

# Audit Committee

28 July 2022



<b>Title</b>	Corporate Risk management
<b>Purpose of the report</b>	To make a recommendation to Policy and Resources Committee
<b>Report Author</b>	Punita Talwar, Internal Audit Manager
<b>Ward(s) Affected</b>	All Wards
<b>Exempt</b>	No
<b>Exemption Reason</b>	Not Applicable
<b>Corporate Priority</b>	The Corporate Risk Register outlines significant strategic risks impacting the effective delivery of all corporate priorities (CARES). Community Affordable Housing Recovery from Covid Environment Service Delivery
<b>Recommendations</b>	<b>The Audit Committee is asked to:</b> <b>1. Consider the significant strategic risks and issues highlighted in this report and present these to the Corporate Policy and Resources Committee, ensuring wider reporting of the Corporate Risk Register and Risk Action Plan across other Committees.</b>
<b>Reason for Recommendation</b>	<b>The Corporate Risk Register continues to ensure that the Council's most significant risks in relation to achievement of corporate priorities and objectives are identified, managed, monitored, and reported.</b> <b>Continued visibility and ownership of the risks and issues raised in this report is recommended across the Council due to the significant and wide-reaching implications. This will support improved coordination in addressing risks and implementing mitigating actions.</b>

## 1. Summary of the report

- 1.1 This report seeks to highlight significant strategic risks in delivering the Council priorities (CARES) and objectives, and key mitigation measures

underway. The Council's most significant risks to highlight are the six risk categories assigned a red RAG rating, as follows:

- Housing – Development & targets
- Housing – Affordable
- Economy
- Financial Resilience and Communities
- Sustainability and Climate Change
- Corporate Capacity/Resources/Recruitment and Retention

1.2 The Corporate Risk Management Officer Group (officer led) meets three to four times a year, chaired by the Deputy Chief Executive (Chief Finance Officer). This forum provides an opportunity for officers to consider the risk register and identify any further corporate risks emerging or evolving.

## **2. Key issues**

2.1 The revised corporate risk register is set out at Appendix 1 and the Risk Action Plan at Appendix B.

2.2 The evolving economic position globally, the macroeconomic environment (in particular major inflationary pressures) and the geopolitical uncertainty arising from the Ukraine crisis have meant several risks on the corporate risk register continue to be influenced by external factors. Those risks are highlighted in blue to distinguish areas where risk mitigation measures may be limited in terms of actual outcomes due to externalities beyond the control of the council. A separate report on the impact and implications of wider externalities for the Council and its communities is also on the agenda for the July Audit Committee.

2.3 The Council's most significant strategic risks to highlight are the five risk categories that continue to be assigned a red RAG rating (see Appendix A), and a further risk category that has moved from an amber RAG rating to a red RAG rating based on risk assessment and application of the risk scoring model. This includes risk categories 1(a) (Housing – Development & Targets), 1b (Housing – affordable), 2 (Economy), 4 (Finance and Communities), 6 (Sustainability and Climate Change) and 7 (Corporate Capacity/Resources/ Recruitment and Retention).

2.4 The corresponding risk action plan attached at Appendix B highlights actions completed, as well as 'work in progress' and 'continuous actions'. Four new actions have been added as part of this review across sections 2 (Economy), 4 (Financial Resilience and Communities) and 6 (Sustainability and Climate Change).

2.5 The key issues and developments to highlight as part of the latest review of the Corporate Risk Register are set out below at 2.5 (a) to 2.5 (e).

### **(A) Housing – Development and targets – red risk category 1a.**

Definitive financial costs of delays to property schemes including ongoing monthly revenue and capital costs continue to be quantified, measured and reported. As previously reported, continued delays equate to significant cost rises for the Council including loss of rental income (residential). Further viability assessments of proposed and approved residential development

schemes are due to be undertaken to analyse the financial cost effect of increased PWLB loan rates, rising inflationary pressures including increased construction/materials/labour costs, and other important factors. If schemes are no longer considered financially viable and/or there are delays in realising anticipated benefits, this will significantly impact achievement of development targets, delivery of the Council's Housing programme via Knowle Green Estates (KGE) and both affordable and non-affordable housing provision, impacting local communities and adding further pressure to Council services. Considering these challenges, adaptations to property developments continue to be reviewed to ascertain workable solutions. These risks and issues link closely with risk category 1b below (para 2.5(B)).

The Pre-Submission Publication Version of the Local Plan and Draft Staines Development Framework Publication were agreed by the Environment and Sustainability Committee on 26 April 2022 and subsequently at Full Council on 19 May 2022.

#### **(B) Housing – Affordable – red risk category 1b.**

Please refer to the issues highlighted at 2.5 (A) above as they are relevant for this section. Community Wellbeing and Housing Committee approved the revised social housing allocation policy in June 2022, providing a fully refreshed and refined approach to allocations. The £35m property acquisition scheme to purchase and manage readymade properties through Knowle Green Estates (KGE) in addressing housing need has been approved by Full Council. Processes are being developed to support implementation and a vacancy has been advertised to recruit a new Property Acquisition Project Manager position within the Housing Strategy team. Under the government funded assistance scheme Spelthorne have provided support to Afghan Families and to refugees from Ukraine.

#### **(C) Economy – red risk category 2**

The economic risks including the macroeconomic environment and rising inflationary pressures leading to a Cost-of-Living crisis continue to have a significant impact on Council operations, revenue streams, finances, consumer activity and local economic prosperity. The geopolitical situation, Ukraine crisis and political sanctions present wider implications and consequences including supply chain disruptions impacting agricultural commodities (fertiliser to mass-produce food) and availability of certain food groups (such as oil, seed and cereals) leading to inflated prices to the wholesaler/supplier/retailer/consumer. These food shortages also create further reliance on community services such as food-banks.

The Economic Prosperity Strategy and action plan to cover the next five years (2022 -2027) is under review and the challenging/evolving macroeconomic environment will be a pivotal consideration in shaping a future strategy for the Council. The refreshed Economic Prosperity Strategy will replace the Economic Development strategy and is due to be considered by the Economic Development committee for final adoption on 29 September 2022. The discretionary Additional Restrictions grant scheme has been fully

allocated to support businesses and local economic recovery, with all funds spent by 31 March 2022 to meet timeframes stipulated by central government.

#### **(D) Financial Resilience and commercial assets – amber risk category 3**

Despite the impact of the pandemic and wider financial pressures, the commercial investment portfolio is performing well, with 99.98% collection rate achieved for 2021/22. Several mitigation measures are being developed further to help combat the impact of the significant inflationary pressures, cost of living crisis and adverse costs facing the Council. Spelthorne are continuing to increase its sinking funds which increased from £26m to £34m at the end of 2021/22. There are plans to extend the fortnightly 10-year worst case and expected case scenario projections to 20 years, due to be completed shortly. The Council are also embarking on reviewing the sinking fund methodology.

#### **(E) Finances and Communities – red risk category 4 (previously amber)**

We continue to experience an escalating cost of living crisis because of a combination of factors including the recovery from the pandemic, post-Brexit, geopolitical situation, the rising cost of goods and services, steep increases in energy/fuel/food/household and inflationary pressures. This is inevitably impacting sustainability of Council services adding significant costs and pressure to delivering services and the Council's financial position. This coincides with greater demands placed on Councils Services as the significant financial constraints being felt across local businesses, communities and households will accelerate need for greater support from the Council. An adverse consequence is the overstretched corporate capacity issues already being experienced are likely to be further exacerbated, with the implications of this on the workforce discussed under section 2.5 (G) below. There are also wider implications for community safety due to anticipated rises in anti-social behaviour during times of economic hardship.

A report is going to Corporate Policy and Resources Committee in July quantifying the financial impact of inflationary pressures, increased PWLB loan rates and other factors on the Council's budget, reinforcing the need to make efficiency savings to address the anticipated budget deficit for current and future years. An inflationary pressure contingency reserve is being proposed to assist with the predicted budget deficit, subject to Council approval. Other financial constraints are to take effect such as a moratorium on additional growth/resource for 2023/24 unless it meets a statutory need or externally funded.

The collection fund is monitored regularly to assess the impact of the cost-of-living crisis on rates of collection for Council Tax and Business Rates, as the ability to pay becomes more challenging. The government energy rebate scheme has been implemented to support eligible residents with rising gas and electricity costs.

#### **(F) Sustainability and Climate Change – red risk category 6.**

An action plan is being developed to move the Council towards net zero carbon emissions. Environmental enhancements continue to be pursued such

as installation of solar panels at the Nursery and reviewing options for improving energy efficiency at this site as well as the Council offices. Staff training to raise awareness of climate change in promoting the need to adapt to change is planned for September 2022. Establishing a coordinated strategy for tackling Climate Change is underway, with a view to incorporating strategy related actions by September 2022.

### **(G)Corporate Capacity/Resources/Recruitment and Retention – red risk category 7**

As previously reported, an ongoing risk prevails around corporate capacity remaining severely stretched with significant work pressures. The failure to effectively recruit to technical and other roles is also proving challenging with implications for gaps in skills/expertise/knowledge and service quality delivery, as well as additional consultancy costs. All these factors have further exacerbated the apparent pressures that continue to be felt across the Council. There are several consequences associated with overstretched corporate capacity and these are highlighted again due to their significance, including workforce fatigue and stress, negative impact on physical and mental wellbeing, increased sickness absence and turnover, loss of key personnel, and losing sight of priority focus areas impacting service delivery.

It is recognised that recruitment and retention challenges are being faced by employers across all sectors in the UK, with vacancies running at high levels in a competitive market. The LGA has acknowledged the specific issues facing the local government sector largely attributed to ongoing skills shortages. Several recruitment and retention measures have been in place over the course of time at Spelthorne, as recorded on the risk register. Spelthorne are Members of South East Employers newly formed Reward and Recognition Network to share best practice and learn from any initiatives taking place elsewhere. Any retention initiatives raised at a national level will be insightful in due course and may provide an opportunity to further refresh local initiatives taken. Exploring measures to help alleviate and mitigate the recruitment and retention issues facing the authority with a view to attracting and retaining talent therefore remains a work in progress.

The annual staff survey commissioned in May is designed to ascertain on an anonymous basis employee views covering several themes including workplace culture, values, recruitment and retention. Further to analysing employee views and feedback, any new approaches and practices developed should be measured over time to ascertain their effectiveness and positive impact in addressing recruitment and retention challenges.

### **3. Options analysis and proposal**

- 3.1 The revised register at Appendix A is an accurate reflection of the high-level significant risks affecting the Authority, based on our assessment of risk and controls in operation. To consider the contents of the Corporate Risk Register including any new or expanded risk categories, residual risks highlighted and risk mitigating actions underway or for perusal. To take necessary actions

going forward in response to the significant issues raised in this report and as detailed in the register. The risk action plan at Appendix B outlines the progress made on actions previously proposed and includes new actions which should be addressed as they impact delivery of corporate priorities and objectives, (preferred option); or

- 3.2 To recommend amendments to the Corporate Risk Register for consideration by the Corporate Risk Management Group.

#### **4. Financial implications**

- 4.1 As previously reported, there are major financial implications arising from some of the red RAG corporate risk categories discussed under section 2.5 above. Unless the Council addresses these issues, the Council will not be able to meet its statutory obligations given the major inflationary pressures and significant adverse costs being generated and likely to worsen, and neither will it be able to effectively deliver corporate priorities. As referred to under section 2.5, a report is going to Corporate Policy and Resources Committee on 11 July setting out the financial implications for the Council arising from the extremely challenging inflationary pressures.

#### **5. Risk considerations**

- 5.1 The Council's corporate and strategic risks impacting the achievement of corporate priorities, represent the most significant risks facing the authority. At Appendix A the broad strategic risk categories, specific risk considerations and implications are identified and articulated, as well as the current controls and mitigation measures in place to manage these risks. As part of this review the controls have been presented in a separate column to the mitigation measures, incorporating a request from the Audit Committee. It should be noted that for some risk categories there may inevitably be a degree of overlap in terms of what constitutes a 'control action' and 'mitigation action', so these columns may be best if viewed in tandem. A risk action plan is set out at Appendix B, ensuring a mechanism to capture risk related actions and monitor their progress.

#### **6. Legal considerations**

- 6.1 Some corporate risks facing the Council as identified on the register are driven or influenced by statutory requirements. For example risk category 1b Housing – Affordable Housing – (iii) specific risk refers to the implications of the Domestic Abuse Act for the Council in terms of suitable housing provision.
- 6.2 Consult in every case with **Legal Team** ([G.legal@spelthorne.gov.uk](mailto:G.legal@spelthorne.gov.uk)) and either refer to issues raised elsewhere in your report or detail them here.

#### **7. Other considerations**

- 7.1 As part of the forthcoming LGA Corporate Peer review planned for November 2022, this process will provide continued direction and insight in supporting the Council to address its significant strategic risks, considering overlapping themes around developments, housing, supporting communities and finances.

#### **8. Equality and Diversity**

8.1 There are no specific areas to highlight. Equality, diversity and inclusivity considerations for local communities, Councillors, and employees should stem from Council values, strategies and policies and be applied through behaviours, operations, service provision and processes.

**9. Sustainability/Climate Change Implications**

9.1 There are none separate to those in the Corporate Risk Register.

**10. Timetable for implementation**

10.1 The corporate management team and lead Committee hold collective ownership and accountability for ensuring these strategic corporate risks are effectively managed. The Risk Action Plan at Appendix B shows lead Council officers responsible for progressing actions, together with target timescales for implementation. The register is reviewed and updated three times a year in consultation with the corporate management team, Group Heads and Managers. It is coordinated, analysed, and reported by the Internal Audit Manager.

**11. Contact**

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**Background papers: There are none.**

**Appendices:**

**Appendix A – Corporate Risk Register (including risk scoring matrix)**

**Appendix B – Risk Action Plan**