

Audit Committee

30th November 2023



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 strategies 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. Exposure to wider externalities and other pressures are continuing to present competing levels of crises. Consequently, the Council continues to encounter some challenge in the context of delivering corporate priorities, the nature of which spans across several themes including financial/housing/refugee situation/accelerated service demand/recruitment and retention/ environmental. The approaches being taken to proactively manage identified risks and mitigate impact are referred to in this report and related appendices.

- 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 The Internal Audit Manager takes into consideration topical risk areas for the register, which provides a sense check to ensure continued relevance of the risk categories during times of accelerating levels of crises, often referred to as the poly-crises, and the rapid pace of change.
- 1.4 As part of ongoing development work, the format and presentation of the Corporate Risk Register continues to be explored and the development of an in-house system for future use is progressing. A presentation was delivered at the July Audit Committee meeting to demonstrate how the look and feel of the register is being modernised as part of design work, and to gauge initial comments. Constructive feedback from Members is being incorporated into the database structure design phase to ensure closer alignment of risk and control/mitigation for each specific risk description sitting under the broader risk category headings.

2. Key issues

- 2.1 Risks continue to be assessed by taking account of current controls and current mitigations in place as this approach reflects the Council's risk management policy requirements and good practice. As part of this review, closer alignment between detailed risk descriptions (under each broad risk category 1 to 9) and corresponding controls and mitigating actions is being highlighted on the register, with the introduction of cross referencing as well as improved categorisation of control actions and mitigating actions through the introduction of specific headings. This will also support transition to future presentation of the Corporate Risk Register as part of the new centralised record/system under development.
- 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 June 2023. From assessment undertaken there is only one change to report in terms of direction of travel as part of the October review. This relates to risk category 6 – Climate Change, and the lead officer - Group Head

Commissioning and Transformation considers that the risk level (RAG status) should move from amber to red given the adverse impact of Climate Change already being encountered through increased global temperatures (discussed in more detail at para 2.7 (f)). Risk owners should ultimately be comfortable with the proposed positioning/ranking of all the risks in the matrix on page 1 of Appendix A (these are 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 (although the annual inflation rate has come down the impact of past elevated inflationary pressures remains, increased rates of borrowing, continued Cost-of-Living strain, cost of doing business strain) as well as the ongoing geopolitical uncertainty with the Ukraine war and Middle East conflict. 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.
- 2.5 The Internal Audit Manager takes into consideration topical risk areas for the register, which provides a sense check to ensure continued relevance of the risk categories during times of accelerating levels of crises, often referred to as the poly-crises, and the rapid pace of change. Of course, it is not appropriate to take a generic approach as each organisational risk register (strategic) should reflect the significant strategic risks of direct relevance to a particular organisation. Nonetheless a sense check would suggest that Spelthorne's risk register reflects many of the topical risk areas and issues (strategic level) set out by Professional risk management and audit bodies, such as for example macroeconomic and geopolitical uncertainty, Climate Change, Recruitment and Retention. There must be a cut-off point and the number of risk categories on the register is already close to the maximum recommended level of 10 broad risk categories.
- 2.6 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 5 new proposed actions (pink) across 4 broad risk categories as follows:

Risk Category 1a Housing – Development Targets - Identification and rigorous assessment of alternative Development Delivery Options for Council Owned Development Sites, to ensure they represent financially viable and sustainable solutions in delivering development targets.

Risk Category 5 – Treasury Management – Arlingclose, the Council's Treasury Management advisors, will be providing a training session for all councillors, planned for delivery January 2024.

Risk Category 7 – Corporate Capacity, Resources, Recruitment and Retention – To continue to draw optimal value from hubs of professional insight/ expertise/research in supporting a holistic approach to responding to the recruitment and retention crises.

Risk Category 7 – Corporate Capacity, Resources, Recruitment and Retention – Council values to become further embedded into behaviours, policy and processes, which may follow the refreshed corporate plan.

Risk Category 9 – Working arrangements across Local Government

Tiers – In planning for potential change, ascertaining transitional and future arrangements for service delivery, decision making and strategic direction.

- 2.7 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 2.7 (a) to (g). These span across the six most significant broad risk categories on the register deemed to be emerging from the current review:

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

Wider externalities and other factors continued to present increased financial risk to the Council. In particular, the financial implications relating to property development schemes (Housing Delivery programme) are explained under section 2.7 (b).

As previously reported, financial risk remains a strategic theme carrying high impact across several categories on the register. (*Links particularly 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 continue to be exacerbated by the ongoing financial strain facing residents, businesses and communities during a continued Cost of Living Crisis and Cost of doing business Crisis, with a duty to support local and refugee communities in delivering accelerated service demands.

These issues are explained further in the following sections.

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

The risks identified in this section have been necessarily refreshed and updated in several areas.

Wider externalities and other factors continued to present increased financial risk to the Council considering the significance of increased borrowing costs and significant construction inflation in delivering a range of strategies and schemes. These factors continued to affect the financial viability of each project and in responding to this threat the Council decided to suspend direct delivery of the Housing development programme from mid-September. Options are being explored which will determine if accumulated capitalized costs of £10-15m will need to be charged to Revenue. Consequently, the earmarked reserves will potentially need to be applied to offset the adverse financial impact. In addition, holding costs of £1.6m per annum relating to the housing delivery schemes are continuing to be incurred until outcomes are delivered on the sites. This continues to have a significant financial impact on the Council's budgetary position and could further impact timelines for delivery of housing schemes and development targets (both affordable and general housing). The Group Head of Assets is moving towards a new Member driven strategy in consultation with residents for delivering housing

outcomes across Council owned sites. As part of this strategy key Member decisions will need to be taken on how and when to progress Council sites.

Identifying alternative Development Delivery Options for Council Owned Development Sites demonstrates progression in terms of presenting new potential strategy routes. It does however highlight new risks to assess to determine whether such arrangements represent financially viable solutions in the long term and that they do not accelerate the Council's financial risk exposure to an unacceptable level, consequently presenting further uncertainty and strain on the Council's financial sustainability. Officers have reassured that in managing risks relating to initial proposals for alternative Development Delivery Options, expertise will continue to be closely drawn upon from various professional hubs of expertise across the Council such as Finance, Legal and Procurement, in order to guide and support on the implications of any proposed routes put forward.

A report on Development Delivery Options for Council owned Development sites was presented to CPRC in October 2023 and incorporates options for mitigation of Holding Costs in parallel with new ways of delivering affordable housing. These set out how options have been assessed.

At an Extraordinary Council Meeting on 14 September 2023 councillors agreed to extend the pause in the local plan examination timetable until the proposed changes to the National Planning Policy Framework (NPPF) have been published (expected Autumn 2023), before determining next steps. The Council cannot withdraw the local plan as a ministerial directive is currently in place. The risks associated with category 1a(iv) on the risk register (Local Plan) previously reported continue due to further pausing of the Local Plan until at least Spring 2024 (likely). In addition, several new risks and challenges are now presented or exacerbated. For example, an increased risk of Planning inquiries on refused applications exists as developers take advantage of the uncertainty around a further pause. Another emerging risk relates to the increased possibility of central government intervention to facilitate progression of the plan if the Council does not take active steps to move forward at an appropriate pace. This could have significant implications around sovereignty of local decision making. Progress meetings are in place between DLUHC and the Council to manage this risk.

Work is underway to consider the impact of the revised NPPF on the Local Plan which has been submitted for Examination, to inform next steps.

(C) Risk Category 1b – Housing - Affordable

Spelthorne participates in the Local Authority Housing Fund (LAHF) capital funding programme (Rounds 1 & 2) to acquire properties to house homeless refugees. Whilst the Council is benefitting from central government grant and thereby does not need to bear the full cost of the homes, the funding is insufficient to be able to acquire the total number of properties required and the Council contributes financially to each purchase. Further to Spelthorne receiving an increased number of homeless approaches from the asylum hotel within the borough as well as other dispersed accommodation, there is very limited funding available for housing asylum seekers which could adversely impact the suitability of accommodation offered to these communities and where placements are out of the borough, Spelthorne has little control over accommodation standards. Furthermore, increased rate of

determination of asylum seekers claims is resulting in more residents assigned to an initial placement hotel in Spelthorne, presenting an increase in cases seeking housing support from the Council. These factors are exacerbating Housing demand and supply. The Council has written to the Minister about the impact of asylum seekers requiring Housing Support and is lobbying for additional funding support, as this issue is having significant financial and resourcing ramifications for Spelthorne.

Temporary accommodation at Longford is being used to support Afghan refugee families impacted by the closure of the Bridging Hotel in August, until they can move into resettlement properties funded by the LAHF.

A Housing re-registration process took place in the summer of 2023 in accordance with the new terms of the revised Housing allocation policy. It has resulted in approx. 1700 re-applications being submitted, these being a significant reduction from the previous level of 3800 applications on the Council's Housing register.

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

It was previously reported that a new approach to ensuring the certainty of the Council's rental income is being developed. A progress report regarding the overarching Asset Management strategy and core elements was verbally presented to Development Sub-Committee on 2nd October 2023. Currently 91% of the overall investment portfolio has been let, with rent collection rates remaining at 99+%.

Progressing any improvement actions or best practice recommended by external advisers with respect to management of the investment assets portfolio remains underway and ongoing. External advisors are undertaking a long term review of assets with a view to supporting a reduction in the Council's risk exposure levels should demand for office space decrease over the next decade and beyond. Independent additional valuations of the investment portfolio are also underway.

(e) Risk Category 4 – Financial Resilience – Supporting Communities

The Council's decision to suspend direct delivery of the Housing Development programme presents a range of adverse financial ramifications which have been explained earlier under reference 2.7 (b) and combined with wider factors referred to in this report these continue to have a significant financial impact on the Council's budgetary position. Budget gaps remain for 2024/25 through to 2027/28, therefore creating considerable financial pressure. This coincides with greater service demands leading to increased growth bids for resourcing/support, which are not financially sustainable or affordable unless these can be offset by savings. Ongoing financial pressures in the extreme worst-case scenario and if not robustly managed could lead to the Council becoming financially unsustainable. To mitigate the impact of significant financial pressures being presented, the Council is accelerating several existing measures and initiatives. These include:

- Brought forward initial budget modelling timetable to facilitate early identification of budget gaps and thereby enabling exploration of options for closing them.
- Refreshed Reserves strategy going to CPRC in January 2024.
- Cashable savings working group to report progress against targets for efficiency (cashable) savings which will be assessed and incorporated into quarterly budget monitoring reports.
- A report on Development Delivery Options for Council owned Development sites was presented to CPRC in October 2023 and incorporates options for mitigation of Holding Costs in parallel with new ways of delivering affordable housing.
- Management Team, Group Heads and Finance are scrutinising scope for budget savings with a view to consequently presenting options to Councillors in enabling a balanced budget to be achieved. A targeted briefing session for all Managers and Team Leaders has taken place to convey key messages regarding immense financial pressures being faced.
- Participation in Surrey wide financial resilience review with commissioning of independent consultants to consider financial metrics as part of this assessment.

(f) **Risk Category 6 – Sustainability and Climate Change**

The adverse impact of Climate Change is already being felt through greater extremes of weather (storms with heavier rainfall and heatwaves). More extreme rainfall causes major damage and destruction to houses, properties, landscape and therefore presents a serious threat to life with safety, livelihood, and homes at risk. Heatwaves such as in summer 2022 and in Europe in 2023 cause excess deaths (4500 in 2022 in the UK) and droughts threaten food security and production.

Instances of greater extremes of weather and temperatures as referred to in the risk description 6i under the broad risk category 6 (Appendix A) are unfortunately increasing and continued focus will need to be given to prioritising mitigation measures in managing the impact of these risks, as well as adaptation to environmental change. The Council are continuing to review its preparedness for Climate Change and the register sets out many examples of control actions and mitigating actions currently in place.

A lack of preparedness for the impacts of climate change may lead to Council Services no longer being sustainable or in a suitable position to operate in the future. The last 8 years have been the world's hottest and in the last summer there were 72,000 excess deaths in Europe due to the extreme heat. The UK is equally likely to see weather extremes going forward hence the proposed change in RAG rating to red as extreme weather impacts on the economy and actions required by the Council e.g in times of severe flooding seriously draining the Council's resources.

In view of the matters raised above, and that the likelihood of the risk event(s) is now reassessed as 'almost certain', this risk category has been reclassified with a change in direction of travel from an amber risk category to a red risk category.

(g) Risk Category 7 – Corporate Capacity, Resources, Recruitment and Retention

Further to the Corporate Establishment Review of July 2023, the perusal of any specific actions recommended by the commissioned body (Southeast Employers) has commenced. A review of Contracted resource and categorisation of that usage to ascertain how it supports service delivery needs has been reported to CPRC in October. Any further improvement actions that may have arisen from the Corporate Establishment Review will be pursued/monitored as necessary.

In the wider context of a 'Recruitment and Retention crisis in the public sector', the Council continues to draw insight from HR professionals who keep abreast of best practice across Surrey and wider networks. It is important that optimal insight and value continues to be derived from all relevant hubs of expertise including externally conducted research in continuing to promote a holistic approach and strategic vision in responding to recruitment and retention challenges and future-proofing the Council's workforce. This has been proposed as a new action in the Risk Action Plan at Appendix B, which is likely to represent a continuous/ongoing action over the course of time.

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 (in particular 1a, 1b, 2, 3, 4 and 5), with some of these discussed under section 2.7 above. Whilst many of the current financial and organisational challenges are influenced by wider externalities, given the ongoing high cost of borrowing and continued impact of the Cost-of-Living Crisis strain and Cost of doing Business strain, some of

the local and collaborative measures being explored and taken forward to alleviate risks by the Council are highlighted under para 2.7.

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 nine broad strategic risk categories, comprising specific risk considerations and risk impacts 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 risk management strategies. 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.

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 There are none.

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). There are no further areas of progress to report as part of the October review of the risk register.

10. Sustainability/Climate Change Implications

- 10.1 There are none separate to those in the revised Corporate Risk Register and highlighted in this report, and some updates have been made under the broad risk category 6 as part of the October review of the 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 content 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 which includes identifying new risk descriptions, high level review of

relevance of control actions being reported in context of risk area, and proposing new actions on the Risk Action Plan where deemed appropriate.

12. Contact

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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: Some general reference has been made at para 2.5 to professional insight in terms of topical risk areas.

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 and Direction of Travel.

Appendix B – Risk Action Plan