

Audit Committee

24 November 2022



Title	Corporate Risk Management
Purpose of the report	To make a recommendation to Corporate Policy and Resources Committee/Council
Report Author	Punita Talwar, Internal Audit Manager
Ward(s) Affected	All Wards
Exempt	No
Exemption Reason	N/A
Corporate Priority	<p>The Corporate Risk Register outlines significant strategic risks impacting the effective delivery of all corporate priorities (CARES).</p> <p>Community Affordable housing Recovery Environment Service delivery</p>
Recommendations	<p>Committee is asked to:</p> <p>The Audit Committee is asked to:</p> <p>1.Consider the significant strategic risks and issues highlighted in this report and present these to the Corporate Policy and Resources Committee, ensuring continued wider reporting of the Corporate Risk Register and Risk Action Plan across other Committees.</p>
Reason for Recommendation	<p>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.</p> <p>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.</p>

1. Summary of the report

- 1.1 This report seeks to highlight significant strategic risks in delivering the Council priorities (CARES) and objectives, current actions to manage risks (these are defined as current control actions and current mitigating actions) as well as any further mitigation measures underway set out in the separate Risk Action Plan.
- 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.
- 1.3 As part of ongoing development work, the format and presentation of the Corporate Risk Register has been refreshed again with a view to making the content more visually appealing.
- 1.4 In response to comments raised by Corporate Policy and Resources Committee on 27 September, we are trialling a new approach which:
 - Introduces a numerical risk score (likelihood of risk occurrence x impact of risk should the risk event occur) for each broad risk category;
 - Provides a direction of travel for both the RAG status (i.e. assessed level of risk as plotted on the risk matrix at Appendix A), and numerical risk score.
 - In addition, an indicative future RAG status and indicative future risk score are being communicated. Section 2 below explains this new approach in more detail.

2. Key issues

- 2.1 In response to comments raised by Corporate policy and resources Committee on 27 September, we are trialling a new approach which introduces a risk score (likelihood of risk occurrence x impact of risk should the risk event occur) for each broad risk category, provides a direction of travel by referring to both the previous and current Red/Amber/green (RAG) rating, as well as previous and current risk score. Risks continue to be assessed as before taking account of current controls and current mitigations in place as this approach reflects the Council's risk management policy requirements and good practice. We have however broadened our approach, again taking on board Member feedback, and as part of this review introduce (trial) an indicative RAG status and indicative risk score to provide greater insight based on a future situation/scenario where all additional mitigating actions set out in the Risk Action Plan have been fully implemented by Risk Owners and Lead Officers. We welcome any further discussions from Members of the Audit Committee; however, this demonstrates how the Council's reporting of the Corporate Risk Register continues to evolve and develop.
- 2.2 The corporate management team and lead Committee hold collective ownership and accountability for ensuring these strategic corporate risks are effectively managed. In promoting greater visibility and ownership of the

significant risks, the Committees team will ensure the register pack and key messages conveyed by the Internal Audit Manager are shared with Committee Chairs and Vice-Chairs as part of every reporting cycle, further to initial consideration by the Audit Committee.

- 2.3 The revised corporate risk register is set out at Appendix A and the Risk Action Plan at Appendix B.
- 2.4 Several risks on the corporate risk register continue to be significantly influenced by external factors, due to the economic crisis and macroeconomic environment (elevated inflationary pressures, increased rates of borrowing, high energy/fuel/food prices and the Cost-of-Living strain, likely recession) as well as the ongoing geopolitical uncertainty arising from the Ukraine crisis and China/US relations. 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. Given all of this, it is important to recognise there are no simple fixes or solutions to many of the complex risks identified on the Council's Corporate Risk Register. A separate report on the impact and implications of wider externalities for the Council and its communities is also on the agenda for the November Audit Committee and currently remains a standing agenda item.
- 2.5 The Council endeavours to pursue local measures with a view to alleviating some of these significant externally driven risks and challenges (see para 2.4 above) whilst recognising the limitations, as well as progressing activities that may provide a more favourable opportunity to positively control.
- 2.6 The Council's most significant strategic risks to highlight are the risk categories that continue to be assessed as a red RAG rating (see Appendix A). This includes risk categories 1A (Housing – Development Targets), 1B (Housing – affordable provision), 4 (Finance and Communities) and 7 (Corporate Capacity/Resources/ Recruitment and Retention). Nonetheless it must be acknowledged that the nature of all risks on the Corporate Risk Register are significant due to their strategic impact on corporate priorities and therefore continued visibility and recognition remains important.
- 2.7 The register at Appendix A provides detailed information across all risk categories including current controls and current mitigations to alleviate and manage identified risks. The corresponding risk action plan attached at Appendix B highlights completed actions (green section), as well as 'work in progress' (white section) and 'continuous actions' (blue section). Two new actions have been added to the risk action plan as part of this review across sections 5 (Treasury Management – borrowing strategy) and 8 (Equality, Diversity and Inclusivity - strategy).
- 2.8 Key risks, issues and developments to highlight as part of the latest review of the Corporate Risk Register are set out below at 2.8 (a) to 2.8 (g).

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

RAG rating (assessed risk level) retained as red (July) and (Nov)

Risk Score retained as 12 (July) and (Nov)

Any further movements in Direction of Travel after considering further mitigation set out in the Risk Action Plan? No – Maintained numerical risk score and RAG status

Viability assessments for property development schemes are being regularly updated to take account of accelerating costs arising from significant increases to interest rates (cost of borrowing) and construction inflation to determine ongoing financial viability. If schemes are no longer considered financially viable, this will significantly impact achievement of development targets, delivery of the Council's Housing programme via Knowle Green Estates (KGE) and both affordable, key worker and non-affordable housing provision, impacting local communities and adding further pressure to Council services. Considering these challenges, several new mitigating actions such as grant funding are being explored in terms of options for reducing the amount of borrowing required to fund the Housing Delivery programme, and these will form part of a Paper going to Corporate Policy and Resources Committee on 28 November 2022. The detailed risk register at Appendix 1 provides more detail on the range of options proposed .

(B) Housing – Affordable – risk category 1b

RAG rating (assessed risk level) retained as red (July) and (Nov)

Risk Score retained as 12 (July) and (Nov)

Any further movements in Direction of Travel after considering further mitigation set out in the Risk Action Plan? No – Maintained numerical risk score and RAG status

Please refer to the issues highlighted at 2.7 (B) above as they are relevant for this section. In particular the £35m Property Acquisition scheme to purchase and manage readymade properties through Knowle Green Estates (KGE) in addressing housing need has been significantly impacted by increased borrowing rates. The Council is therefore discussing with Homes England potential for some grant support towards funding this scheme.

A new risk under this category relates to pressure from neighboring and London authorities placing households in the borough, often without the Councils' knowledge. This will lead to further reduction in Housing supply for local communities. The Housing Team have written to other Councils reminding them of their legal obligation to notify where placing households in the borough, but this will not necessarily reduce the likelihood of occurrence of such placements as the Council has no powers to prevent this.

A further new risk under this category relates to the Cost of Living crisis and rising interest rates, adding increased pressure to homeowners and landlords in repayment of mortgages as variable rates spiral. This may lead to landlords increasing rental charges presenting more homelessness cases (if rents cannot be afforded) with increased demand for social housing.

As part of managing the Council's housing register levels, a re-registration process will take place this winter in accordance with the new terms of the revised Allocation Policy to promote greater efficiency in the process.

(C) Economy –risk category 2

RAG rating (assessed risk level) moved from red (July) to amber (Nov)

Risk Score moved from 12 (July) to 9 (Nov)

Any further movements in Direction of Travel after considering further mitigation set out in the Risk Action Plan? No – Maintained numerical risk score and RAG status

The refreshed economic risks set out in the register including the macroeconomic environment, elevated inflationary pressures, Cost-of-Living crisis, increased borrowing costs and market volatility continue to have a significant impact on Council operations, revenue streams and finances. There is of course the potential for increased level of business failures as a result of wider economic instability and the need to pass on increased costs to the consumer. This impacts economic prosperity of the borough and affects collections rates for business rate income, with reduced levels impacting finances and services available.

Whilst Council actions aim to support businesses and the local economy, these actions alone can only have a limited impact due to the overarching effects and long term uncertainty of the macroeconomic environment, market volatility and geo political factors over which the Council has incredibly little influence. The economic climate in terms of recession adds greater challenge and pressure going forward.

Whilst the national economic picture remains bleak, the measures that the Economic Development team have taken to influence Spelthorne's position in areas that the authority can exert some control and therefore to mitigate the impact on the borough has led to the overall assessed level of risk in this section as being currently rated as amber.

There are several controls and mitigation measures in place and being progressed. The final draft of the Economic Prosperity strategy (2023 – 2028) was considered by the Economic Development committee on 29 September 2022 and will go back to Committee on 12 January 2023 for final adoption. The strategy incorporates a detailed action plan detailing performance management measures in anticipating outcomes. Other measures include a Shared Prosperity Fund Investment Plan submitted to government in August 2022 highlighting local priorities and projects to assist with economic regeneration, a Town Centre strategy, and accelerated progression of the Shared Prosperity Fund scheme. In addition there have been several measures to improve resilience, support and training for local businesses, as well as promoting accessibility into employment. There is also fortnightly monitoring of Business Rates and Council Tax collection rates as part of monitoring the effect of current pressures such as the Cost-of-Living crisis on the collection fund.

(D) Finance and Communities – risk category 4

RAG rating (assessed risk level) retained as red (July) and (Nov)

Risk Score retained as 12 (July) and (Nov)

Any further movements in Direction of Travel after considering further mitigation set out in the Risk Action Plan? No – Maintained numerical risk score and RAG status

The risks set out in this section including the impact of the macroeconomic environment, elevated inflationary pressures, Cost-of-Living crisis, significantly increased PWLB borrowing costs, market volatility and geopolitical factors continue to have a significant impact on the Council's budgetary position and finances, with the potential for adverse effects in delivering sustainable services to communities. This coincides with greater demands placed on Councils Services as the significant financial constraints being felt across local businesses, communities and households continue to accelerate need for greater support from the Council.

We have previously reported measures being taken to reduce the budget deficit such as the Inflationary pressure contingency reserve to assist with the predicted budget deficit. In addition the Cashable Savings working group has already highlighted efficiency savings for the authority.

The Outline Budget report will provide updated medium term budget projections and set out options for refreshed medium term financial strategy. This to be considered alongside the refreshed Reserves Strategy.

(E) Sustainability and Climate Change

RAG rating (assessed risk level) moved from red (July) to amber (Nov)

Risk Score moved from 12 (July) to 9 (Nov)

Any further movements in Direction of Travel after considering further mitigation set out in the Risk Action Plan? No – Maintained numerical risk score and RAG status

There are several positive developments including completion of an action plan to move the Council towards net zero carbon emissions and commencement of training to raise awareness of climate change in promoting the need to adapt to change with further necessary rollout planned over the next year. Surrey County Council have finalised a strategy for tackling Climate Change – Greener Futures Delivery Plan, for application and consideration across boroughs and districts.

(F) Corporate Capacity, Resources, Recruitment and Retention

RAG rating (assessed risk level) retained as red (July) and (Nov)

Risk Score retained as 12 (July) and (Nov)

Any further movements in Direction of Travel after considering further mitigation set out in the Risk Action Plan? No – Maintained numerical risk score and RAG status

There are no key developments to report for this section. The significant risks prevail as we continue to face a challenging recruitment market and ongoing pressures on capacity across services, with those implications and adverse effects having been reported in extensive detail as part of the July reporting cycle (please refer to previous report).

(G) New risk categories – Risk Category 8 (Equality, Diversity and Inclusivity) & Risk Category 9 – Local government collaborative arrangements

Two new risk categories including relevant risks have been introduced and included as part of this review of the register. Please refer to risk categories 8 and 9 on the register for current controls and current mitigations. An action relating to producing an Equality, Diversity and Inclusivity strategy for the Council has been included in the Risk Action Plan, with a view to complementing current practices by enabling a more robust approach to delivering and embedding essential principles, standards and requirements in promoting equal opportunities, diversity and inclusivity. This should be considered in the context of the Council's values and behavioral framework. As a first step the Council have set out a Statement of Intent and produced equality and diversity objectives.

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 consultation with Managers and assessment of risk and controls in operation. Option 1 - To consider the contents of the Corporate Risk Register including any new or expanded risk categories, residual risks highlighted, current control actions, current mitigating actions and further mitigating actions set out in the Risk Action Plan 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 effective delivery of corporate priorities and objectives, (preferred option); or
- 3.2 Option 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 corporate risk categories discussed under section 2.5 above (1a, 1b, 2 and 4). Unless the Council addresses these issues, the Council will not be able to meet its statutory obligations or effectively deliver corporate priorities given the ongoing major inflationary pressures, increased cost of borrowing and significant adverse costs being generated from major development schemes and likely to worsen. Whilst many of the current challenges are influenced by wider externalities, some of the local measures being explored by the Council are highlighted under para 2.8.

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 current mitigation measures in place to manage these risks. Current controls are those actions intended to reduce the likelihood of occurrence of the risk event, whilst current mitigations are those actions intended to reduce the impact of a risk event should it occur. Taken together, current controls and

current mitigating actions represent ways of managing risk, but we have continued to differentiate the terminology for purposes of clarity in response to previous direction from the Audit Committee in March 2022. A risk action plan is set out at Appendix B, ensuring a mechanism to capture risk related SMART actions and assign a lead officer with target dates to monitor their progress in further alleviating the identified risks. We will continue to consider over the course of time the robustness of SMART actions in response to comments at CPRC on 27 September, however to reiterate commentary under para 2.4 above, there are no simple fixes or solutions to many of the complex risks identified on the Council's Corporate Risk Register.

6. Procurement considerations

- 6.1 Any procurement considerations relating to the risk categories on the register should be identified by the respective Risk Owners and lead officers and are likely to form part of separate reporting/communications.

7. Legal considerations

- 7.1 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.

8. Other considerations

- 8.1 As previously reported, as part of the forthcoming LGA Corporate Peer review taking place in November 2022, this process will provide continued direction and insight in supporting the Council to address its significant strategic risks, considering overlapping themes around sustainability, developments, housing, supporting communities and finances.

9. Equality and Diversity

- 9.1 In response to discussions at the July Audit Committee meeting the register now incorporates Equality, Diversity and Inclusivity as a specific strategic risk category and sets out current controls and current mitigation measures in place, as well as any further risk mitigating actions for perusal (risk action plan).

10. Sustainability/Climate Change Implications

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

11. Timetable for implementation

- 11.1 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.

12. Contact

- 12.1 Internal Audit Manager, Punita Talwar. P.talwar@spelthorne.gov.uk
01784 446454

12.2 Please also refer to contact names provided for Risk owners/accountable officers as well as lead Officers who hold responsibility for implementing systems of internal control and mitigating actions to manage and alleviate the risks identified against each broad risk category.

Background papers: There are none.

Appendices:

Appendix A – Corporate Risk Register – this includes (i) level of assessed risk i.e. Red/Amber/Green - RAG status of each risk category (ii) Numerical Risk scores – likelihood x impact

Appendix B – Risk Action Plan