of the requirement, under the Public Sector Equality Duty (section 149 of the Equality Act 2010) to have due regard to the aims of the Duty at the time the decision is taken. The aims of the Duty are: (i) eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act, (ii) advance equality of opportunity between people who share a protected characteristic and people who do not share it, and (iii) foster good relations between people who share a protected characteristic and people who do not share it.</p> <p>Protected characteristics: age, gender, disability, race, sexual orientation, gender reassignment, religion or belief and pregnancy & maternity. Only aim (i) of the Duty applies to Marriage & civil partnership.</p> <table border="1" data-bbox="430 806 1396 1176"> <tr> <td colspan="2">Please indicate which aim is relevant to the report</td> </tr> <tr> <td>Eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act,</td> <td></td> </tr> <tr> <td>Advance equality of opportunity between people who share a protected characteristic and people who do not share it</td> <td>✓</td> </tr> <tr> <td>Foster good relations between people who share a protected characteristic and people who do not share it.</td> <td></td> </tr> </table> <p>There are no equity or equalities issues arising from this report. The risk register identifies a number of activities designed to control risks and these will each need to be assessed for equality impact in their own right.</p>	Please indicate which aim is relevant to the report		Eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act,		Advance equality of opportunity between people who share a protected characteristic and people who do not share it	✓	Foster good relations between people who share a protected characteristic and people who do not share it.	
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CORPORATE PRIORITIES (tick those relevant) ✓	
Growth	✓
Environment	✓
Communities	✓

1. Introduction

- 1.1. The Council monitors and manages its corporate risks through the Corporate Risk Register. The contents of the report highlight the high-priority corporate risks and show the arrangements in place to ensure these risks are monitored and managed appropriately.

2. Background

- 2.1. The Risk Management Strategy 2019-23 was approved by the Governance and Audit Committee at its meeting on 6 March 2019.

- 2.2. The strategy defines corporate risks as *'those which could impact across the whole council including those relating to partnerships'*. The strategy prescribes that these risks should be assessed by the Corporate Management Team (CMT) and the Member Risk Management Champion and then reported to the Governance and Audit Committee on a regular basis.

3. Risk, Risk Management and Responsibilities

- 3.1. **What is risk** - Risk is defined as the uncertainty of outcome, whether positive opportunity or negative threat, of actions and events.

Risk can be a threat (downside) or an opportunity (upside)

- 3.2. A local authority's purpose is generally concerned with the delivery of service or with the delivery of a beneficial outcome in the public interest. The delivery of these objectives is surrounded by uncertainty which both poses threats to success and offers opportunity for increasing success.

- 3.3. **What risk management** - Risk Management can be defined as:

*'Risk Management is the process by which risks are **identified, evaluated and controlled**. It is a key element of the framework of governance together with community focus, structures and processes, standards of conduct and service delivery arrangements'*

(Audit Commission)

- 3.4. Risks have to be assessed in respect of the combination of the likelihood of something happening, and the impact which arises if it does actually happen. Risk management includes identifying and assessing risks and then responding to them. Risk is unavoidable, and every organisation needs to take action to manage risk in a way which it can justify to a level which is tolerable. The amount of risk which is judged to be tolerable and justifiable is the "risk appetite".
- 3.5. **Roles and responsibilities** - The primary member oversight on risk is provided by the Governance and Audit Committee. Cabinet also has a member Risk Champion (the Portfolio Holder for Corporate Governance and Coastal Development) who promotes risk management and its benefits throughout the council.
- 3.6. At staff level, the high-level corporate risk register is regularly considered by the Corporate Management Team (CMT). G&A Committee considers changes to the corporate risk register, the reasons for the changes and the actions being taken to mitigate the likelihood and impact of those risks. A view is also taken regarding the extent to which the risks should be tolerated.
- 3.7. The Chartered Institute of Public Finance and Accountancy (CIPFA) Position Statement on Audit Committees (2018) sets out the key principles for audit committees operating in local government.
- 3.8. The statement sets out the key responsibilities of the committee to include:

*'consider the **effectiveness** of the authority's **risk management arrangements** and the control environment, reviewing the risk profile of the organisation and **assurances that action is being taken** on risk-related issues, including partnerships and collaborations with other organisations'*

3.9. The report seeks to aid the committee to discharge these responsibilities.

4. Corporate risk register

4.1. A summary of the highest scoring corporate risks on the register is set out in the table and the following narrative below, together with the comparative scores noted by the Governance & Audit Committee on 22 July 2020.

4.2. The scores are arrived at by multiplying the "likelihood" score by the "impact" score, where the maximum score for each is four, so the maximum total score is sixteen.

Ref	Description	Jul 20 Score	Sep 20 Score	Change
CR-05	Political Stewardship	16	16	No change
CR-10	EKH Performance/Transition	16	16	No change
CR-11	Covid-19	16	16	No change
CR-01	Limited Resources	12	12	No change
CR-09	Brexit	12	12	No change

4.3. Each corporate risk is the responsibility of a member of CMT and they manage risk mitigation plans with the aim of reducing the likelihood and/or impact of each risk to a manageable level. As time moves on, the external environment changes and this can have an impact on the effectiveness of mitigating actions as well as on the likelihood and impact of a risk: hence the need to maintain vigilance in respect of mitigation plans as well as new and changing risks.

4.4. It is more difficult to take action to reduce the impact of a risk occurring, than it is to take action to reduce its likelihood. Hence in some cases, the scores after mitigation will remain relatively high.

5. Highest-scoring risks

5.1. **Political Stewardship (Impact 4, Probability 4):** This continues to represent a risk to the council, as demonstrated by the change in Council leadership last year, the Council remains in no overall control. It is still evident that there remain ongoing issues which could have a significant effect on the council. The council continues to pursue opportunities to support cross-party working and induction training for new members took place post election.

5.2. **East Kent Housing (EKH) Performance/Transition (Impact 4, Probability 4):**

EKH was created in 2011 by the four East Kent client Councils in order to provide Landlord services for each of the respective client Council's housing stock.

A number of failures on the part of EKH led to an improvement plan being approved by Cabinet in January 2019 and subsequently being introduced. Additional failures led to the 17 October 2019 Cabinet report which agreed that subject to consultation, the preferred option was to bring the Landlord service back in house. Cabinet on 17 February 2020, following tenant consultation, agreed the EKH service to be brought back in house from 1 October 2020.

The Cabinet decision itself results in an element of risk. This relates to two key areas: financial and service delivery.

A revised 2020-21 Housing Revenue Account (HRA) was presented to Cabinet on 30 July 2020 and was approved at Council on 10 September 2020. This report set out the resources needed to deliver the required level of service to tenants, whilst ensuring on-going financial sustainability for the Housing Revenue Account (HRA). This also included one-off costs associated with the transfer that will need to be assessed and managed.

The report demonstrated that although there is significant financial pressure on the HRA, that the current assumptions in the 30 year business plan meant that the HRA balances would be depleted but never completely utilised.

The Council working alongside other EKH member Councils has set up a series of dedicated work streams to manage the transition arrangements. These alongside the internal project steering group and Transition Project Manager will assess emerging risks associated with the transition and help deliver mitigating actions.

One work stream has considered which staff transfer from EKH under the COSOP and TUPE arrangements and this is now well advanced which will see the Council retain existing and valued EKH staff.

5.3. **Limited Resources (Impact 4, Probability 3):** The high score for Limited Resources reflects the fact that it is one of the few risks that in extremis could result in the council losing control of its own destiny.

The Council approved the 2020-21 budget, however the impact of Covid-19 on both income and expenditure forecasts led to a report to Cabinet on 30 July 2020 and Council on 10 September 2020. These reports estimated the financial impact of Covid was £5.6m against an estimated £2.6m of government funding, leaving a budget gap of £3m.

As a result, difficult decisions have been made about the use of reserves to bridge this gap. A knock on effect of the pandemic is also likely to impact on the budget process for 2021-22 and the Medium Term Financial Plan for 2021-25. Further difficult decisions will be required over this medium term to ensure reserves are replenished.

There is national political uncertainty, outstanding EU withdrawal negotiations and now, the impact of Covid-19. There is uncertainty about the nature and possibly the timing of the Comprehensive Spending Review, in addition to the shape of local government finance envisaged as a result of national reviews of Fair Funding and Business Rates. These reviews have major implications for financial planning for the council's Budget and Medium Term Financial Strategy.

The level of uncertainty and the budget gap gives rise to the question of a S114 Notice - this is when the Section 151 Officer informs the council that it is going to run out of reserves, or that its expenditure plans exceed its income, and results in freezing non-essential expenditure. A S114 Notice is not planned for Thanet at the moment, but is being kept under review.

- 5.4. **Brexit (Impact 3, Probability 4)** - The UK left the European Union on 31 January 2020. The UK Government is still continuing to work on arriving at an agreed deal on exit, with the true impacts of exiting the EU only likely to be felt after the transition period has concluded in December 2020.

Therefore significant risk may still manifest and whilst there are national concerns that must be addressed, the council must focus primarily on managing those risks which have a local and regional impact in particular.

The scale of its effect should not be underestimated and the council has identified a lead officer to lead on Brexit related issues and progressed contingency planning for a disorderly Brexit.

The significant issues to consider are those concerning the strategic transport network, funding and the port. In addition, the council has identified a number of issues that could potentially impact the council's ability to deliver its services.

- 5.5. **Coronavirus (Impact 4, Probability 4):**

In 'normal' emergencies, local authorities and local resilience forums deal first with an emergency and then the Recovery – getting back to 'business as usual' (for example, when the flood waters recede, work takes place to repair any damage and to get people back into their homes). The Recovery from the Covid-19 Pandemic will be unlike any other in our lifetimes. The crisis has gone on for longer, been more extreme and will have more profound consequences than anything we have prepared for before.

We will also be simultaneously working on Recovery in tandem with the Response phase and have the potential to return to Response at any time if there is a second wave of infections. There is also the likelihood that the Recovery will span other Emergency Planning events including the end of the Brexit Transition Phase and that for much of it, staff and partners will be working remotely. Finally, the sheer scale and breadth of the social and economic impacts means that we will be entering uncharted territory and it is hard to predict where we will end up.

6. Recommendation

6.1. To approve the review of corporate risks

Contact Officer:	Chris Blundell, Director of Finance
Reporting to:	Tim Willis, Deputy Chief Executive and S151 Officer

Corporate Consultation

Finance	Chris Blundell, Director of Finance
Legal	Tim Howes, Corporate Director Governance