

## London Borough of Hammersmith & Fulham

**Report to:** Audit Committee

**Date:** 13/09/2022

**Subject:** Risk Management Highlight Report

**Report of:** Director of Audit, Risk, Fraud and Insurance

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### SUMMARY

The purpose of this report is to provide members of the Audit Committee with an update on risk management across the Council.

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### RECOMMENDATION

1. For the Committee to review, note and comment on the report.
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**Wards Affected:** None

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<b>H&amp;F Values</b>	<b>Summary of how this report aligns to the H&amp;F Values</b>
<ul style="list-style-type: none"><li>• Building shared prosperity</li></ul>	<i>Good risk management helps to: maintain and promote the Council's reputation;</i>
<ul style="list-style-type: none"><li>• Creating a compassionate council</li></ul>	<i>Is an enabling tool to help protect residents and staff including some of the most vulnerable in society;</i>
<ul style="list-style-type: none"><li>• Doing things with local residents, not to them</li></ul>	<i>Place people, businesses and the wider community at the heart of everything we do;</i>
<ul style="list-style-type: none"><li>• Being ruthlessly financially efficient</li></ul>	<i>Ensure robust financial and information management and supports internal control, opportunity and innovation;</i>
<ul style="list-style-type: none"><li>• Taking pride in H&amp;F</li></ul>	<i>Protect valuable assets and the built and natural environment.</i>
<ul style="list-style-type: none"><li>• Rising to the challenge of the climate and ecological emergency</li></ul>	<i>Enabling an approach to climate-sensitive decision making</i>

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## **Financial Impact**

The current and future context for local government represents a significant risk to the council with the ongoing challenge of delivering services and increased demand with reduced funding levels. This is further impacted by the coronavirus pandemic and wider economic factors leading to rising costs and inflation. This has seen the council incur additional expenditure whilst at the same time seeing reductions in the level of resources available through a combination of lower income levels and inherent pressures that existed prior to Covid-19 which must also be managed.

There are no specific financial implications arising from this report. Services are expected to manage their risks within current budgets. Where additional funds are required to mitigate or manage risks, separate decisions reports will be required for the approval of unbudgeted expenditure. The council holds a corporate contingency budget and adequate levels of reserves to enable it to manage unforeseen costs.

A standing corporate risk, Financial Management of in-year budget and Medium-Term Planning, identifies the risks to balancing the budget in response to continued government funding and demand pressures faced by the Council and the sector more generally and is assessed as high risk. The in-year position is reported in the Corporate Revenue Monitor to Cabinet and includes financial risks. Other corporate risks also identify financial pressures arising from demand and complexity of service provision which need to be managed.

*Comments verified by Sukvinder Kalsi, Director of Finance*

## **Legal implications**

There are no particular legal implications arising from this report.

*Comments verified by Adesuwa Omoregie, Assistant Director of Legal Services*

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## **Background Papers Used in Preparing This Report**

None.

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## DETAILED ANALYSIS

### Background

1. To achieve the ambitions, outcomes and priorities set out in our Business Plan, it is essential that we continue to understand, manage and communicate the diverse range of risks and challenges that could threaten the organisation and vital services. Risks originate from a variety of sources, many of which are out of our direct control for example global events such as the coronavirus pandemic, the Russian invasion of Ukraine, Brexit, economic or market shocks, austerity or from climate change. More localised incidents can impact on residents, individuals, services and infrastructure.
2. It is paramount that all risks are clearly identified, managed and reported through the relevant channel. Risks can never be eliminated entirely but proportionate and targeted action can be taken to reduce risks to an acceptable level. Furthermore, the work of the Council's Policy and Accountability Committees is acknowledged as a source of robust and additional assurance for the management of risk across its services.
3. Effective governance and management of risks are particularly significant as funding for local government has diminished authorities' objectives and are becoming increasingly fundamental and relate, for instance, to continuing to meet statutory service obligations. Arrangements must therefore be effective in a riskier, more time-pressured and less well-resourced context.
4. Local authorities are required to maintain a sound system of internal control, including risk management, internal audit, and whistleblowing arrangements. Risk management is the application of Council strategies, governance, policies and processes to identify and manage risks that are unacceptable to the Council. Managing risk processes effectively enables the Council to safeguard against potential threats and take advantage of potential opportunities to improve services whilst continuing to provide better value for money for residents, visitors, local businesses and service users.
5. The Council is accountable to the public for its performance and financial management. This means that the Council naturally has a low appetite for risk, however as financial challenges continue the Council will need to take carefully considered risks to develop new and innovative ways to deliver services, support communities and ensure the long-term wellbeing of communities is not impaired by decisions made in the short term. This makes good risk management essential.
6. As part of its governance arrangements, the Council's approach to risk management requires Directors, managers and staff, through their departmental Senior Management Teams, to:
  - identify risks;
  - assess the risk;
  - agree and take action to manage the risk; and
  - monitor, review and escalate risks.

7. The Council has robust risk management arrangements in place which feed into the Corporate Risk Register, which is set out in Appendix 1. This register contains the most significant cross-cutting risks that could impact on the outcomes that are set out in the Council's priorities. These risks can be internal or external facing.
8. Internal risks relate to the organisation itself and cover areas such as programmes, workforce, business continuity, safety or technology. External risks are those that can affect the local area, its people, communities, businesses and infrastructure where the Council often has a role, in partnership, to mitigate them.
9. Risks relating to the coronavirus pandemic remain under close review and the ongoing efforts to increase vaccination rates as well as promoting and encouraging uptake of the vaccine booster.
10. Officers continue to review and assess the impact of and implications for residents and the Council from the events in Ukraine. This includes ensuring that risks relating to the supply chain/contracts and cyber security are being appropriately and robustly mitigated and where support is needed for those residents with families in Ukraine and neighbouring countries.
11. This report provides the Committee with an updated Corporate Risk Register, presenting a suite of risks as reviewed by the Council's Strategic Leadership Team (SLT).

### **External Auditor's Annual Report**

12. Elsewhere on the agenda, the Committee will be receiving the external auditor's annual report for 2020/21. The report assesses the council's value for money arrangements, in three key areas: financial sustainability, governance and improving economy, efficiency and effectiveness. The governance aspect of the assessment includes the arrangements for risk management in place at the time.
13. The external auditor did not find any significant areas of weakness in the Council's arrangements for managing and reporting risk. However, the did note that, for the period of audit, there were too many risks on the corporate risk register, although the report recognised the number had subsequently reduced.
14. As a result of the finding, an improvement recommendation was made that the Corporate Risk Register should be reviewed and the number of risks on the register reduced. The Register continues to be reviewed by SLT Assurance and in light of this recommendation a refreshed risk register will be presented to the next meeting of the Committee.

### **Changes since July**

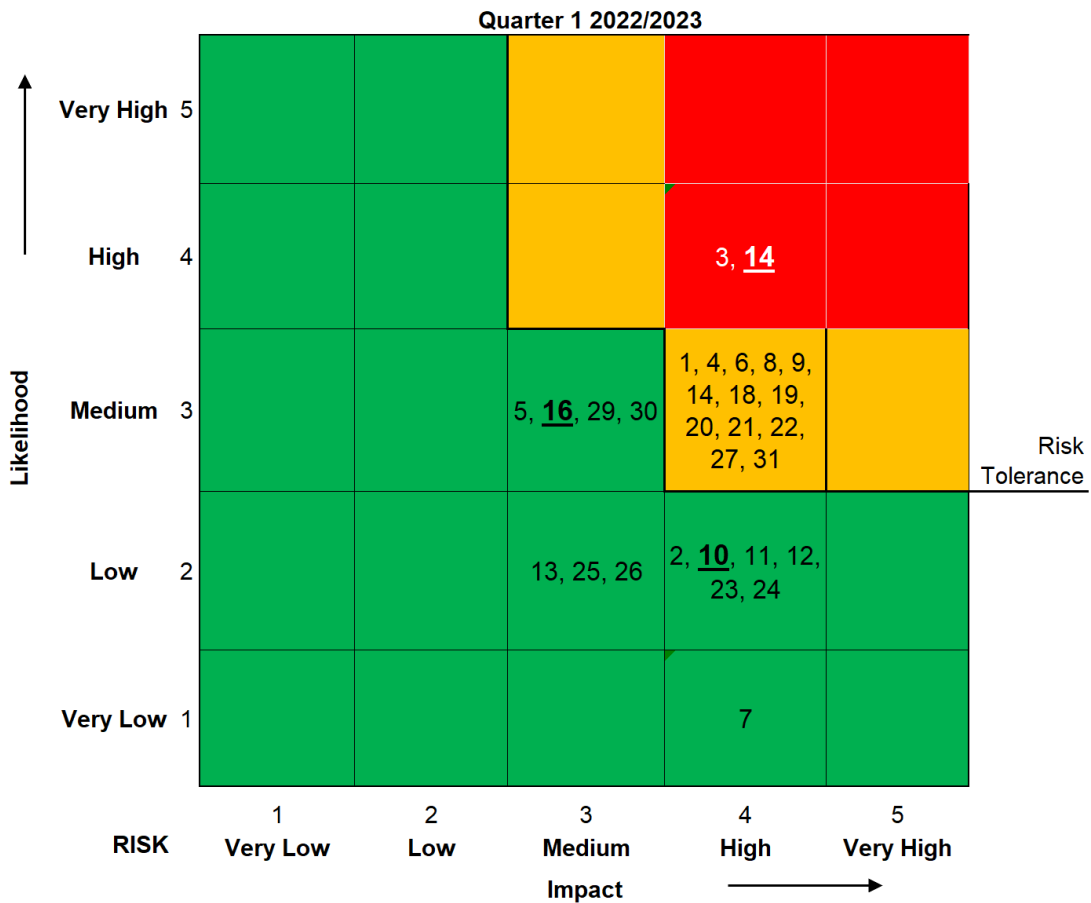
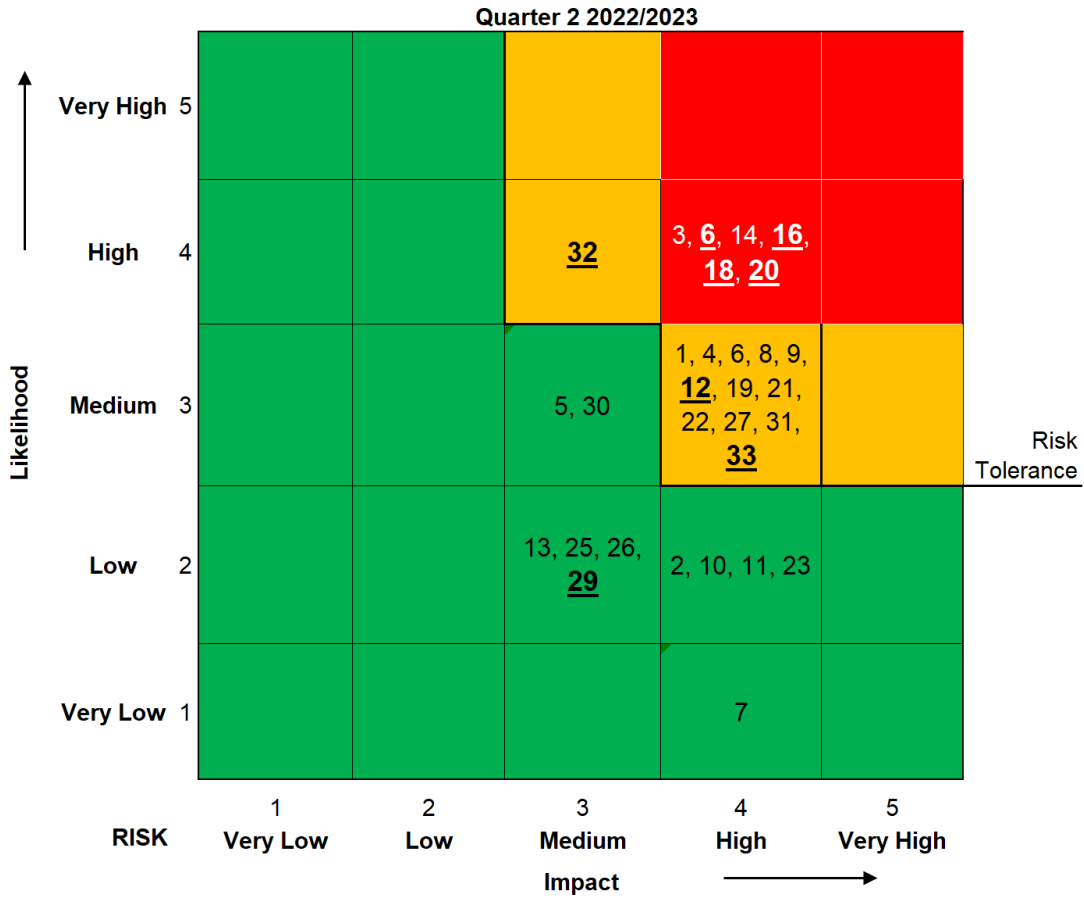
15. SLT members and Risk Owners have reviewed the Corporate Risk Register and agreed a number of changes which are reflected in the updated Risk Register provided in Appendix 1.

16. A number of the changes recognise the significant economic uncertainty, particularly in respect of significant increases in inflation which is forecast to rise much further over the coming months.
17. Five risks have had their rating increased since July:
- Risks 6 and 16 – due to the impact of inflation on the Council, schools and service providers with rising inflation and fuel costs while progressing a transformation agenda to both improve services and reduce costs
  - Risk 12 – due to the impact of inflation and cost of living crisis on staff which could lead to increased difficulties in recruiting and retaining staff to key roles, particularly in existing shortage/high demand areas
  - Risk 18 – due to the recent notification of a severe maladministration Ombudsman decision from the Housing Ombudsman in respect of our handling of Repairs complaints.
  - Risk 20 – due to increased demand, market instability and inflation pressures.
18. Two new risks have been added to the register since July 2022:
- Risk 32 – which recognises the impact that supplier failure would have on vital services being delivered to residents, particularly in light of the current economic climate.
  - Risk 33 – which covers the intended withdrawal by two large supported accommodation providers from the market in 2023.
19. One risk (Risk 29) has had its rating reduced since July 2022, following changes to the membership of the Western Riverside Waste Authority Committee.
20. No risks have been closed on the Register since July 2022.

### **Corporate risk register – heat map**

21. The Corporate Risk Register is set out in Appendix 1 and summarised in the following Heat Map as at Quarter 2 for 2022/23, with Quarter 1 for 2022/23 provided for comparison. Risks which have been subject to change since the Quarter 1 Risk Register was reported to the Committee in July 2022 are shown in the larger bold underlined type:

# OVERVIEW RISK HEAT MAP



## Risk appetite

22. The Council remains accountable to the public for its performance and financial management. This means that the Council naturally has a low appetite for risk, however as the Covid-19 outbreak continued through a second successive wave the Council needed to take carefully considered risks and develop new and innovative ways to continue to deliver services, support and ensure the long-term wellbeing of communities is not impaired by decisions made in the short term. This makes good risk management essential.
23. The ongoing situation in Ukraine, continues to impact on the cost of domestic and business energy costs and fuel costs for activities such as transport and heating. Inflation has been rising quickly since the beginning of the year as is estimated to rise further over the coming months, with a potential period of higher than normal levels over the next few years. The cost of living crisis is also likely lead to increased demand for services where residents will need more support.
24. These factor impact on the Council in a number of ways including its staffing costs (including the level of pay awards), the cost of borrowing (particularly where it is needed for ongoing/planned capital works), cost pressures on contractors providing Council services (staffing, fuel, materials). The impact will also be felt by partner organisations (such as schools and the voluntary and community sector, where officers will closely monitor the impact and consider any support the Council will be able to provide.
25. A key concern for the Council is the impact that the cost of living crisis being experienced by residents through inflation and rising energy costs as well as the ongoing economic uncertainty (including the potential for rising unemployment). A [range of support measures](#) are being offered to residents and officers will continue to assess the situation and consider what further actions can be taken.
26. At the July meeting it was agreed that the impact of inflation and risks which could arise or may be heightened by increases in inflation would be factored into the Corporate Risk Register. In reviewing the Register presented to this meeting, officers have factored in some initial impacts with this matter being kept under regular review by SLT, who will review the register in light of these ongoing impacts and the mitigations needed to protect Council services and local residents.
27. This report provides assurance on the Council's corporate risk management arrangements, explaining the internal control arrangements in place at a strategic level. It provides one of the sources of assurance the Committee can consider when approving the Annual Governance Statement. It also enables the Committee to fulfil its roles under the Committee's Terms of Reference to review the adequacy of Council's Corporate Governance arrangements, including matters such as internal control and risk management.

## **Conclusions**

28. Local authorities will continue to face significant pressures over the coming months responding to the ongoing coronavirus pandemic combined with financial pressures and the other concurrent demand led pressures. Council officers and services continue to respond with partners to changing circumstances at pace, interpreting and implementing new guidance and regulations as they arise.

## **LIST OF APPENDICES**

Appendix 1 – Corporate Risk Register