



CORPORATE GOVERNANCE COMMITTEE
20 FEBRUARY 2015

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

RISK MANAGEMENT UPDATE

Purpose of the Report

1. One of the key roles of the Committee is to ensure that the Council has effective risk management arrangements in place. This report assists the Committee in fulfilling that role by providing a regular overview of key risk areas and the measures being taken to address them for the quarter ended 31 December 2014. This is to enable the Committee to review or challenge progress, as necessary, as well as highlight risks that may need to be given further consideration. This quarter's report covers:
 - a) The Corporate Risk Register (CRR) –an update including the addition and removal of risks
 - b) The review and revision of the Risk Management Policy and Strategy
 - c) A re-assessment of the Council's risk management maturity
 - d) An update on counter-fraud initiatives.
 - e) Requirements under the Local Government Transparency Code 2014 to report fraud data

Corporate Risk Register (CRR)

2. The Council maintains departmental risk registers and a Corporate Risk Register (CRR). These registers contain the most significant mitigated risks which the Council is managing and are owned by Directors and Assistant Directors.

The CRR is designed to capture strategic risk, which by its nature has a long time span. Risk owners are engaged and have demonstrated a good level of awareness regarding their risks. The full CRR is attached as Appendix A.

3. The CRR is a working document and therefore assurance can be provided that, through timetabled review, high/red risks will be introduced to the CRR as necessary. Equally, as further mitigation actions come to fruition and current controls are embedded; the risk scores will be reassessed and this will result in some risks being removed from the CRR and reflected back within the relevant departmental risk register.

Key changes since the CRR was last presented to the Committee in November 2014 are:

i. Addition of new risk:

- Leicestershire Highways Operations (LHO) - Financial Information System Implementation Project. The Project has highlighted a number of issues around payment of invoices, limited resources, and reliability of management information produced. A number of urgent actions have been agreed to oversee the project to conclusion. The nature of this risk is similar to an existing risk 10 – Liquidlogic Adults System (LAS) Phase 2 Project: risks to operational business as usual and compliance with reporting requirement of the Care Act 2014. Therefore the overall risk description has been reworded as follows:




Disruption to business as usual as a result of delays in embedding systems, processes efficiently and effectively




The LAS Phase 2 and LHO Project risks will both be combined and incorporated under the above revised risk description.






ii Removal of risks:






- Risk 6 -The transition of Health Visiting (from NHS England) to local authorities. [Previous rating: 20 / Revised rating: 12] The funding allocation has now been agreed with NHS England for the transfer of Health Visiting including Commissioning for Quality and Innovation (CQUIN) payment and commissioning support. The service specification has been published and the Health Visiting Assurance Board continues to work with colleagues to move forward the transition into the County Council.
- Risk 11- Failure by Members to comply with the new Information Security Policy (Previous rating: 16 / Revised rating: 8). Auto forwarding facility for emails has been removed from all Members' County Council email accounts. All Members are accessing their County Council emails via CITRIX or LCC provided Ipad.




- At its meeting on 24 November 2014, the Committee requested that a presentation be provided on the risks associated with the ability to deliver savings and efficiencies through service redesign and the transformation programme as required in the MTFs as detailed in the CRR (Risk 1). This will be undertaken as part of this agenda.
- The latest assessment of the highest ranking risks is shown in the table below. Where a change has taken place to the current risk score a note is included. The arrows explain the direction of travel for the risk, i.e. where it is expected to be within the next twelve months after further mitigating actions, so that: -
 - A horizontal arrow shows there's not much movement expected in the risk;
 - A downward pointing arrow shows there's expectation the risk will be mitigated towards 'medium' and would likely be removed from the register;
 - An upwards pointing arrow would be unusual since it would show that the already high scoring risk is likely to be greater.

Dept./ Function	CRR Risk No	Risk Description	Current Risk Score (incl changes)	Update	Direction of Travel (Residual Risk Score over the next 12 months)
Medium Term Financial Strategy (MTFS)					
All	1	Risk around the ability to deliver savings and efficiencies through service redesign and transformation as required in the MTFS.	25	MTFS approval process in place. MTFS includes increased savings and focus on demand management. Investment in transformation programme in terms of capacity, capability, and improved governance	 Expected to remain 'high/red'
C&FS	2	Cost of school sponsorship to the County Council prior to conversion	16	The risk of the County Council being responsible for a large deficit budget in a secondary school is reduced as most schools are now academies. However, there is an increased risk of rising deficit budget in any schools prior to sponsored academy conversion. Whilst no further schools have been placed into an OFSTED category, the budget set aside for covering the cost of previous sponsorship is now depleted.	 Expected to remain 'high/red'
Health & Social Care Integration					
A&C	3	Proposals in the Government's Care Act which provide for very significant changes and implications for Adult Social Care and the whole Council. (see Risk 4 for BCF)	25	Further work is taking place at the East Midlands Finance Group in January 2015 to refine the Lincolnshire model	 Expected to remain 'high/red'

CE	4	Risk to Health and Care Partners failing to deliver integrated care to the local population (including via the Better Care Fund (BCF) plan	12	<p>Following the submission of additional supporting material on 28th November 2014, the BCF plan was moved to 'approved' by NHS England. Delivery against the BCF programme plan continues with no additional red risks being flagged in this quarter. Key delivery highlights include:</p> <ul style="list-style-type: none"> • 1st November additional capacity within Single Point of Access went live to provide GP's and East Midlands Ambulance Service with a faster response time supporting the avoidable admissions metric. • The Unified Prevention Board has established key priorities to support the development of a joint commissioning plan. • Number of people accessing the Older Persons Unit and the Night Nursing service is increasing. • 79 paramedics trained to date on the Falls Risk Assessment Tool. <p>The Better Care Together (BCT) Programme Risk Register is being developed. Once finalised this will enable alignment between BCT risks and BCF integration risk register.</p>	 Expected to remain medium/amber
All	5	Challenges caused by the Welfare Reform Act.	25	<p>National Audit Office (NAO) published a report in November 2014. This updates progress since the Universal Credit timetable was reset. The timetable for the transfer of claimants to universal Credit has been put back by two years, but even by 2019 it is not expected that all claimants will have transferred.</p>	 expected to remain 'high/red'
ICT, Information Security					
CR	6	Maintaining ICT systems and having the ability to restore services quickly and effectively in the event of an outage.	15	Second Disaster Recovery test successfully completed	 Expected to move to medium/amber

CR	7	Continuing risk of failure of information security.	16	Some further work is required before latest PSN submission is approved	 Expected to move to medium/ amber
All	8	Failure by the County Council to provide effective business intelligence to services will restrict implementation of effective strategies, impacting council wide priorities and delivery of the Transformation Programme.	15	Clear programme of work underway addressing people, data and systems issues. Approach to new Target Operating Model agreed. Transformation priorities are driving specific improvements and work packages.	 Expected to remain 'high/red'
CR	9	Insufficient capacity to provide Information & Technology solutions.	16	New Strategic Information & Technology (SI & T) structure in place. New Work Programme process in use. Resource management tool to be implemented in next two months. Continued unknown level of demand from Transformation projects.	 Expected to remain 'high/red'
All	10	Disruption to business as usual as a result of delays in embedding systems, processes efficiently and effectively	15	<u>LAS Phase 2 Project</u> Internal Audit recommendations are being addressed. The core roadmap releases remain high risk due to the delay in receiving the system updates. The level of risk is expected to fall during the summer months but will increase in the autumn due to the next roadmap releases although there currently appears to be more time for user testing. Emphasis on clearing payables and charging issues. <u>Leicestershire Highways Operations (LHO) - Financial Information System Implementation Project.</u> Action plan developed to conclude project. Temporary arrangements in place to assist clearing invoice	 Expected to move to medium/ amber  Expected to move to medium/ amber

				issues.	amber
C&FS	11	Retention of children's case files beyond Data Protection Act (DPA) requirements	16	Note: No change from previous reported position.	 Expected to remain 'high/red'
Transportation					
E&T	12	Impact of an increase in unplanned and speculative local developments to address the shortfall in the five year housing supply which could have an adverse impact on the functioning of the transport network.	15	Note : No change to previous reported position	 Expected to move to amber
Partnership Working					
C&FS	13	Outcomes relating to Supporting Leicestershire Families (SLF) not being achieved.	15	Phase one of Payment by Results now complete. Cost benefits work underway. Entered phase two early so further funding available to Leicestershire, via Troubled Families Unit.	 Expected to remain 'high/red'
CE & C&FS	14	Partnership relationships - Community Safety are not effective due to the difficulties of maintaining a working relationship with the Police and Crime Commissioner (PCC)	15	Partnership Summit held in December. Plans being developed.	 Expected to remain 'high/red'
E&T	15	LLEP-insufficient funding for transport schemes to deliver economic	20	Revised management and governance arrangements including establishing a Resources Group to oversee finances.	 Expected to remain red

		growth and LTP3 /Strategic Plan. Risk regarding match funding requirement for the Council			
Commissioning & Procurement					
CR	16	The Authority does not obtain the required value and level of performance from its providers and suppliers	15	Programme of work underway to help mitigate this risk as part of the Effective Commissioning Enabler (Transformation Programme) and business continuity arrangements	 Expected to move to 'medium/amber'
Environment					
E &T	17	Reduced recycling performance	15 Decreased from 16- both impact and likelihood	First six months indicated that the recycling level has dropped but is unlikely to be a major drop over the year (impact reduced to 3) however it is unlikely that the position will be recovered (likelihood increased to 5)	 Expected to remain red
Specific Update - EPH					
A&C	18	Risk to the County Council surrounding transfer of nine Elderly Persons Homes.	12	By the end of December 2014, Leicestershire County Care Limited (LCCL) has made capital payments totalling £1.585m against the outstanding sum of £3.245m. The balance outstanding is £1.66m. LCCL continues to comply with the terms of the new financial agreement, making monthly capital payments of £20k, and timely interest payments at a rate of 7.5% (current Bank of England Base Rate, plus 7%). Interest received up to the end of December 2014 amounted to £362,000.	 Expected to remain 'medium /amber'

Risk Management Policy and Strategy

6. The Council's Risk Management Policy and Strategy has been reviewed, and revised and was submitted as an appendix to the report on the Medium Term Financial Strategy to the Cabinet on 6 February and full Council on 18 February.
7. Within its Terms of Reference, this Committee has a responsibility to monitor the arrangements for the identification monitoring and management of strategic and operational risk within the Council. Therefore, the recommendation to Cabinet is to approve the Risk Management Policy and Strategy subject to consideration by the Corporate Governance Committee with delegation to the Director of Corporate Resources to amend it if necessary. A copy of the revised Policy and Strategy is included in Appendix B.

Risk Maturity Assessment (Section 4.0 of the Strategy)

8. The last independent assessment of the Council's risk maturity framework was undertaken in September 2011 which concluded that the Council's risk management maturity was between Level 2 'Happening', and Level 3 'Working'. Following that, Corporate Risk Management Group set itself a target of achieving Level 4 'Embedded and Working' by 2014/15. An internal audit of the risk management framework design and associated governance in December 2013 reported 'substantial' assurance.
9. Given the detailed review and revision of the Policy and Strategy, a decision was taken to re-assess (audit) the Council's maturity. However, since the Head of Internal Audit Service is now responsible for the administration and development of, and reporting on, the Council's risk management framework, in accordance with the Internal Audit Charter (approved Corporate Governance Committee in November 2014) the current maturity audit was overseen by a senior manager from outside of the Service.
10. The audit scored the Council's level of risk maturity as between levels 3 "Working" and 4 "Embedded and Working"; concluded that there had been significant progress since the previous review (2011) and, by and large, a robust framework underpinning risk management exists within the Council.
11. Significant progress has been made to improve maturity from the previous assessment, but nevertheless, further development is necessary in some of the core areas. The short term vision (within the calendar year 2015) is to implement the improvements recommended in the risk maturity assessment to prove we have fully achieved level 4 'Embedded and Working' across all core areas where required. Thereafter, subject to resources available, consideration will be given to whether it is practical and affordable to move further along the risk management maturity scale for some core areas, towards the top score of level 5 'Driving'.

12. A copy of the risk maturity assessment summary is attached in Appendix C and the draft action plan with associated recommendations is at Appendix D.
Risk Appetite (Section 9.0 of the Strategy)
13. The Council's 'risk appetite' based on a combination of impact and likelihood scoring criteria and escalation trigger points, was approved in February 2013 as part of the Strategy. The current criteria and expected actions are shown in Appendix E.

Analysis of the risks on the Corporate Risk Register revealed that if appetite was increased, there would be a significant reduction in the number of risks that are reported to the Corporate Governance Committee i.e. in the current appetite scores of '15 and above' are reported. At the end of quarter 2 (reported to Committee on 24 November 2014) there were 18 risks in the domain. If the appetite was increased to '16' then 6 risks would have been removed and if it was increased to '20' then 13 risks would have been removed. This is shown in Appendix F. The risks appearing on the Corporate Risk Register are broadly in line in comparison with the Zurich Municipal Local Government Risk Ranking report.

The current risk appetite has been reviewed and whilst it continues to be actively monitored, it will remain unchanged for the time being.

Anti-Fraud Initiatives

Protecting the Public Purse 2014 (PPP 2014) – Fighting Fraud against Local Government

14. In October 2014, the Audit Commission released PPP 2014 which was the Commission's last report in the PPP series before it closes in March 2015 (see Para. 22 for further information). PPP 2014 focuses on the continuing progress within local government to protect taxpayers' money by fighting fraud. It collates and summarises the information gathered in the Commission's Annual Fraud and Corruption Survey. Results published in PPP 2014 can be used to benchmark performance in detecting fraud and to identify strengths, trends and areas for improvement.
15. PPP reports are produced for those responsible for governance in local government, particularly councillors. It is intended to help them protect valuable and increasingly scarce public resources. PPP 2014 covers these important themes:
 - The scale and value of fraud detected by local government bodies in 2013/14;
 - Whether fraud is in decline;
 - Trends in housing tenancy (district level) and council tax discount fraud;
 - Trends and threats in other significant fraud types;
 - National developments impacting on local government counter fraud.

The full report is available from the Audit Commission via the following link:
<http://www.audit-commission.gov.uk/wp-content/uploads/2014/10/Protecting-the-Public-Purse-2014-Fighting-Fraud-against-Local-Government-online.pdf>

16. The nationwide headline information from PPP 2014 is as follows:

- In 2013, the National Fraud Authority estimated that fraud cost local government £2.1 billion, but this is considered to be an underestimate.
- In total, local government bodies detected fewer cases of fraud in 2013/14 compared with the previous year, continuing the decline noted in PPP 2013. However, their value increased by 6 per cent:
 - The number of detected cases fell by 3 per cent to just over 104,000, while their value increased by 6 per cent to over £188 million.
 - The number of detected cases of housing benefit and council tax benefit fraud fell by 1 per cent to nearly 47,000, while their value rose by 7 per cent to nearly £129 million.
 - The number of detected cases of **non-benefit** fraud fell by 4 per cent to just over 57,400, while their value rose by 2 per cent to £59 million.
- Councils will need to focus on the non-benefit frauds that present the highest risk of losses, including those that arise from the unintended consequences of national policies:
 - Between 2009/10 and 2013/14, councils consistently detected more **council tax discount** fraud than any other type of non-benefit fraud. In the most recent year, nearly 50,000 cases were found, worth £16.9 million.
 - The number of detected cases of **social care** fraud has more than trebled since 2009/10 to 438. In 2013/14, they were worth £6.2 million.
 - Detected cases of **insurance** fraud rose from 72 in 2009/10 to 226 in 2013/14 and were worth £4.8 million.
- There is more reported fraud in the schools sector:
 - Detected cases of fraud in maintained schools have risen by 6 per cent to 206, worth £2.3 million. No comparable data exists on fraud in non-maintained schools.
 - Most of these frauds were committed by staff, suggesting that some schools may have weak governance arrangements that mean they are more vulnerable to fraud.

17. The table below shows the largest frauds categories that are that are most relevant to the County Council:

Fraud Type	Cases 2013/14	Value 2013/14 (£m)	Value 2012/13 (£m)	% Change (%)
Council Tax Discount	49,428	16.9	19.9	-15%
Business Rates	84	1.2	7.3	-84%
Insurance	226	4.8	3.0	+60%
Procurement	127	4.4	1.9	+132%
Social Care	438	6.3	4.0	+57%
Economic / Third Sector	36	0.7	1.3	-46%
Disabled Parking Concessions (Blue Badges)	4,055	2.0	1.5	+33%
Internal (Staff) Fraud	1,474	8.4	16.8	-50%
Abuse of Position	341	4.0	4.5	-11%
Payroll	432	1.4	2.4	-42%
Maintained Schools	206	2.3	2.3	0%

18. It is not possible to say whether the decline in some detected fraud represents lower levels of fraud committed, or less detection by councils. In some councils', it may signal the effect of reduced investigatory resources. The PPP2014 report recommends that Councils in particular should (i) protect and enhance their investigative resources, so that they maintain or improve their capacity to detect fraud (Para. 100); and (ii) focus on prevention and deterrence as a cost-effective means of reducing fraud losses to protect public resources (Para. 80).
19. Whilst the PPP outlines the main areas of fraud risk across local government, each authority's risk profile will be different. At its meeting on 24 November 2014, the Committee was presented with the Council's revised Fraud Risk Assessment. The Council's assessment took into account areas identified in The National Fraud Authority, Fighting Fraud Locally (FFL), PPP reports, information from the bi-annual National Fraud Initiative (NFI) exercise, Ministry of Justice Bribery guidance and historical local information on reported fraud cases. The results of PPP 2014 mirror the Council's fraud risk assessment in that an analysis of the number and value of reported fraud cases over the last three years reveals relatively low numbers and values of fraud against the Council.
20. PPP 2014 contained the revised checklist for the benefit of those 'responsible for governance'. The checklist was reproduced and disseminated to relevant areas/officers that provided information for the fraud risk assessment, for them to take on board recent developments and recommendations. The completed checklist detailing our progress in each area is attached as Appendix G.

21. Outputs from both the Fraud Risk Assessment and the revised checklist will be used proactively to plan counter-fraud activity during 2015-16 including as part of the Internal Audit Plan. Planned activity is recorded in the Action Plan of the Anti-Fraud and Corruption Strategy, which is contained in a further agenda item.
22. From April 2015, the Audit Commission's counter-fraud activities will transfer to new organisations:
 - When the Commission closes, the National Fraud Initiative's (NFI) data matching service will transfer to the Cabinet Office.
 - The remaining counter-fraud functions, including the PPP series and fraud briefings, will transfer to the CIPFA Counter Fraud Centre. Whilst CIPFA will not have the Audit Commission's statutory powers to demand completion of the annual Fraud and Corruption survey, it has stated that it intends to request voluntary submissions, after the Commission closes.

Council Policies and Strategies to mitigate the risk of fraud and corruption

23. The Council's policies and strategies on Anti-Fraud and Corruption, Bribery and Money Laundering have been reviewed and revised.
24. The revised policies and strategies are contained in a separate report on this agenda.

Local Government Transparency Code 2014

25. The Department for Communities and Local Government (DCLG) published a revised Local Government Transparency Code (the Code) on 3 October 2014. Local authorities in England are required to publish open data as specified in the Code related to the following themes:
 - expenditure over £500
 - government procurement card transactions
 - contract and tender information
 - grants to voluntary, community and social enterprise organisations
 - organisation chart
 - senior salaries
 - the pay multiple
 - trade union facility time
 - local authority land and building assets
 - parking accounts and parking spaces
 - fraud
 - the Constitution.
26. The requirement to report on fraud is a new one. Local authorities are required to publish data including the number of frauds in a financial year, the number of accredited fraud investigators, the numbers of staff involved in fraud

investigations and the total cost of fraud investigations. Being a non-benefit authority, the reporting requirements for the County Council in relation to fraud are not likely to be onerous. Details of individual cases are not required to be published. In accordance with the deadlines established by the Code, 2013/14 data was published by 2 February 2015, with 2014/15 data (and subsequent years) being published by 30 April each year.

Recommendation

27. That the Committee:

- a) Approves the current status of the strategic risk, the addition of new risks facing the Council and the updated Corporate Risk Register;
- b) Notes the following:
 - content of the revised Risk Management Policy and Strategy
 - contents of the Risk Maturity Assessment Summary and the associated action plan;
 - risk impact and likelihood scoring criteria and escalation trigger points;
 - contents of the risk map incorporating the corporate risks (November 2014);
 - contents of the PPP 2014 - Checklist for councillors and others responsible for governance;
 - Council's requirements under the Local Government Transparency Code 2014.
- c) Make recommendations on any areas which might benefit from further examination and identify a risk area for presentation at its next meeting.

Resources Implications

None.

Equal Opportunities Implications

None.

Circulation under the Local Issues Alert Procedure

Members News in Brief item covering the agreement reached with LCCL regarding payment has been circulated to all members.

Background Papers

Report of the Director of Corporate Resources – 'Risk Management Update' – Corporate Governance Committee, 25 November 2013, 10 February, 12 May, 23 September, 24 November 2014

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Appendices

Appendix A - Corporate Risk Register

Appendix B - Risk Management Strategy and Policy

Appendix C - Risk Maturity Assessment Summary

Appendix D - Risk Maturity Assessment Action Plan

Appendix E - Risk scoring and escalation criteria 2014

Appendix F - Risk Map -Where CRR risks fall (November 2014)

Appendix G - PPP 2014 - Checklist for councillors and others responsible for governance