

CORPORATE RISK MANAGEMENT - QUARTERLY UPDATE

Governance and Audit Committee	27 July 2022
Report Author	Chris Blundell, Acting Deputy Chief Executive
Portfolio Holder	Councillor Ashbee, Portfolio Holder for Corporate Performance and Risk
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):

To approve the review of corporate risks.

Corporate Implications

Financial and Value for Money

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.

It is the role and responsibility of the Section 151 Officer to have active involvement in all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered.

Legal

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.

Risk Management

In the production of this report the Council's key risks are identified, evaluated and controlled/mitigated with those highest scoring risks after mitigating measures being reported.

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

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.

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.

This report relates to the following aim of the equality duty :-

- Advance equality of opportunity between people who share a protected characteristic and people who do not share it

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.

Corporate Priorities

- 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 describe 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.

- 2.3. This is the last Risk Management report in this format, subject to the approval of the revised Risk Management Strategy.

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 9 March 2022.

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	Mar 22 Score	July 22 Score	Change
CR-03	Political Stewardship	16	16	No change
CR-12	Cyber Attack	16	16	No change
CR-13	Governance	16	16	No change
CR-14	Berth 4/5	16	16	No change
CR-05	Homelessness	16	16	No change
CR-01	Limited Resources	12	12	No change
CR-09	Economic Resources	12	12	No change
CR-15	Environmental Act 2021	12	12	No change
CR-17	Cost Of Living	-	16	New

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):** The Council is now under Conservative control, however this came after a period of continued leadership change and so political stewardship remains a risk to the council. The council continues to pursue opportunities to support cross-party working and induction training for new members.
- 5.2. **Cyber Attack (Impact 4, Probability 4):** The Council is becoming more and more aware of cyber attacks across the local government sector. This and recent attempts to send emails to staff from internal email addresses such as the Chief Executive's, further highlights the impending risk to internal systems.

At a time when the majority of staff are working from home due to the pandemic, a much higher reliance on IT systems is needed and therefore the risk of disruption to Council services as a result of a Cyber attack is heightened.

The Council is mitigating the impact of any potential attack by ensuring IT systems are as robust as possible, but as we've seen globally, even the larger international companies are still susceptible to attack.

The Council is also actively considering obtaining Cyber insurance cover to protect the Council against the potential financial impact that could be caused by such an event. The Council are currently completing the relevant paperwork to obtain quotes and assess whether the cover provided offers value for money. Update Jun 2022 - given the Cyber Market is in a hard cycle and our controls that we have in place currently do not satisfy the terms of most Cyber policies ICT and myself have been engaging with our brokers Gallagher Bassett in respect of conducting Phishing exercises and IT Health check exercises - this is ongoing and further updates will follow

- 5.3. **Governance (Impact 4, Probability 4):** Statutory Recommendations were received from the external auditors, Grant Thornton, in relation to governance matters and an extraordinary Council meeting agreed the recommendations. Some of the related disciplinary and grievance matters have now concluded following the agreement of a settlement with the former Deputy Chief Executive. Cabinet approval was granted on 8 June 2021 for a budget for anticipated possible costs of up to £733k to fund current and on-going legal fees associated with these matters; a proportion of this funding has been reallocated to fund this settlement.

The external monitoring officer's report was published and presented to the General Purpose Committee on 27 April 2022, the recommendations of which will be taken forward.

An agreement was reached that recently saw the departure of the Chief Executive, which in itself has created an interim governance issue, so interim arrangements have been put in place to ensure continuation of Council operations.

These interim arrangements will also ensure that some of the statutory recommendations are taken forward with the Council due to appoint an interim Chief Executive on 14th July 2022 to finalise some of the other recommendations including the restructuring of the Corporate Management Team.

Progress and conclusion of these matters continue to present both a financial and reputational risk to the authority.

- 5.4. **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. Financial failure at a number of authorities (e.g. Northampton, Croydon, Slough) in recent years has led to central government intervention and in Northampton County Council ultimately led to being replaced with two unitary authorities.

The 2022/23 budget was approved by Council on 10 February 2022, partly as a result of an unexpected increased government finance settlement. However, this settlement is only for one year and the budget gaps remain forecast in future years. Furthermore, there remains uncertainty about the shape of local government finance envisaged as a result of national reviews of Fair Funding and Business Rates. The outcome of these reviews will have major implications for the council's financial standing across the medium term.

Thanet's reserves remain relatively low even before Covid-19. Monies were set aside in reserves last year with the specific purpose of addressing Covid-19 and additional Government support is anticipated this year. If spend exceeds these allocations difficult decisions will need to be made to identify reserves to bridge any potential gap.

- 5.5. **Homelessness (Impact 4, Probability 4):** Homelessness has grown as a challenge for many local authorities over the last year, Thanet included. There are additional pressures on Housing as the gap between supply and need increases and previously plans have been developed to ensure that this pressure is minimised. The council has reviewed and is delivering its homelessness strategy action plan, is regularly monitoring the levels of homelessness and has commissioned new services to address the increasing need for support. This work will continue. The council has also successfully bid for new government funding to support homelessness services locally.

However the Council is seeing another surge of homelessness across the district as a result of Covid. The district has seen increased pressures on the local private rented sector, driving increases in average rent levels and resulting in a growing gap between rents and local housing allowances. In addition, with the eviction ban coming to an end on 1 June 2021 we are now seeing cases progress through the courts, resulting in additional service and financial pressures. These pressures have made it much more difficult for the council to find suitable, affordable solutions for people facing homelessness in the private rented sector, resulting in an increased number of households living in temporary accommodation.

An overspend in 2021/22 was the end result of these increased numbers and initial monitoring undertaken in 2022/23 has shown a continuation in this trend. A further budgetary overspend is forecast in 2022/23, but it is too early to accurately predict the eventual overspend position.

- 5.6. **Economic resources (Impact 3, Probability 4) -** A combination of Brexit and Covid has seen a significant impact on the Council's supply chain.

The combination of these factors has meant a shortage of HGV drivers and combined with the increased costs of products being imported via shipping containers, has created the perfect storm of increased prices and shortage of supplies.

This is prevalent in the construction industry and could lead to a rationation of some schemes in order to ensure they are delivered within budget or the potential for significant overspends.

As this is not an issue exclusive to one-off projects though additional pressures will be felt across both the general fund and housing revenue account in the delivery of day-to-day services leading potentially to some tough choices on what is deliverable within the available budget.

- 5.7. **Berth 4/5 (Impact 4, Probability 4):** The project has been delayed whilst an environmental impact assessment is developed to inform planning and marine licensing consents. The original berth was taken out of service in November 2020 due to its deteriorated condition.

A Cabinet decision was made in July 2021 to increase budget provision for the project. The project team including engineering and ecology consultants is progressing the EIA as quickly as possible following approval of the required additional funding. Early and regular engagement is taking place with statutory consultees where possible. The revised programme for project delivery indicates a May 2022 construction start subject to consents.

However these delays have resulted in a financial risk to the council due to extended berth outage. This has led to increased costs associated with the berth replacement contract and also potential pass through of extra/over costs from the customer for road haulage of aggregates until the new berth is ready for service.

- 5.8. **Environmental Act (Impact 3, Probability 4)**

The Environment Act became law on 9 November 2021. This includes fundamental changes in responsibility for waste and recycling which will have implications for the way we deliver statutory household waste collections.

As a member of the Kent Resource Partnership, TDC responded to Government consultations this year on consistency of household collections, Extended Producer Responsibility and a Deposit Return Scheme. Changes affecting household waste as a result of the new act are likely to be implemented in 2023. Whilst the act includes provision for funding and support to local authorities for the proposed changes, the implications for our vehicle fleet and resourcing, income associated with green waste and income from recycling and waste diverted from landfill are not yet clear.

6. New Risks

- 6.1. **Cost Of Living (Impact 4, Probability 4)**

The cost of living crisis is a significant issue for both the Council and all Thanet residents with the Consumer Price Index hitting 9.1% in May 2022.

The effect of the cost of living is likely to force more households to be homeless, force more into fuel poverty and have a direct impact on jobs in leisure/retail with households having less disposable income.

The Council will not be protected from the risk associated with high indexation as the majority of its contracts are linked to an inflationary index either RPI or CPI and the rises in fuel and gas/electricity prices continues, with a significant increase forecast in October.

Therefore this risk will lead to significant pressure on Council services, but at the same time the cost of providing those services will significantly increase.

7. Other Corporate Risks

- 7.1. G&A meeting members requested to have oversight of all risks as part of the regular reports. This would however substantially increase the size of the report and so all risks scoring 9 or more after mitigation have been included within **Annex 1**.

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