

London Borough of Hammersmith & Fulham

Report to: Audit Committee

Date: 26/07/2023

Subject: Risk Management Update

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

SUMMARY

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

RECOMMENDATION

For the Committee to review, note and comment on the report.

Wards Affected: None

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

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 wider economic factors leading to rising costs, inflation and further cuts expected in public spending. 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, 14 July 2023

Legal implications

There are no particular legal implications arising from this report.

Comments verified by Grant Deg, Assistant Director of Legal Services, 17 July 2023

Background Papers Used in Preparing This Report

None

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. The Corporate Risk Register is reviewed on a regular basis by the Council's Strategic Leadership Team (SLT) and then presented to the Audit Committee.
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. 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.

10. This report provides the Committee with an updated Corporate Risk Register, presenting a suite of risks as reviewed by SLT.

Changes made since March

11. 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.
12. A number of risks continue to recognise the significant economic uncertainty, particularly in respect of significant increases in inflation which is forecast to remain high over the coming months and with further increases in interest rates also likely.
13. SLT Assurance reviewed the Corporate Risk Register again on 5 July 2023, with the following changes being made:

Risk to be closed on the corporate register

- Risk 33 (Supported accommodation providers, SBH & NHG are exiting the market, by 2023) the score has been reduced due to was increased due to two factors: firstly the confirmation of sale of properties owned by NHG to Housing 21 and secondly, the approval under Leader's delegation to progress business cases for the Council to acquire properties owned by SBH. This risk will continued to be managed and monitored on the directorate risk register but, given the reduction in score, will be removed from the corporate register.

Reduction in risk score

- Risk 14 (Failure to deliver the Civic Campus Programme) has been reduced as work has now recommenced across the whole site since the incident which occurred in May 2022 with a revised build programme now in place and good progress has been made on contractual and commercial matters.

Amended risk narrative

- Risk 3 (Failure to maintain services to residents in the event of IT systems being compromised and affecting service resilience) has been amended to reflect the risk of failure to deliver key council services where the Council relies upon third parties for a number of systems and platforms, if that provider were to suffer from a serious incident impacting its availability. In mitigation, Digital Services are requesting those third parties to provide assurance over the adequacy of their cyber security controls to mitigate the impact on H&F services.

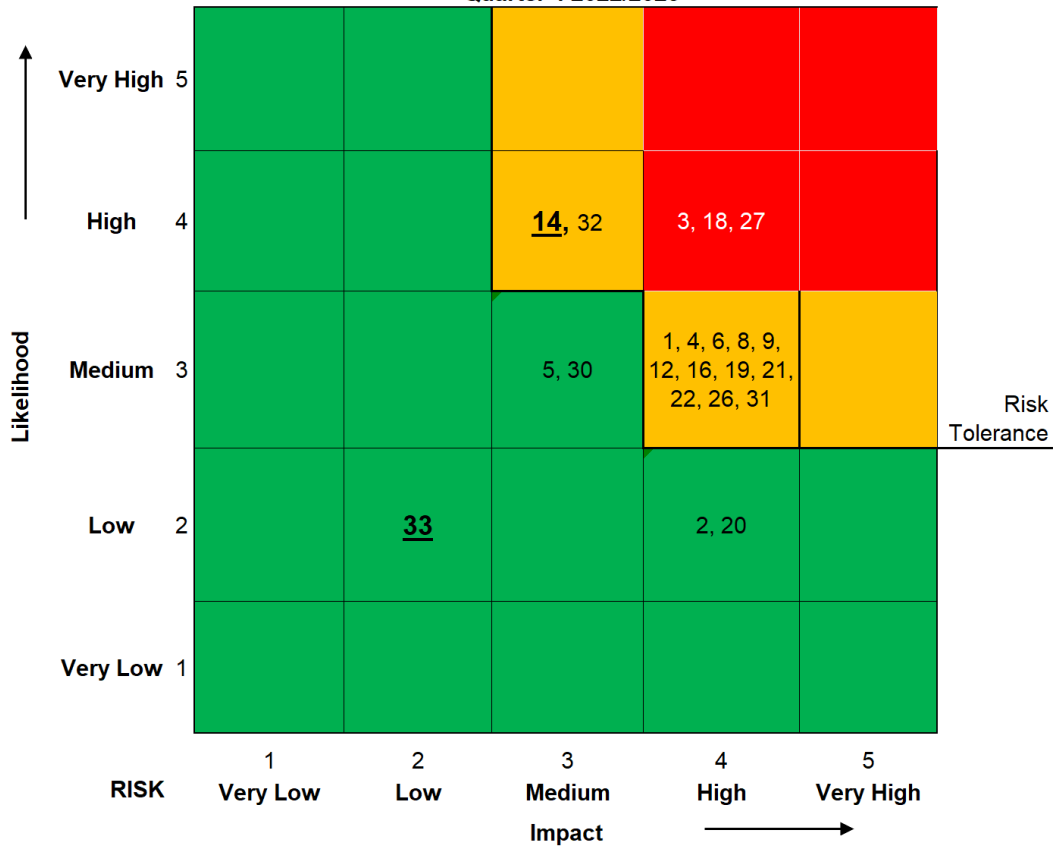
14. No new risks have been added to the register since March 2023.

Corporate risk register – heat map

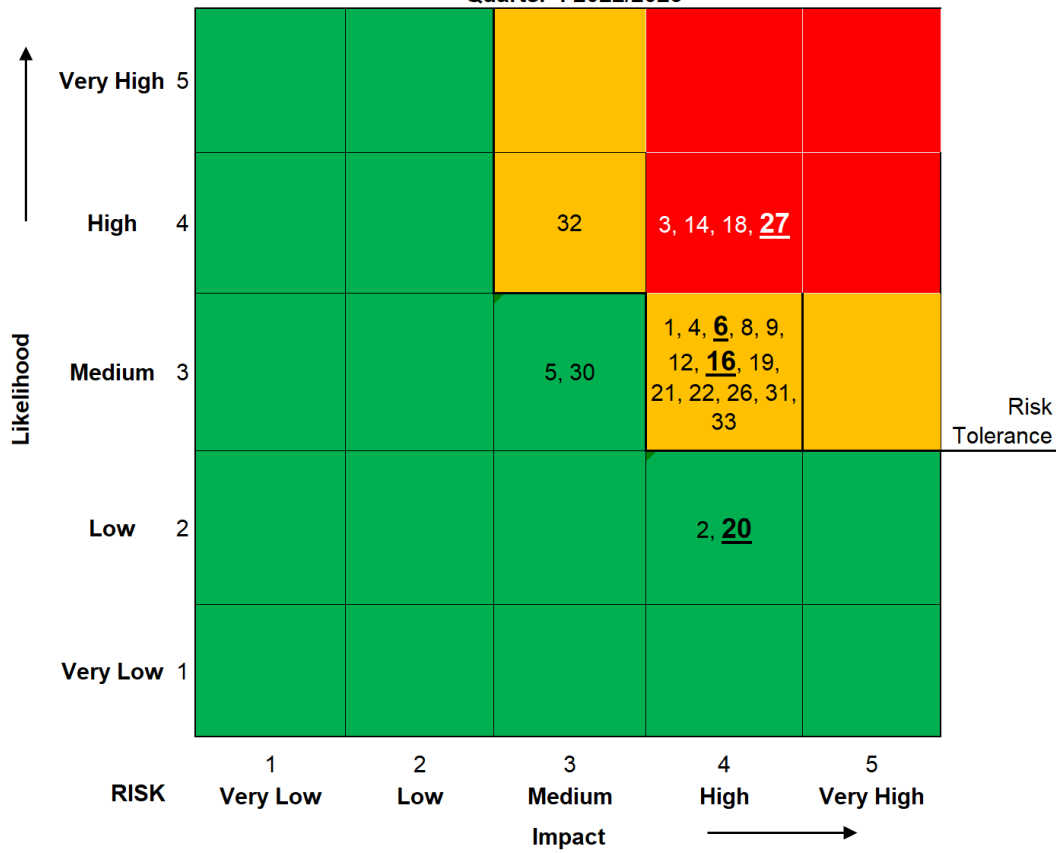
15. The Corporate Risk Register is set out in Appendix 1 and summarised in the following Heat Map as at Quarter 1 for 2023/24, with the Heat Map for Quarter 4 for 2022/23 provided for comparison. Risks which have been subject to change since the Quarter 4 2022/23 Risk Register which was reported to the Committee in March 2023 are shown in the larger bold underlined type:

OVERVIEW RISK HEAT MAP

Quarter 4 2022/2023



Quarter 4 2022/2023



Risk appetite

16. 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 with the ongoing challenges faced by the Council, there is a need to continue to 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.
17. 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. While there has been a slight reduction in costs over the past few months (still at much higher levels than 18 months ago) it is anticipated that energy costs will rise again later in the year. Inflation is still at a very high level and is forecast to remain high for some time, with interest rates expected to rise further having increased significantly over the past year. The cost of living crisis is also likely to lead to increased demand for services where residents will need more support.
18. These factors 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.
19. 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.
20. These and other factors are kept under regular review by SLT. This is done to ensure that ongoing impacts are recognised and appropriate mitigations put in place to protect Council services and local residents.
21. 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

22. Local authorities will continue to face significant pressures over the coming months, with the prospect of further reductions in public spending, combined with external economic pressures and 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