

Item No. 9.	Classification: Open	Date 5 February 2024	Meeting Name: Audit, Governance and Standards Committee
Report title:		Annual report on corporate risk	
Ward(s) or groups affected:		All	
From:		Strategic Director of Finance	

RECOMMENDATION

1. That the audit, governance and standards committee note the annual report on corporate risk and insurance.
2. That the audit, governance and standards committee reviews the current corporate risk register and provide comments to officers for their consideration prior to the publication of the register by the Strategic Director of Finance.

BACKGROUND INFORMATION

3. This report provides an annual report on the council's key risk register. The key corporate risks were last reported to the committee in February 2023. This report provides an annual update.
4. This report also summarises the corporate risk management arrangements and reports on details of the council's risk profile and risk categories

KEY ISSUES FOR CONSIDERATION

Overview

5. The main purposes of the council's corporate risk management process are :
 - To set out the most significant risks to the council in the context of multiple risks identified and managed within each department.
 - Where appropriate, to consolidate common risks issues especially where cumulatively they may amount to a higher risk rating
 - To ensure that single risks that may act to impact across all council services are recorded (e.g. cyber security).
 - To enable risks to be effectively managed to ensure that the council meets its corporate and business objectives; and
 - To alert the council to new or increasing risks that may impact on the council's ability to serve its residents and wider community

6. The council's corporate risk register is prepared following joint assessment by officers of all departmental risks. Given the range of services provided by the council, these lists are long and detailed and will be rated from low to high. Many risks are of a very specific nature and are unlikely to be translated directly on to the corporate risk register. However, they may be consolidated into corporate risks in so far that cumulatively they create a higher risk to the council (e.g. loss of or reduction in funding sources; additional demand pressures; etc.).
7. In the process of preparing the corporate risk register, concentration is placed upon moderation of risk ratings to ensure some consistency across the council and to confirm that appropriate mitigations are in place to manage the risk, as far as that is possible.
8. This refresh of the corporate risk register illustrates the movement in the risks from previous year. It should be noted, in particular at this time, there have been a number of corporate risks that have increased in the last 12 months. Not least, these increases in risk are symptomatic of an extremely uncertain economic position, which impacts directly on the management, operations and financing of a local authority.

Risk Categories

9. The council uses the following risk categories to capture risk:
 - Economic (e.g. credit crunch impacting on service delivery)
 - Financial (e.g. budgetary constraints)
 - Reputational (e.g. failures of service delivery which hit the press)
 - Staffing & Culture (e.g. recruitment & retention)
 - Operational (e.g. services not being delivered)
 - Legal & Regulatory (e.g. not complying with a statutory duty)
10. The 2024 split of number of risks by risk category is displayed in the table below. The categories remain at a consistent level compared with the percentages last reported.

Risk Category	Percentage (%) Jan 2023	Percentage (%) Jan 2024
Economic	9	5
Financial	20	22
Reputational	8	9
Staffing & Culture	9	10
Operational	34	34
Legal & Regulatory	21	20

Corporate Risk Register

11. Each department has a departmental risk register. These are updated via the network of departmental risk champions who work with each departmental senior management team to maintain a current risk register. Each risk register records the risk, assessment score, ownership and key controls and action plans to manage each risk.
12. Many departmental risks represent a core component of service delivery and therefore will form part of the day to day performance management of the department.
13. Each risk requires mitigations. These outline the current controls in place to manage the risk and identifies, where necessary, any further controls needed to reduce the risk.
14. These individual risk registers are stored on the council's risk management software system that are used to build the corporate risk register.
15. The departmental risk champions supported by the corporate risk and insurance manager collectively validate the individual departmental risk registers and carry out a review and aggregation exercise to identify the key risks facing the council as a whole. This base exercise was recently repeated and the corporate risk register updated as appropriate.
16. The risks on the corporate risk register have been revised and further consolidated where appropriate since the key corporate risks were last reported to the committee. The key corporate risks also align with the unique challenges of the current economic landscape and especially the cost of living crisis.
17. The table below provides a breakdown of the number of risks (by their risk score range) across all council departments.

Risk Assessment	Score Range	Number of Risks	
		Jan 2023	Jan 2024
Red	76 - 100	18	13
Amber	37 - 75	66	70
Yellow	22 - 36	53	42
Green	1 - 21	27	32

18. The total number of risks in the database is currently 157, which is a slight decrease in the number of risks reported in 2023, which were 164.
19. Work is ongoing within departments on reviewing their risk registers. Following the corporate restructure, work was undertaken to refresh the JCAD system to reflect the departmental changes. With continued changes including staff leaving the council and teams changing their reporting line, this work is also ongoing. The group continued to meet in 2023 to discuss any relevant issues

but the intention for 2024 is to reintroduce focussing on a theme, with finance, procurement and business continuity tentatively scheduled.

20. The risk management policy statement and strategy and associated procedure documents were refreshed as noted in last year's report.

Key corporate risks

21. As set out above, following a review and validation of the combined departmental risk registers and an aggregation exercise, the top risks across the council have been identified. These top risks are attached in appendix 1.
22. The top risks are generally those that have been assessed as amber or red and which appear in more than one departmental risk register, and are therefore relevant to more than one department. These top risks are those risks which often require most proactive management to ensure that all appropriate mitigation actions have been considered and are being implemented as far as possible.
23. In advance of reporting to the audit, governance and standards committee, these have been reported to CMT who going forward are scheduled to consider the register on a quarterly basis. CMT have also planned a risk session to review the register in early springtime.

Policy Implications

24. This report is not considered to have direct policy implications.

Community Impact Statement

25. This report is not considered to have direct impact on local people and communities; however the management of risk is key to the successful achievement of the council's objectives.

Resource Implications

26. This report is not considered to have direct impact on resource implications, although the management of risk is a part of the effective management of resources.

Consultation

27. Consultation has not been undertaken.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

28. None required.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
None		


APPENDICES



No.	Title
Appendix 1	The Key Corporate Risks as at January 2024



AUDIT TRAIL


Lead Officer	Clive Palfreyman, Strategic Director of Finance	
Report Author	Laura Sandy	
Version	Final	
Dated	January 2024	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Assistant Chief Executive, Governance and Assurance	No	No
Strategic Director of Finance	Yes	Yes
List other officers here	N/A	N/A
Cabinet Member	No	No
Date final report sent to Constitutional Team	25 January 2024	



APPENDIX 1 – Corporate Risks and High Level Mitigations as at January 2024



Risk Description	Mitigation	Risk
<p>Acute Socio-Economic Factors</p> <p>Failure or lack of capacity to react to wider economic and socio-economic trends including changes to central government fiscal policy, inflation and interest rate changes, recession, changes in numbers of homeless, market forces (e.g. London housing market), international and domestic migration; all of which threaten to create either funding shortfalls or compromise the delivery of council services.</p> <p>The current levels of high inflation causing global supply chain disruption (increases in production costs, wages, raw materials, energy, transportation, labour) leads to complex procurement issues particularly in the construction and maintenance sectors such as significant increases in tender prices, lack of contractors suitably qualified and experienced to be appointed within the available budget, or lack of appetite from bidders limits the council's ability to meet targets or complete projects</p>	<ul style="list-style-type: none"> • Flexible Medium Term Financial Strategy, which incorporates changing economic trends, reviewed regularly and reported to cabinet • Capital programme subject to continual review and update to ensure delivery of council priorities • Regular monitoring of performance against the council delivery programme by strategic directors and cabinet members • Active but flexible social regeneration, transformation and development programmes which may be deferred, cancelled or scaled down as high interest rates increase revenue costs • Active local economy engagement to communicate issues and to help mitigate risks to business and employment • Delivery, implementation and monitoring of new economic strategy • Regular update of fees and charges and review of new income generating schemes and grants to help mitigate financial impacts and risk of cuts 	<p style="text-align: center;"></p>
<p>Cost of Living</p>		




<p>Impact of cost of living crisis will continue to add a strain on the welfare benefits systems and increase demand for council services such as social care and health, welfare and emergency support and temporary accommodation.</p> <p>The return to higher levels of inflation, the unpredictability and specific incidences of high inflation rates (e.g. building and energy costs) create revenue and/or capital budget gaps when compared to the level of resources available, creating conflict within the council budget structure</p> <p>There is a risk that the necessary resources required to support business and residents from the adverse impact of rising costs are not available from government and this will impact adversely on the funding of other council services and create budget gaps</p>	<ul style="list-style-type: none"> • Maintenance of reserves and appropriate allocation of earmarked council reserves • Inclusion of contingency within budgets • Budget challenge process implemented and followed • Budget monitoring and regular reporting on changes in the cost of delivering services with mitigating actions taken where adverse variances are predicted and adjusting forecasts as necessary • Continual lobbying of government to meet the needs and demand pressures created by the cost of living crisis and aftermath of the pandemic • Continued close monitoring of impacts on council services and local economy • Pan London engagement to communicate with government, the voluntary sector and other agencies • Delivery, implementation and monitoring of new economic strategy • Embedding of Southwark Stands Together programme and related cohesion work to ensure fair and balanced community recovery • Engagement of senior managers with Integrated Care Boards to strengthen the partnerships between the NHS and local government to build health equality within Southwark • Cross departmental programme board to coordinate activity • Fast and effective delivery of support through Cost of Living Fund • Liaison with VCS and key partners to delivery community referral pathway • Provision of warm hubs • Assistance/support for customers to ensure income maximisation • Delivery of the energy savers scheme in partnership with CAB 	
<p>Medium Term Financial Planning</p> <p>The continued uncertainty regarding local government funding beyond 2023-24, which is exacerbated by both the</p>	<ul style="list-style-type: none"> • Financial remits presented to cabinet at least twice a year • Annual budget challenge and options appraisal process in place including budget scrutiny 	




<p>changes in the government's fiscal policy and potentially changes to population figures following the 2021 census.</p> <p>The outcome of the census carried out at the height of the covid crisis creates a under estimated population size impacting on external funding, including government grants based on an artificially low base compromising the availability of resources to deliver existing council services</p> <p>These are likely to have a significant impact on overall council funding levels which will present challenges in balancing the medium term financial strategy and in preparing and presenting longer term budgets</p>	<ul style="list-style-type: none"> • Robust monthly budget monitoring to review progress towards targets and regular reporting to Cabinet • Creation of options which reflect the council's priorities and ambitions and safeguard the provision of mandatory functions • Overview and Scrutiny, both regular oversight and specific budget oversight • Planning future budgets as far as possible to show financial risks related to funding uncertainty • Statutory reporting on robustness of budget estimates • Active engagements through S.151 Chief Finance Officer networks to seek clarity on future funding • Maintenance of adequate levels of balances and reserves • Consistent external audit opinions sustained over time • Oversight and scrutiny by Audit, Governance and Standards committee 	
<p>Housing Revenue Account</p> <p>Overspends on the housing revenue and capital accounts result in the depletion of housing reserves resulting in an inability to set a balanced revenue budget or deliver on the council's housing investment programme.</p>	<ul style="list-style-type: none"> - Creation of recovery plans, scrutinised and supported at a senior level - Review and refresh of the capital investment programme, including affordability criteria and prioritisation - Development of a medium-term strategy to restore reserves to a more sustainable level - Minimisation of borrowing across the housing investment programme in order to limit impact on the revenue account - Maximisation of income sources, be they revenue (e.g rents) or capital (e.g grant funding) - Review of procurement approach to maximise value for money 	
<p>Schools and Education</p> <p>Existing significant school budget</p>	<ul style="list-style-type: none"> • Revised borough-wide strategic plan based on clear principles for right 	

<p>overspend and/or deficit balances coupled with the challenge of rising numbers of surplus places in primary schools creates pressure on school budgets and ultimately council budgets plus other direct consequences as savings are identified to try and achieve a balanced position.</p>	<p>sizing the school estate through removing surplus capacity from the system.</p> <ul style="list-style-type: none"> • On-going work with schools to ensure schools in financial difficulties follow the scheme of management • Creation of recovery plans plus ongoing monitoring of school budgets • Joint approach with school improvement, finance and place planning colleagues to help schools and advise on the possible solutions. • On going support is given through the help of various tools, such as income modelling tools, budget templates that have in built benchmarking. The recovery templates link in with the Integrated curriculum and financial planning (ICFP) as well as workforce planning and other tools to help schools manage the budget. • Training courses on budgets are provided to school business managers, head teachers and governors. 	
<p>Cyber Security, IT, Data and Information Management</p> <p>Total or partial loss of significant core business systems, inadequate data security and the system becoming unfit to meet business needs results in impaired service delivery and performance and impacts on resident satisfaction impacting on the reputation of the council and staff productivity and morale.</p>	<ul style="list-style-type: none"> • Regular oversight by shared service provider and council client to ensure that all controllable risk is managed and council services protected • Robust system back-up, firewall, anti-virus and cyber security arrangements in place through council's IT team and the managed IT shared service • Migration of software solutions to hosted managed services in the cloud • Appropriate contractual assurance for both cloud based and hosted services • Ensure all hardware and software is supported for security updates • Regular maintenance and update of disaster recovery and business continuity plans • IT capital improvement programme to continue to bring infrastructure up to an efficient and current standard • Further development of the structure and management of IT shared 	

	<p>services arrangements with Brent and Lewisham</p> <ul style="list-style-type: none"> • Effective policies, guidance, training and controls to ensure staff compliance, provided and updated regularly by the IT shared service • Robust information governance arrangements including well defined Data Protection Officer and Senior Information Risk Owner responsibilities • Training and awareness of staff both ongoing and through induction • Development of full insurance cover led by shared service as main provider of infrastructure security 	
<p>Capital Programme and Major Projects</p> <p>Unforeseen events and/or changes in the macroeconomic outlook results in cost changes to the council's capital programmes which will risk failure of (or the serious delay to) key capital projects including building new homes causing damage to the council's ability to meet the borough's long term priorities and resulting in short term financing or funding implications for the council.</p>	<ul style="list-style-type: none"> • Re-costing and prioritisation of the council's capital programme, reviewed by council members and reported to cabinet in October 2023 • Ongoing quality assurance of processes to mitigate scope for challenge • Close inter-departmental working with colleagues to develop overall planning strategies • Work with press office and key partners to manage communication • Key contracts and frameworks being put in place by the council • Adherence to the prudential code that regulates and contains council borrowing • Appropriate financial provision (MRP) to secure borrowing risk provided for within the HRA and General Fund accounting framework 	
<p>Legal and Regulatory – Government policy</p> <p>Legislative and / or financial changes, including current and future loss of funding or international factors stemming from changes in government policy, seriously impact on the delivery of balanced budgets for council services</p>	<ul style="list-style-type: none"> • Seek to influence policy through professional networks • Contributions to local, regional and professional responses to Government consultations and mandates • Departments to keep up to date with changes affecting their services • Collaborative working with other local authorities and London boroughs to fully understand any changes • Seek expert external legal and professional advice as appropriate 	

<p>and the council's ability to meet either the pressures created by changes in demand for services or the opportunities due to lack of capacity.</p>		
<p>Unforeseen Major Event</p> <p>An unforeseen major event occurs which affects critical services and the council's ability to deliver business as usual resulting in financial strain and impacts on the resilience and wellbeing of staff.</p>	<ul style="list-style-type: none"> • Maintain and update disaster recovery and business continuity plans • Undertake practice scenarios to check robustness of business continuity plans • Engagement with contractors and partners to check preparedness • Flexible, trained staff in place to respond to changes in demand 	
<p>Asset Management and Building Safety</p> <p>Failure to invest appropriately in the maintenance or management of the council's assets, to have clear sight of responsibility for assets plus failing to implement the requirements of the Building Safety Bill, or a sudden and unforeseen event which may give rise to unacceptable future liabilities and additional budget pressures, reputational damage and potential legislative consequences</p>	<ul style="list-style-type: none"> • Housing asset management requirement reset including initial estimates of additional fire and building safety works • Programmes of planned and preventative maintenance (PPM) in place • Capital investment strategy and targeted investment in assets in place • Annual asset condition verification and effective monitoring of assets • Insurance programme in place to respond to sudden and unforeseen events • Different workstreams created and being monitored and regularly reported on to manage the implementation – workstreams include finance, data and systems, recruitment, training and skills and homeownership • Planning in place to create staff structures that will support new regulations 	
<p>Failure of Key Provider</p>		

<p>The unexpected failure or non-contractual compliance of a key existing or future provider / partner / contractor resulting in serious disruption to a critical service and potential increased expenditure and need for resources to provide an alternative solution with resulting potential reputational damage.</p>	<ul style="list-style-type: none"> • Robust procurement and contracting processes in place safeguarding against foreseen failure • Evaluation of third sector grant programmes • Contingency and business continuity plans to be maintained • Backup contractors in place where appropriate • CSO's and procurement guidance being updated in 2023 	
<p>Climate Emergency</p> <p>Impact of the climate change strategy creates capacity, financial or practical operational challenges and pressures with the potential for reputational damage for any failure in delivery.</p>	<ul style="list-style-type: none"> • Specific capital investment to tackle climate risks and opportunities • Climate Emergency team established under Director of Climate • Cross departmental collaboration to develop the council's strategy • Engagement with stakeholders and partners • Development of council governance structures, policies and procedures to incorporate a commitment to the strategy • Development of clear and funded plan of activity to meet objectives of the council • Clear communication plan with all stakeholders • Continually review costs and affordability of programme and deliverability against 2030 target 	
<p>Fraud</p> <p>Process, control, or management failure particularly during periods of significant change, economic and social hardship and ongoing funding reductions leads to an increase in fraudulent activity resulting in financial and legislative consequences for the council and the</p>	<ul style="list-style-type: none"> • Fraud awareness training of key risk areas as identified through the risk register • Internal audit plan aligned to key fraud risks • Proactive work undertaken by internal anti-fraud team • Corporate governance guidance followed • Active contract management by contract managers • Regular reviews of authorisation limits of staff through council's 	

<p>potential for reputational damage.</p>	<p>schemes of management and delegation</p> <ul style="list-style-type: none"> • Crime insurance in place to minimise any financial loss 	
<p>Health & Safety</p> <p>Failure to provide adequate provision of protection of staff, elected members, residents and all relevant stakeholders leading to their safety and / or mental health and wellbeing being compromised.</p>	<ul style="list-style-type: none"> • Health and safety staffing arrangements and corporate and departmental systems regularly reviewed • Staff wellbeing programme in place and promoted • Cautionary contact warning system to be further developed • Individual risk assessments for post covid period to remain for most vulnerable employees 	
<p>Health and Social Care Act</p> <p>Failure to ensure opportunities for further integration of health and social care system are maximised as result of Health and Care Act 2022 while protecting existing revenue sources.</p>	<ul style="list-style-type: none"> • Sharing knowledge and resources with health partners to deliver transformation • Ensuring local government representation and active involvement on ICB, ICS and Partnership Southwark meetings both officer and member level • Updating the council's governance framework to reflect changes as result of the Act • Creation of joint role for Place based director • Joint decision making and further aligning of strategic direction 	
<p>Recruitment, retention, resources and capacity</p> <p>A shortage of appropriately skilled and experienced staff compromises the ability of the council to deliver services</p>	<ul style="list-style-type: none"> • Provision of training and development of existing staff for upskilling and promotion • Recruitment campaigns with specialist and targeted support • Development and delivery of workforce wellbeing strategy 	

<p>and key priorities creating increased pressure on existing staff which may result in low morale, increased stress and sickness levels and an impact in performance across all departments</p>	<ul style="list-style-type: none">• Ensure that capacity needs are fully defined and resourced, especially for new and ongoing major projects and council delivery programme priorities• Review of recruitment function underway to improve processes and systems• Proactive strategic workforce planning including succession planning• Promotion of Southwark as an employer via employee value proposition	
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