

Audit Committee

27th July 2023



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| Title | Corporate Risk Register (Corporate Risk Management) |
| Purpose of the report | To note |
| Report Author | Punita Talwar, Internal Audit Manager |
| Ward(s) Affected | All Wards |
| Exempt | No |
| Exemption Reason | N/A |
| Corporate Priority | The Corporate Risk Register outlines significant strategic risks impacting the effective delivery of all corporate priorities (CARES). Community Affordable housing Recovery Environment Service delivery |
| Recommendations | The Audit Committee is asked to: 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. |
| Reason for Recommendation | 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. 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. |

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. In addition, Management Team and Group Heads have an opportunity to input on emerging risk areas as part of the periodical register review/reporting process.
- 1.3 As part of ongoing development work, the format and presentation of the Corporate Risk Register continues to be explored. This was reported previously in March and generated some discussion at Audit Committee and CPRC. An update is provided under the Key Issues section of this report.

2. Key issues

- 2.1 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.
- 2.2 The corporate management team and lead Committee hold collective ownership and accountability for ensuring these strategic corporate risks are effectively managed, and designated lead officers are also recorded.
- 2.3 The revised corporate risk register is set out at Appendix A and the Risk Action Plan at Appendix B. The direction of travel is highlighted against each broad risk category at Appendix A regarding any movement of either the RAG rating, risk score or indicative risk score since the previous review of March 2023. From assessment undertaken there are no changes to report in terms of direction of travel as part of the June review. Risk owners should ultimately be comfortable with the proposed positioning/ranking of the risks in the matrix on page 1 of Appendix A (subject to discussion with Management Team as necessary).
- 2.4 Several risks on the corporate risk register across a range of risk categories continue to be significantly influenced by wider external factors, due to the economic crisis and macroeconomic environment (elevated inflationary pressures, increased rates of borrowing, continued Cost-of-Living strain) as well as the ongoing geopolitical uncertainty with the Ukraine war. Those risks and their implications 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 and local measures continue to be taken to alleviate some of these challenges and pressures which remain ongoing.
- 2.5 The risk action plan attached at Appendix B highlights completed actions (green section), as well as 'work in progress' (white section), 'continuous actions' (blue section) and four new actions (pink) across three risk categories as follows:

Risk Category 1a Housing – Development Targets - application process for KGE to become a registered social housing provider (NEW ACTION)

Risk Category 1b Housing – Affordable – Acquisition of properties as part of the Local Authority Housing Fund (LAHF) to support refugees (NEW ACTION)

Risk Category 3 - Financial Resilience and Commercial Assets – full refresh of sinking fund modelling during 2023/24 and development of a Public Interest Report (PIR) Action Plan for approval by the Audit Committee in July. (NEW ACTIONS x 2)

2.6 Given that the register at Appendix A provides insight around envisaged risks and current controls/mitigations in managing these risks, for the purposes of this cover report the more pivotal matters or updates are being drawn to your attention at 2.6 (a) to (e):

(a) **Wider Externalities, Financial risk and supporting communities.**

Wider externalities and other factors continue to present increased financial risk to the Council considering the significance of increased borrowing costs and inflationary pressures in delivering a range of strategies and schemes (which may lead to a detrimental impact on the communities served if delivery of corporate priorities is impacted). The extent to which such variables - interest rates and construction inflation may eventually fall remains uncertain, potentially presenting new options for slowing down development scheme delivery and construction in seeking the optimal financial outcome for the Council.

The Council's budgetary and financial position continues to be monitored with anticipated budget deficits from 2024/25 to 2026/27 to be addressed. The Council is participating in a wider CIPFA and DLUHC review of Capital risk mitigation. If the Council's future access to borrowing becomes restricted, this will affect the Council's long-term approach and therefore its financial resilience in responding to uncertainty or unexpected situations/scenarios. Finance and Assets are already considering alternative approaches as to how schemes could be delivered with reduced borrowing.

Financial risk remains a strategic theme carrying high impact across several categories on the register. (***Links with 1A & B Housing – Development and Targets/Affordable Housing, 2 – Economic Prosperity, 3 – Financial resilience and Commercial Assets, 4 - Financial resilience and Supporting Communities, 5 – Treasury Management***)

The Council's financial challenges are exacerbated by the ongoing financial strain facing residents and communities during a continued Cost of Living Crisis, with a duty to support local and refugee communities from Ukraine and Afghanistan during competing crises. The risk register refers to government grant funding schemes in seeking to alleviate community pressures as well as general advisory services such as the Citizens Advice. Further to the decision by Central Government to close Afghan Bridging hotels by the end of August 2023, supporting asylum seekers presenting as homeless from this hotel and other dispersed accommodation across the borough is an emerging and evolving risk area for Spelthorne that requires planned management in the context of financial pressures and limited government funding.

(b) **Risk category 1A Housing – Development and targets.**

The risk implications and associated adverse ramifications arising from the pausing of the Local Plan examination hearings and adoption of the Local Plan are highly significant which have already been set out in a separate report to an Extraordinary Council Meeting (ECM) on 6 June 2023, where Members agreed “Spelthorne Borough Council formally request the Planning Inspector to pause the Examination Hearings into the Local Plan for a period of three months to allow time for the new council to understand and review the policies and implications of the Local Plan, and after the three month pause the Council will decide what actions may be necessary before the Local Plan examination may proceed”. In summary, this includes the prospect of additional pressure on our Local Plan to meet the housing need of other boroughs (in particular those neighboring authorities who have not built on greenbelt), uncertainty around housing delivery (5-year supply) and delivering targets to meet need (affordable and general housing provision), legal challenge, the prospect of unsuitable development coming forward either on green belt sites or within town centres such as Staines, further exposing the Council to greater risk of supporting such developments in the absence of a sound or up to date Local Plan to rely on. Any delay to adopting the Local Plan does not assist in progressing a wide spread of units for differing needs which adversely impacts quality of affordable housing provision – note risk category 1B Housing – Affordable.

Taking this update into account, the indicative RAG status and risk score are not currently assessed as moving in a more favorable direction over time against risk category 1A. The RAG status remains at Red.

Knowle Green Estates (KGE's) application to become a Registered Provider (RP) will place the authority in a better position to secure grant funding from Homes England to support progression of affordable and keyworker schemes. There are however stringent external scrutiny reviews and verification measures involved prior to securing approval of Registered status. The process of acquiring RP status is expected to take 12 to 18 months.

(c) Risk Category 1b – Affordable housing

As a result of the national Government decision to give residents in Afghan Bridging hotels three months notice to quit, potentially a large proportion of the families in the Staines Bridging hotel may present to the Council as homeless. There are 27 families who live in the hotel, all of whom have been served eviction notices to vacate the premises by mid-August. The Council is actively using the Local Authority Housing Fund capital grant funding to acquire properties to enable it to house a significant proportion of these families. A risk does however remain that even if all 15 target properties were to be purchased, presentation of homelessness may still occur over time which Spelthorne have a duty to manage as the Local Housing authority. It is acknowledged that there will be a gap period (before purchase completion) during which time the Council will be required to provide temporary accommodation to homeless households. Whilst there is Government funding for temporary placements, the borough lacks sufficient temporary accommodation available for the placements and this could be exacerbated if central government decide to place further refugee families into the vacant hotel (s). As a result, the Council is at risk of placing households in properties

which are not in the borough and/or unsuitable in other ways. Not only is this disruptive for the households themselves, but the Council potentially faces legal challenge and complaints to the Ombudsman.

(d) Risk category 3 – Financial Resilience – Commercial Assets

The Council's ongoing management of voids remains pivotal in the context of departed tenancies. Currently 87.1% of the overall Investment Portfolio is let, albeit this is expected to rise back to 91% in the summer of 2023 once a significant new tenant takes occupancy. The Council is continuing to increase its sinking funds as part of risk mitigation strategies, reported as approximately £37.8m at the end of 2022-23.

The Group Head of Assets is developing an overarching five-year Asset Management Strategy for approval by Corporate Policy and Resources Committee (CPRC) in Autumn 2023, intended to provide a holistic approach covering each strand of the Assets service and how they dovetail in delivering overall corporate priorities, service objectives and outcomes. Of course, a significant component of this overarching strategy will be focussed on Commercial assets and related tenancy management and rental income collection with a view to establishing where these processes can be made more robust in managing risk. The register provides further detail on the new approach.

The two new actions for this risk category on the Risk Action Plan at Appendix B reinforce measures that have already been highlighted in prior reporting to the Audit Committee and CPRC i.e., fully refresh sinking fund modelling during 2023/24 and development of an action plan in response to the Public Interest Report recommendations of December 2022 for approval by the Audit Committee in July 2023. It is acknowledged that the Public Interest Report Action Plan being put in place includes developing Key Performance Indicator's (KPIs), agreeing an investment portfolio risk register, and developing benchmarking exercises with linkages to Sinking Fund management. These fully completed actions will further support additional risk mitigation measures in continuing to strengthen financial and wider governance in managing the Council's commercial investment portfolio.

Taking this update into account, the RAG status and risk score for this category continues to be assessed as Amber.

(e) Risk category 7 - Corporate Capacity, Resources, Recruitment and Retention

The interrelated risks and issues in this category have been highlighted extensively as part of previous reviews. The Corporate Establishment Review is underway and due to be finalised in July 2023. Future reporting to CPRC by the Service lead and Head of Paid Service will highlight any learning or improvement actions arising for the authority.

Further to extensive discussions at the March Audit Committee the content has been expanded for this broad risk category by introducing a new risk description relating to hybrid working, given this represents an important

change initiative in the Council's service model. It has already been acknowledged that this is in line with modern working practices post-pandemic across local government and many sectors of the economy. The risk description sets out some of the perceived risk implications as well as wider opportunities and benefits that hybrid and flexible working patterns present. A range of internal control actions have been included to demonstrate how any perceived risks are being managed, including corporate performance management systems and mechanisms for ensuring working relations are positively maintained under a Hybrid pattern. Regardless of where services are delivered from (remote vs office), there is a valid argument that the focus should be on the efficiency and effectiveness of outputs and outcomes in delivering Council services and priorities, ensuring these are provided in a way that supports Council values.

2.7 With regards exploring a risk management system for the authority it has been established that there is not necessarily a common system in use across local authorities for presenting risk management information, although there are clearly many risk management software products on the market. These software products promote common principles and deliverables such as :

- A system to support the management and prioritisation of risk
- Stakeholder engagement and ownership of risk
- Eliminates the use of spreadsheets and word documents that may become cumbersome to maintain
- Enables a more automated and cohesive system with automated workflows and reminder prompts
- Improved visibility regarding updates made
- Reporting functionality including summary dashboards

The Internal Audit Manager is pursuing with ICT the conversion of data contained in the Corporate Risk Register to a formal central system with a view to this facilitating the recording, collation, analysis and reporting of information and building upon the strong foundations developed over the years by reinforcing some core principles and improvements set out above. In particular, risk ownership as a fundamental principle of effective risk management. This will be supported through a combination of systems and software already in use by the Council such as Granicus (forms), SharePoint, SQL and Power Bi. Subject to progress in building the form and database, a high-level process flow and mock up for the new system may be presented to the July Audit Committee meeting. The anticipated build time for this system (phase 1) is around 4 to 6 months with an anticipated completion date based on current capacity levels of 30th November 2023. Once phase 1 is completed we will review whether any further refinement work is required taking on board user feedback.

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.
- 3.2 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
- 3.3 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 several corporate risk categories on the register (1a, 1b, 2, 3, 4 and 5), with some of these discussed under section 2.5 above. Whilst many of the current financial and organisational challenges are influenced by wider externalities, given the ongoing major inflationary pressures, increased cost of borrowing and continued impact of the Cost-of-Living Crisis strain, some of the local and collaborative measures being explored and taken forward to alleviate risks by the Council are highlighted under para 2.6.

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. 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. 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. At risk category 8 - Equalities, Diversity and Inclusion refers to the Equality Act 2010.

8. Other considerations

- 8.1 The LGA Corporate Peer review recommendations arising from the review of November 2022 also supports the Council to address its significant strategic risks, considering overlapping themes around sustainability, developments, housing, supporting communities and finances. It remains the responsibility of designated officers to take these forward and it is noted that progress on the action plan forms part of separate reporting. If the Council does not effectively address the Peer Review recommendations this could impact further on some risks presented in the Corporate risk register.

9. Equality and Diversity

- 9.1 The Corporate Risk Register incorporates Equality, Diversity and Inclusion as a specific strategic risk category and sets out current controls and current mitigation measures in place, as well as 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 score.

Appendix B – Risk Action Plan