



CORPORATE GOVERNANCE COMMITTEE – 5 NOVEMBER 2021

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

RISK MANAGEMENT UPDATE

Purpose of the Report

1. One of the roles of the Corporate Governance 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. 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 report covers:
 - The Corporate Risk Register (CRR) – summary of risks;
 - Emerging risks and issues;
 - Insurance renewals;
 - Counter fraud Initiatives.

Corporate Risk Register (CRR)

2. Within the County Council's Constitution, Article 9.03 'Role and Function of the Corporate Governance Committee' states that the Committee shall have responsibility for the promotion and maintenance within the Authority of high standards in relation to the operation of the Council's Code of Corporate Governance with an emphasis on ensuring that an adequate risk management framework and associated control environment is in place.
3. The Council maintains Departmental Risk Registers and a Corporate Risk Register (CRR). These registers contain the most significant risks which the Council is managing, and which are 'owned' by Directors and Assistant Directors.
4. The CRR is designed to capture strategic risk that applies either corporately or to specific departments, which by its nature usually has a long time span. The CRR is a working document and therefore assurance can be provided that, through timetabled review, high/red risks will be added 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 managed within the relevant departmental risk register.

5. The current risks on the CRR (last presented to the Committee on 23 July 2021) are shown in Appendix A attached to this report. The impact and likelihood are shown below each current risk score.

Movements since the CRR was last presented are detailed below:

Risks removed

Corporate Resources Department

- Risk 2.3 - Challenges caused by the Welfare Reform Act 2012 and the Welfare Reform and Work Act 2016.

This risk will continue to be managed at department level.

- Risk 3.6 - If the ERP system cannot accommodate all of the Council's requirements, then it may delay implementation and extra resources will be required to develop work arounds

The Enterprise Resource Planning (ERP) system is live and although some teething problems remain, these are being worked through and the risk will remain in the Department's register.

- Risk 5.1 - Historical: If as a result of a concerted effort to explore abuse by the Independent Inquiry into Child Sexual Abuse (IICSA) and Police Operations, then evidence of previously unknown serious historical issues of child sexual exploitation (CSE) or abuse is identified.

The inquiry has concluded its investigation into Leicestershire County Council, published its report, and will not be investigating any further. The Inquiry has not identified any new issues or concerns for the County Council; the historic areas of concern referred to in the report are all known to the County Council.

Risks removed and subsequently merged

Chief Executive's Department

- Risk 1.3 - If the Council fails to maximise developer contributions, then there could be a failure to fund corporate infrastructure projects.
- Risk 1.10 - The Council is unable to meet the financial investment required to deliver infrastructure in support of housing development committed in districts Local Plans and that where this contribution can be recouped through S106 agreements secured by District Councils, the funding doesn't meet the full cost and is secured long after the commitment is made.

There is a recognition that infrastructure funding risks cut across a number of service areas and it would therefore be sensible to merge the two similar individual risks into one owned by the Head of Planning, Historic and Natural Environment.

- New risk 1.12 - If the Council fails to maximise developer contributions by shaping local plan policies, negotiating S106 agreements and pro-active site monitoring, then there could be a failure to secure funding for County Council infrastructure projects (such as transport and schools).

Risk Amended

Chief Executive's Department

- Risk 1.11 – from - The Freeport requires designation by Government to be operational. That is dependent on approval of the business case. The outline case has to be submitted by 10th September 2021 and will be subject to a 'gateway review'. If designation is not achieved there will be serious reputational consequences for the East Midlands region and partners in the Freeport proposal.
- To - If Freeport designation is not achieved there will be serious reputational consequences for the East Midlands region and partners in the Freeport proposal.

Emerging Risks & Issues

6. At the end of July 2021, the National Employers for local government services (the Employers) wrote to all Chief Executives in Local Government with details of the employers' final pay offer to the Unions representing local government services employees. During September, all three unions consulted their memberships with a recommendation to reject the final offer. The members of UNISON, GMB and Unite in each case voted heavily in favour of rejecting the final offer. The Unions are now all preparing to conduct industrial action ballots. On 19 October 2021, Chief Executives were informed that the Employers had met and had noted the outcomes of each union's pay consultation ballots and their intentions to prepare to conduct ballots for industrial action. Whilst the Employers had carefully considered the request for them to make an improved offer, they had agreed by a majority to reaffirm that the pay offer they made on 27 July was full and final.
7. In their letter of 19 October, the Employers reminded Chief Executives on the law requiring a ballot of employees in accordance with strict legal requirements before industrial action is called for or endorsed. They advised that in previous disputes, all three unions have balloted members on an aggregated basis i.e. in order to take action, 50 per cent of their national memberships were required to vote. This time, the Employers understand that one or more of the Unions may operate on a disaggregated basis. This means that action could be taken at each organisation where a turn-out of over 50 per cent is secured (if members vote in favour of strike action). Ahead of the Unions' ballots getting underway, Chief Executives were recommended to prepare for any industrial action by referring to the Employers comprehensive e-guide. The Director of Corporate Resources will review the e-guide alongside the industrial action business continuity plan and make revisions where required.

8. Over the last couple of months there has been widespread media attention and associated concern and panic buying over potential shortages of fuel, energy, food supplies and labour in the months leading into the winter. In order to identify any potential issues, the local Resilience Planning Group (RPG) created a Horizon Scanning document that is used by departments to record any identified issues from possible incidents or occurrences. This document is reviewed by the Council's Business Continuity (BC) team and RPG in order to assess if any further actions or escalation is required in order to prevent operational impact. The document requires departments to provide updates on: -
- Labour supply issues - (including, but not only, lorry drivers).
 - Supply Chain Issues - (including, but not only, food).
 - Energy/ CO2 supply issues - (in context of current gas/Co2 challenges).
 - Fuel Supply Challenges - (current issues and areas of concern).

The National Government's assertion is that these issues will be temporary but there is a real risk that inflationary pressures will be sustained in the longer term.

9. A recent development has been to request departments to review and update a 'Key Business Systems' list, incorporating detail taken from Operational Business Continuity plans. Once again this will be reviewed by the BC team and RPG in order to assess if any further actions or escalation is required. The work is part of Council's ICT Service Disaster Recovery (DR) project work to compile an accurate list of organisation wide systems in order for Directors, the Council's Crisis Management Group, RPG and ICT to be able to prioritise resources during the recovery from a large scale systems failure such as from power outage or other incident that interrupts systems or a cyber-attack such as malware.

Insurance Renewals

10. The year 2021 has proven to be a further difficult year with challenging market conditions continuing due to insurer capacity reducing and increasing rates. For the vast majority of insureds, these changes in market appetite and pricing in the cycle had started well before the onset of the global Coronavirus Pandemic. However, this event may have expedited the speed of the turn or even the severity of the turn, but current market conditions cannot solely be laid at the foot of the Pandemic.
11. The changes and challenges being faced have been driven by factors relating to the broader global insurance market, a number of specific issues relevant to classes of insurance as well as general economic head winds.
12. The general insurance market is at its 'hardest' for more than 20 years, not just for the public sector but across all sectors. Market conditions are affecting organisations in multiple ways: -
- a. By class of insurance. Policies such as Directors and Officers Liability, Professional Indemnity, Cyber, and Construction, have all become harder to place with multiple insurers withdrawing from these lines of coverage.

- b. By sectors. Areas such as the Public Sector are finding even long-standing insurers are changing their appetite in terms of risks.
 - c. By loss history. Sectors or individual clients with poor loss histories are becoming ever more difficult to place with competition reducing and incumbents either withdrawing or requiring significant changes to premium, but also to limits, excesses and policy wording.
13. Over the past 20 years it has been incredibly rare for any public sector client to have limited or no response to requests for quotations, but more recently there have been occurrences of single bids for tenders happening and sometimes no quotations being provided at all. Where procurement rules are being applied rigidly, or without consideration of how to create more favourable conditions, these outcomes have become even more prevalent.
 14. The Council renewed its insurance covers from 1 October. In line with the above it was subject to rate increases across almost all covers. With assistance from its broker, the Council has reviewed both levels of cover and self-insurance (excesses). In order to keep premiums (along with additional premium tax of 12%) in line with the previous year, the Council has taken the opportunity to revise (increase) liability covers excesses, which had not been carried out for some years.
 15. Departments will be encouraged and expected to continue to display robust risk management of their activities and there will be some in year reviews of the levels of the Council's exposure.

Counter Fraud Initiatives

National Fraud Initiative

16. Output from the 2020/21 National Fraud Initiative (NFI) was released to local authorities at the beginning of February. The NFI is a mandatory data-matching exercise coordinated by the Cabinet Office which seeks to identify potential anomalies and fraud through matching the Council's data sets, e.g. payroll, pensions, creditors, concessionary travel, etc., with those of other mandatory participants, including the Department for Work and Pensions deceased persons data. A summary of the output in relation to Leicestershire is contained in Appendix B.
17. Investigations of NFI matches led by the Council's Internal Audit Service (IAS) are coming to an end for this year's exercise. Most matches have been cleared without issue. A number of reports have been cascaded down to departments to assist with their renewals processes, e.g. blue badges, concessionary travel, including reports of service users that have deceased since the issue of their blue badge or concessionary travel pass, and for whom there should be no reapplication come expiry date, i.e. any re-application would be fraudulent.
18. NFI investigations identified four cases where pensions were continuing to be paid to deceased persons. These four pensions were immediately suspended. All four cases have been passed over to the Pensions Service for further investigation and, where possible, recovery. Part of the review process will

involve consideration of whether these four instances should have been identified at an earlier stage through business as usual controls/processes.

19. The NFI has now been running for 25 years. During this time, the National Government's Cabinet Office estimates that over £2bn of fraud has been identified. Over time the range of datasets and participating organisations has expanded to deal with an increasing range of fraud risks and NFI's data matching techniques have become highly sophisticated over the years. The NFI continues to be an active deterrent to fraud and the Council continues to publicise what it is and what it does to further build upon that deterrent.

International Fraud Awareness Week - 18-22 November 2021

20. Each year the IAS takes the opportunity during International Fraud Awareness Week (IFAW) to proactively convey a number of key messages to staff. For IFAW 2021, the IAS will target new starters within the organisation, via the New Starters' Network, to build on the base counter fraud training they will have received at corporate induction stage. The IAS will take the opportunity to raise awareness of emerging fraud risks / common frauds and scams; the Council's counter fraud policies, including whistleblowing, registration of personal interests, declaring gifts and hospitality; and the importance of undertaking mandatory fraud awareness training. Above all, the IAS will emphasise to staff the importance of having effective internal controls in place within the workplace, e.g. segregation of duties, authorisation processes, etc.
21. During IFAW each year, the IAS takes the advantage to remind staff of the Council's key anti-fraud policies and procedures, the importance of undertaking mandatory fraud awareness training and advise staff how concerns can be raised with managers or, if necessary, through the Council's formal whistleblowing channels. This time around, the IAS shall also take the opportunity during IFAW to raise awareness of common frauds and scams with the general public via the Council's social media channels.

Emerging Fraud Risks

22. Three of the main fraud risks currently prominent are: -
- Cyber fraud, e.g. phishing
 - Chief Executive Officer fraud
 - Mandate fraud (invalid changes to bank co-ordinates)
23. Whilst these frauds have been commonplace for a number of years, what the IAS is now seeing is a development in the fraudster's technical capabilities. Over the years, things have shifted from basic (and often not very convincing) scam attempts by 'chancers', to the position today where organised crime groups using highly sophisticated techniques are often involved and often operating from outside of the UK; the techniques being seen include email cloning, email compromise, malware, confidence trickery. The IAS continues to keep the risks of these frauds in the forefront of staff minds through regular comms and the cascading of fraud alerts from national counter fraud organisations, e.g. to payment teams. Raising awareness remains a key defence.

Recommendations

It is recommended that the Committee:

- a) Approves the current status of the strategic risks facing the County Council.
- b) Makes recommendations on any areas which might benefit from further examination.
- c) Notes the updates regarding emerging risks and issues, insurance renewals and Counter Fraud Initiatives.

Resources Implications

None.

Equality and Human Rights Implications

None.

Circulation under the Local Issues Alert Procedure

None.

Background Papers

Report of the Director of Corporate Resources – ‘Risk Management Update’ – Corporate Governance Committee, 10 May 2019, 1 November 2019, 31 January 2020, 12 June 2020, 24 July 2020, 25 November 2020, 29 January 2021, 3 June 2021 and 23 July 2021.

<http://politics.leics.gov.uk/ieListMeetings.aspx?Committeeld=434>

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Appendices

Appendix A - Corporate Risk Register Update (September 2021)

Appendix B - Outputs from National Fraud Initiative 2020/21

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