

Audit and Risk Management Committee
Monday 11 July 2019

REPORT TITLE:	Corporate Risk – Deep Dive
REPORT OF:	Director of Finance & Investment

REPORT SUMMARY

The Corporate Risk Register was published in March this year following an extensive consultation exercise with Departmental Staff, Senior Leadership Team, Cabinet and a sub-group of this committee to ensure it was fit for purpose and captured the relevant corporate risks.

The register is dynamic with changes being recommended via the Departmental Risk Officers and Departmental Management Teams and agreed at Strategic Leadership Team. There is an expectation that risks may increase or decrease in scoring, be transient in nature and be removed or added to the register depending on the current National and Local situation.

The committee agreed to take a deep dive look into one of the risks at each committee to test whether the risk is relevant and valid and whether the mitigations provide the Committee with the assurance that the risk is being managed. The deep dive will look at each risk sequentially however, committee are encouraged to select the risk to be the subject of a deep dive at each committee depending on the current landscape. For this committee Risk 1 – Financial Resilience has been selected to reflect the current uncertain state of public sector finances.

RECOMMENDATION

Members note the deep dive into Corporate Risk 1 – Financial Resilience and consider whether any additional planned controls could be implemented to mitigate the risk further.

SUPPORTING INFORMATION

1.0 REASON FOR RECOMMENDATION

- 1.1 To provide the Members with assurance that the Corporate Risks as relevant and valid and are being owned and managed effectively.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 No other options considered.

3.0 BACKGROUND

- 3.1 On 11 March the Corporate Risk Register was presented to the Committee after being published with the Medium Term Financial Strategy in February 2019.
- 3.2 The register had been produced in conjunction with a sub-group of the Committee and will be updated and reported on in full to the Committee quarterly.
- 3.3 A recommendation in the report was for Members to scrutinise each of the risks in the register via a 'deep dive' whereby one risk would be reported in more detail to each Committee.
- 3.4 The Committee are encouraged to select a risk for the deep dive however as this is the first detailed look at the Corporate Risks, Risk 1 – Financial Resilience has been selected as the first risk for the deep dive.

4.0 RISK 1 – FINANCIAL RESILIENCE

- 4.1 Risk 1 – Financial Resilience risk details are:

4.1.1 Risk Description

'Failure to develop and implement effective plans to respond to future government spending reductions could lead to poor decisions on service reductions, unplanned efficiencies and in year overspends, resulting in the Council being unable to deliver priority services to vulnerable communities'

4.1.2 Risk Owner

Director of Finance & Investment – Shaer Halewood

4.1.3 Existing Controls in place:

- *A refreshed Medium Term Financial Plan 2019 – 20223*
- *New continuous budget setting process*
- *Robust and rigorous monitoring of budgets and savings plans each year*
- *Scrutiny and challenge to ensure future business cases for savings proposals are robust and deliverable*
- *Programme of Service Reviews in place*
- *New Commercial Strategy and Commercial Ideas panel*

4.1.4 Planned additional Controls:

- *Establishment of a Community Wealth Building Board and Strategy*
- *Mandatory Budget Holder training*
- *Refreshed Financial Resilience Strategy*
- *New Agency staff arrangements*
- *Development of a funding/investment strategy*
- *Financial Resilience Audit*

4.1.5 An assessment of each of the risk features is described below to provide assurance to the Committee that the risk is being owned and managed effectively.

Why is this risk on the Corporate Risk Register?

- 4.2 The risk has arisen as a result of the uncertain national financial situation following a period of continued austerity since 2010, which has seen the Council's general revenue budget decrease by over £250m. This is a combination of reduced government funding and increasing pressures. From 2020 the Council has assumed that it will be expected to be self-funding, with the final grant loss of £19m in 2020/21.
- 4.3 The Government has been undertaking a fair funding review which is due to report in the autumn. This has been ongoing for over 18 months and as a result any additional funding the Council has received by the Government for demand pressures e.g. Adult and Children's Social Care has been temporary in nature which makes future planning very difficult.

Existing Controls in Place

- 4.4 A refreshed Medium Term Financial Strategy (MTFS) 2019/2023 – the MTFS is a dynamic document that will change depending on a variety of factors. It is important that it is kept up to date and refreshed on a regular basis to ensure the most up to date information is available for robust decision making. During 2018/19, all the savings and pressures in the MTFS were reviewed for accuracy and timing. This led to some pressures being revised both upwards and downwards and some original savings being removed as no longer deliverable. As a result, the budget gap for 2019/20 was well known in advance and enabled time for public budget consultation sessions which had not been undertaken for a number of years, the outcome of which was able to be fed into the decision making process.
- 4.5 New continuous budget setting process – historically budget setting has always taken place in a block with Directorates asked to submit proposals to a set Officer Star Chamber and followed up with a set Member Star Chamber so that all proposals can be agreed together for November Cabinet. This is a concentrated time-consuming and intense process often with the majority of business cases being requested by an end of summer holiday deadline. For 2020/21 however each time a proposal is identified it will be submitted to SLT as Officer Star Chamber and then taken to Cabinet for approval once ready. This means any consultation required can be undertaken immediately once approved. The MTFS will be updated and reported to Cabinet on a quarterly basis. The annual budget will still be required to be approved by Council before March but will alleviate the bottleneck of work that takes place in autumn in readiness for full Council approval.

- 4.6 Robust and rigorous monitoring of budgets and savings plans each year – The Finance and Income Portfolio Board, implemented last year will be reviewed and improved. This Board chaired by the Portfolio Holder for Finance and Income is to challenge the other Portfolio Holders on the monitoring and management of budgets in year. This was successful last year in ensuring that Portfolio Holders were accountable for their Portfolio budgets and provided assurance to the Finance and Income Portfolio Holder that the council's finances were being managed well. This starts a top down approach to the management of budgets and savings targets that cascades through all levels of the organisation. New financial reporting methods have been implemented for 2019/20 and all monthly monitoring positions are reported to Departmental Management Team's (DMT's) via a monthly performance dashboard. Once agreed the corporate position is reported to the Strategic Leadership Team (SLT) each month.
- 4.7 Scrutiny and challenge to ensure future business cases for savings proposals are robust and deliverable - a new process, implemented last year will continue with improvement for 2019/20. Before any proposal can be presented to Star Chamber for review, it will need to pass a series of additional tests. This process was implemented last year to help facilitate the information that was available to scrutiny in advance of the budget scrutiny sessions. A further scrutiny consultation is planned for 2020/21 budget setting whereby an all Scrutiny workshop will be planned in the summer enabling earlier engagement of Scrutiny members. This will be in addition to the usual Scrutiny workshops held in the autumn.
- 4.8 During 2019/20 a programme of Service Reviews were commenced to review all the 200 services the Council provides as an iterative process. This enables a deep dive into each service area to determine whether the service is providing value for money, how it is benchmarked against other local authorities, the dependencies with other services and an efficiency review to determine where improvements can be made.
- 4.9 The Commercial Strategy was launched last year and a Commercial Ideas Panel was established. These are tools and a forum for all staff to submit ideas for new income generation, to test whether their services provide value for money and to be able to demonstrate that services are commercially comparable if they were to be offered on the open market. This enables new income to be used to offset lost grant to continue services to be provided.

Planned Additional Controls

- 4.10 For the past 12 months the Council has been working on a Community Wealth Building Strategy to support local communities to be more independent, self-sufficient and keep the wealth of the Borough local. This will result in communities doing more for themselves and contribute to improving the local economy, which in turn will encourage more new or larger businesses which should encourage more housebuilding. This is important for financial sustainability as new income will be realisable from business rates and council tax.
- 4.11 A programme of mandatory budget holder financial awareness and training has been underway since the start of the calendar year. This is to ensure budget holders know what their responsibilities are for management and monitoring of their finances and the

governance process around authorisations and approvals. This will improve accountability for financial management and enable a more robust approach to spending.

- 4.12 The financial resilience strategy arose from a number of key documents and milestones e.g. LGA Peer Review, Northampton section 114 statement, CIPFA FM model review, use of reserves statement, and has been presented to this committee on two previous occasions. A plan is in place to review this strategy during the summer to ensure the previous actions have been implemented and the strategy is kept up to date to reflect current market conditions, and changes to the Council's operating model.
- 4.13 A report was presented to this Committee following an audit of agency staff arrangements in April. This described the more robust processes in place to engage, monitor and measure the performance of agency staff. These new processes will be monitored and reported on during 2019/10 to ensure they are being adhered to. This will further reduce the commitment and financial pressure on the Council.
- 4.14 Since austerity set in the Council's government revenue support funding has been reduced and will cease from April 2020. However, there are many other sources of funding available to the Council to draw down to supplement council finances. A funding/investment strategy is being compiled to determine our intention to access this funding taking into account the capacity required to submit bids, the extent of the match funding required and the availability of revenue funding to support the council's budget.
- 4.15 To ensure an objective and independent view of the Council's financial resilience, an Internal Audit has commenced and the outcome will be reported and actioned as part of the refreshed financial resilience plan.

5.0 FINANCIAL

- 5.1 There are none arising from this report.

6.0 LEGAL IMPLICATIONS

- 6.1 There are none arising from this report.

7.0 RESOURCE IMPLICATIONS

- 7.1 It is envisaged that the implementation of the recommendations will be carried out with existing resources.

8.0 RELEVANT RISKS

- 8.1 Failure by Officers of the Council to implement the recommendations detailed within the Internal Audit reports, which could result in a reoccurrence.

9.0 ENGAGEMENT/CONSULTATION

- 9.1 Internal Audit consulted with relevant Officers within the Council, has held discussions with colleagues within neighbouring Authorities and has sought guidance from HMRC.

10.0 EQUALITY IMPLICATIONS

- 10.1 There are no specific equality implications arising from this report.

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