

**TITLE OF REPORT : RISK MANAGEMENT UPDATE**

REPORT OF THE HEAD OF FINANCE, PERFORMANCE & ASSET MANAGEMENT

**1. SUMMARY**

- 1.1 To provide the Committee with an update on the management of the Strategic/Corporate risks owned by the Senior Management Team (SMT) and Cabinet.
- 1.2 To provide the Committee with information on the Financial Risks identified through the Corporate Business Planning process and the realisation of these risks over the past three years.

**2. RECOMMENDATIONS**

- 2.1 That the reduction in the overall assessment of the Top SMT risk of Organisational Workload be agreed.
- 2.2 That the removal of the Authority's Response to Climate Change as an SMT Top Risk is agreed.
- 2.3 Note that the current provisions for financial risk appears adequate

**3. REASONS FOR RECOMMENDATIONS**

- 3.1 The SMT Top Risks are monitored by this Committee.

**4. ALTERNATIVE OPTIONS CONSIDERED**

- 4.1 There are no alternative options that are applicable.

**5. CONSULTATION WITH EXTERNAL ORGANISATIONS AND WARD MEMBERS**

- 5.1 Consultation has been undertaken with SMT and the Risk Management Group (this includes Councillor T. Hone as Risk Management Member 'champion').

**6. FORWARD PLAN**

- 6.1 This report does not contain a recommendation on a key decision and has not been referred to in the Forward Plan.

## **7. BACKGROUND**

- 7.1 The Audit and Risk Committee received an update report on the Top Corporate / Strategic Risks at its December 2012 meeting. The Committee noted the deletion of the Shared Service/New Ways of Working Top Risk as this summarised the Top Risks to NHDC from the Shared Support Services project with East Herts Council and Stevenage Borough Council.
- 7.2 The Committee noted the revision to the Risk and Opportunities Management Strategy and Policy and referred these to Cabinet.
- 7.3 The Top Risks have been reviewed and the changes noted by SMT on 26 February. This report outlines the changes made to the assessment of two of the Top Risks. All of the Top Risks are summarised on the Risk Matrix in Appendix A.
- 7.4 At the last Committee meeting there was some discussion on the Financial Risks and the value/percentages set aside for these. It was agreed that further information regarding these would be provided.

## **8. AMENDMENTS TO TOP RISK ASSESSMENTS**

- 8.1 The Top Risk of Organisational Workload is comprised of a number of sub risks. Each of these sub risks has been reviewed, the risk description amended and the impact and likelihood have been reassessed. As a result of this, the overall assessment of this risk has been reduced, to give a revised risk matrix score of a "5". The sub-risks have been changed as detailed below, mainly due to the provision of additional guidance:
- Localism Act – reforms to Planning System (no change)
  - Council Tax Reduction Scheme – reduced impact
  - Universal Credit – reduced impact
  - NNDR/Resource Review – reduced impact
  - Open Public Services – reduced impact
  - Open Data – to be deleted
  - Health & Social Care Act (no change)
  - Localism Act 2011 (reduced impact and likelihood)
- 8.2 A new sub risk has been added – Community Right to Bid. The full Organisational Workload risk and sub-risks is attached as Appendix B.
- 8.3 In view of the limited impact that the Council can have on Climate Change, the SMT do not believe the Authority's Response to Climate Change can be considered as a Top Risk. NHDC remains committed to considering energy efficiency when undertaking works to the Council's assets where these will lead to financial saving. Furthermore, the Priority of Protecting our Environment for our Communities demonstrates the continuing commitment to care for the environment for the future and to do what the Council can to protect it within limited resources. It is proposed that the Committee note the deletion of this as a top SMT risk.

## **9. FINANCIAL RISKS**

- 9.1 As reported in the Budget 13/14 report, an assessment of financial risks has been compiled for the coming year based on risks identified by each Head of Service/Corporate Manager and where possible, cross-referenced to the risk register.

The identified areas are where the financial impact is not wholly known and prudence would therefore indicate the need to set the General Fund balance slightly higher than the minimum.

9.2 The increase in balances is based on a percentage proportion of the risks identified. Only a proportion of the risk value is taken in to account as it is understood that not all of the risks will be realised. The percentages have been set according to how likely it is considered that the risk may occur in the next financial year. The NHDC approach is: For high risk items (likely to happen) 50%, medium risk (could happen) 25% and low risk (unlikely to happen) 0 per cent.

9.3 A summary of the financial risks identified for the past three financial years (including 2012/13) follows in the tables below:

**Table 1 – Financial risks identified in the Corporate Business Planning Cycle for 2010/11**

<b>Risk Assessment</b>	<b>Number of risks for each type of assessment</b>	<b>Risk Value £</b>	<b>Amount included in General Fund for each type £</b>
High	6	620,000	310,000
Medium	25	1,659,000	414,750
Low	12	742,500	0
<b>Total</b>	<b>43</b>	<b>3,021,500</b>	<b>724,750</b>

**Table 2 – Financial risks identified in the Corporate Business Planning Cycle for 2011/12**

<b>Risk Assessment</b>	<b>Number of risks for each type of assessment</b>	<b>Risk Value £</b>	<b>Amount included in General Fund for each type £</b>
High	10	929,000	464,500
Medium	28	1,542,000	385,500
Low	8	669,500	0
<b>Total</b>	<b>46</b>	<b>3,140,500</b>	<b>850,000</b>

**Table 3 – Financial risks identified in the Corporate Business Planning Cycle for 2012/13**

<b>Risk Assessment</b>	<b>Number of risks for each type of assessment</b>	<b>Risk Value £</b>	<b>Amount included in General Fund for each type £</b>
High	12	1,065,000	532,500
Medium	23	1,427,000	356,750
Low	10	837,500	0
<b>Total</b>	<b>45</b>	<b>3,329,500</b>	<b>889,250</b>

9.4 The following tables illustrate how many of the risks identified during the Corporate Business Planning process materialised in the year (for 2012/13 this is up to the end of the third quarter).

**Table 4 – Financial Risks allowed for in the General Fund that materialised in 2010/11**

Risk Assessment	Number of risks realised	Cost of risk £	Original estimate of the value of the risks £	% of the actual cost to the original estimate
High	2	143,700	210,000	68.43
Medium	8	1,157,930	770,000	150.38
Low	1	11,000	20,000	55.00
<b>Total</b>	<b>11</b>	<b>1,312,630</b>	<b>1,000,000</b>	<b>131.26</b>

**Table 5 – Financial Risks allowed for in the General Fund that materialised in 2011/12**

Risk Assessment	Number of risks realised	Cost of risk £	Original estimate of the value of the risks £	% of the actual cost to the original estimate
High	2	50,000	115,000	43.48
Medium	8	245,943	435,000	56.54
Low	1	23,000	75,000	30.67
<b>Total</b>	<b>11</b>	<b>318,943</b>	<b>625,000</b>	<b>51.03</b>

**Table 6 – Financial Risks allowed for in the General Fund that have materialised in 2012/13 (at end of 3rd quarter)**

Risk Assessment	Number of risks realised	Cost of risk £	Original estimate of the value of the risks £	% of the actual cost to the original estimate
High	2	165,000	185,000	89.19
Medium	3	54,810	110,000	49.83
Low	0	0	0	0.00
<b>Total</b>	<b>5</b>	<b>219,810</b>	<b>295,000</b>	<b>74.51</b>

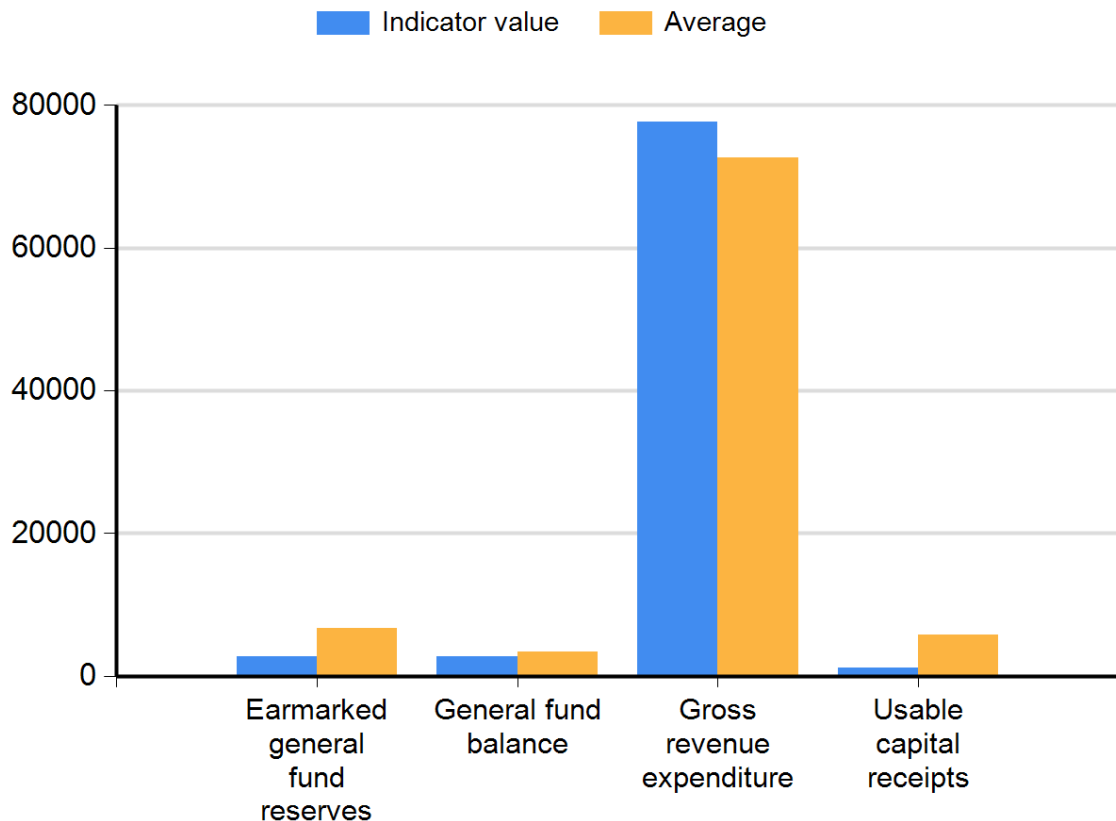
9.5 In the report to Council on 31 January 2013 relating to the development of Churchgate, the financial implications pointed out that “investment already made in the project was approximately £520,000 since 2005 on the Asset Management advice and subsequent procurement exercise. This sum is currently held in capital against the future capital project but would have to be charged to revenue in the event the project did not proceed, unless a special capitalisation direction is given by the Secretary of State”. A financial risk relating to Churchgate was identified in the Corporate Business Planning process for 2012/13. At that point it was identified as a low risk with a £200,000 value. This is now likely to materialise and may need to be drawn from the 2012/13 financial risks. The impact of this has been included in Table 7 below:

**Table 7 – Financial Risks allowed for in the General Fund that have materialised in 2012/13 ( if Churchgate capital is charged to revenue)**

<b>Risk Assessment</b>	<b>Number of risks realised</b>	<b>Cost of risk £</b>	<b>Original estimate of the value of the risks £</b>	<b>% of the actual cost to the original estimate</b>
High	2	165,000	185,000	89.19
Medium	3	54,810	110,000	49.83
Low	1	520,000	200,000	260.00
<b>Total</b>	<b>5</b>	<b>739,810</b>	<b>495,000</b>	<b>149.46</b>

- 9.6 Overall, it is not possible to determine a pattern to the risks that have been realised and the original estimate of their potential cost and the actual cost. Risks are assessed (or re-assessed) afresh as part of the Budget preparation each year in the light of the most up to date information available at the time. The Committee may however recall that in their November 2011 Financial Resilience report, Grant Thornton had no cause for concern. This report stated that adequate arrangements were identified and that key characteristics of good practice appear to be in place. The report did however recommend that the Council maintained appropriate levels of reserves.
- 9.7 The Audit Commission have published some comparative data on the balances and reserves held by our “nearest neighbours”. This illustrates that in 2011/12 compared to the average figure of £6,493,000, NHDC held less in Reserve (£2,776,000). (NHDC is “indicator value”).

## North Hertfordshire District Council compared to similar areas: District councils, 2011/12



### 10. LEGAL IMPLICATIONS

- 10.1 No legal implications arise from Risk Management updates to the Finance, Audit and Risk Committee. The Committee's Terms of Reference make it responsible for monitoring the effective development and operation of risk management and corporate governance in the council

### 11. FINANCIAL IMPLICATIONS

- 11.1 Any additional resources to complete risk management actions are included in the Corporate Business Planning process. There are no direct financial implications from this report.

### 12. RISK IMPLICATIONS

- 12.1 The Risk & Opportunities Management Strategy requires the Finance Audit & Risk Committee to consider regular reports on the Council's Top Risks. Failure to provide the Committee with regular updates would be in conflict with the agreed Strategy and would mean that this Committee could not provide assurances to Cabinet that the Council's identified Top Risks are being managed.

### **13. EQUALITIES IMPLICATIONS**

- 13.1 The Equality Act 2010 came into force on the 1<sup>st</sup> October 2010, a major piece of legislation. The Act also created a new Public Sector Equality Duty, which came into force on the 5<sup>th</sup> April 2011. There is a General duty, described in 9.2, that public bodies must meet, underpinned by more specific duties which are designed to help meet them.
- 13.2 In line with the Public Sector Equality Duty, public bodies must, in the exercise of its functions, give **due regard** to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 13.3 Reporting on the management of risk provides a means to monitor whether the council are meeting the stated outcomes of the district priorities, its targets or delivering accessible and appropriate services to the community to meet different people's needs. The risks of NHDC failing in its Public Sector Equality Duty are recorded on the Risk Register. The Council's risk management approach is holistic, taking account of commercial and physical risks. It should also consider the risks of not delivering a service in an equitable, accessible manner. This then fulfils the council's obligations arising from the Public Sector Equality Duty.

### **14. SOCIAL VALUE IMPLICATIONS**

- 14.1 As the recommendations made in this report do not constitute a public service contract, the measurement of 'social value' as required by the Public Services (Social Value) Act 2012 need not be applied, although equalities implications and opportunities are identified in the relevant section at paragraphs 12.

### **15. HUMAN RESOURCE IMPLICATIONS**

- 15.1 There are no direct Human Resource implications arising from this report but it should be noted that there is a separate Top Risk relating to Workforce Planning.

### **16. APPENDICES**

- 16.1 Appendix A – Risk Matrix
- 16.2 Appendix B – Organisational Workload Top Risk
- 16.3 Appendix C – The Authority's Response to Climate Change

### **17. CONTACT OFFICERS**

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**18. BACKGROUND PAPERS**

- 18.1 Financial risks for 2010/11, 2011/12 and 2012/13.
- 18.2 Report to 31 January 2013 Council on Churchgate and Surrounding Area Redevelopment Project, Hitchin
- 18.3 Audit Commission report.