




**CORPORATE GOVERNANCE COMMITTEE****12 MAY 2014****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. This is to enable the Committee to review or challenge progress, as considered necessary, as well as highlight risks that may need to be given further consideration. It covers:
 - The Corporate Risk Register (CRR);
 - Emerging Risks;
 - Outcome of the Internal Audit risk review;
 - Update on related risk management matters such as Insurance and Business Continuity.




Corporate Risk Register (CRR)




2. The Council maintains a CRR and departmental risk registers. These registers contain the most significant unmitigated risks which the Council is managing and are owned by Director's and Assistant Directors.
3. The key changes since the CRR was last presented to the Committee in February are:
 - i. Removal of Risk 3 "Partnerships failing to agree an integrated approach to service delivery and funding will lead to 'best services at lowest cost' not being achieved". In reviewing the updated CRR, the Corporate Management Team agreed that this risk needed to focus on specific partnerships, for example, Health & Social Care integration. A review of risks around this area will be undertaken and presented to the Committee at its meeting in September 2014;
 - ii. Addition of Risk 19 which details risks to the Council associated with an increase in unplanned and speculative local developments to address the shortfall in the 5 year housing supply which could have an adverse impact on the functioning of the transport network;

- iii. Addition of Risk 20, detailing the cost of school sponsorship to the Council prior to conversion to sponsored academy status;
- 4. At its meeting on 10 February, the Committee requested that a presentation be provided on the risks associated with the delivery of savings and efficiencies through Service Redesign/Transformation as required in the MTFS. This will be undertaken as part of this agenda item.
- 5. The latest assessment of the highest ranking risks is shown in the table below.

Dept/ Function	CRR Risk No	Risk Description	Current Risk Score	Update	Direction of Travel
A&C	2	Proposals in the Government's Care Bill (Dilnot Reform) which provide for very significant changes and implications for Adult Social Care and the whole Council.	25	The key risks and implications to LCC were identified and included for feedback to the Department of Health through a consultation. The Government were due to publish the results of this consultation but these are still awaited. A project board has been established to respond to the emerging risks and oversee planning for the reforms. The changes to rules around annuities announced in the Budget are likely to increase the financial risks and were reported to Cabinet in April.	 Over the next 12 months the residual risk is expected to remain 'high/red'
C&F	4	Outcomes relating to Supporting Leicestershire Families (SLF) not being achieved.	20	The allocations process is being developed in order to link direct work more robustly to identified families. Data processes for PBR (payment by results) have been further developed to include a wider range of data sources which is being utilised to identify families.	 Over the next 12 months the residual risk is expected to remain 'high/red'
CR	6	Maintaining ICT systems and having the ability to restore services quickly and effectively in the event of an outage.	15	The replacement SAN (Storage Area Network) gives both a more resilient infrastructure and a vastly improved position with regards to data recovery in the event of an outage. Options appraisal to re-provision current datacentre(s) is nearing completion and a programme of work on	 Over the next 12 months the residual risk score is expected to move to 'medium/'

				Disaster Recovery is underway.	amber'
CR	7	Continuing risk of failure of information security.	16	The Council has now achieved PSN (Public Services Network) compliance. A small number of actions are being completed, including the full roll-out of a mobile device management solution. Work is also underway to meet the 2014 PSN standards and to ensure that compliance is built into key business as usual processes.	 Over the next 12 months the residual risk score is expected to move to 'medium/amber'
E&T	8	Impact of academy and secondary age conversion on home to school transport policy.	16	A consultation exercise on the earlier policy proposals (which were discussed at Scrutiny Commission) closed in March 2014 with over 2,000 responses received along with a number of alternative policy suggestions. In the light of the considerable public interest and the need for further consultation before a decision can be taken, the Cabinet approved a further round of consultation on the Mainstream Home to School Transport Policy with results expected in July 2014.	 Over the next 12 months the residual risk is expected to remain 'high/red'
All	12	Challenges caused by the Welfare Reform Act.	25	Work continues with service users, providing assistance to maximise income throughout the benefit changes. A detailed update is provided below.	 Over the next 12 months the residual risk is expected to remain 'high/red'
All	13	Failure by LCC to ascertain, understand and manage increased demand for services.	20	A cross departmental review of Business Intelligence (BI) and Data Management has been conducted with an overview presented to CMT. A Data and BI Board and action plan, focusing on 4 key work streams is being developed and will be part of the Transformation Programme.	 Over the next 12 months the residual risk is expected to remain 'high/red'
CR	14	Ability to effectively contract manage devolved	15	The Corporate Commissioning Contracts Board has been monitoring the performance of 23 of the Council's key	 Over the next

		services through new service delivery models.		contracts. Further works being initiated include identification of all key suppliers for business critical services (based on business continuity plans) and the roll-out of e-tendering (contract management module) to allow greater visibility of contract data.	12 months the residual risk score is expected to move to 'medium/amber'
CR	15	Insufficient capacity to provide Information & Technology solutions.	16	There is regular review of capacity versus demand, with further work to assess the impact on strategy of transformation activities.	 <p>Over the next 12 months the residual risk is expected to remain 'high/red'</p>
All	16	Risk around our ability to deliver savings and efficiencies through service redesign and transformation as required in the MTFS.	25	<p>In April 2014 the Cabinet was presented with a report detailing implications of the Chancellor Budget Statement 2014, in particular:</p> <ul style="list-style-type: none"> •Projected austerity beyond 2017/18 requiring LCC to find additional estimated savings (increase of £27.5m); •The Statement did not contain any reference to costs of Care Bill and Dilnot reforms; •Significant changes to pensions have added further uncertainty to long term financial costs. <p>As part of the wider work on transformation, the Council continues to identify savings to bridge the funding 'gap' and there will be further reports to the Cabinet and Scrutiny Commission in due course.</p>	 <p>Over the next 12 months the residual risk is expected to remain 'high/red'</p>
CE	17	Risk around achievement of funding for the Better Care Fund (BCF).	15	Following approval of the draft BCF Plan, components were subject to further analysis to assess anticipated impact and benefits. The outcome of the regional assurance review showed no major concern with the Leicestershire BCF Plan. A final BCF Plan was submitted to NHS England on 4 April	 <p>Over the next 12 months the residual risk is expected to remain 'high/red'</p>

				2014. A new Integration Executive has been established and will oversee delivery of the BCF Plan and the associated pooled budget.	
E&T	19	Impact of an increase in unplanned and speculative local developments to address the shortfall in the 5 year housing supply.	15	Local Planning Authorities (i.e. district councils) need to demonstrate a 5 year supply in housing. The role of LCC is to ensure that appropriate impact assessments are being completed so that development can be properly accommodated. An increase in both the number and complexity of planning applications will make it difficult to ensure that appropriate assessments are being completed, thus impacting on our ability to secure appropriate transport improvements.	 <p>Over the next 12 months the residual risk score is expected to move to 'medium/amber'</p>
C&F	20	Cost of school sponsorship to LCC prior to conversion.	16	When LA schools are directed to become a Sponsored Academy by the DfE, there is a legal requirement, prior to conversion, for LCC to absorb any deficit budgets. As well as this, sponsors are now seeking building repairs/updates before agreeing to sponsor the school. If not addressed, both of the above will result in significant negative financial and reputational impact for LCC. The Corporate School group continues to monitor any development and agree actions.	 <p>Over the next 12 months the residual risk has the potential to diminish but will be influenced by OFSTED judgments of LA maintained schools</p>
A&C	18	Risk to the County Council surrounding transfer of nine Elderly Persons Homes.	12	In respect of the outstanding capital sum of £2.2m officers have continued to work with the provider to secure repayment of the deferred amount. Further details are provided below.	 <p>Over the next 12 months the residual risk is expected to remain 'medium / amber'</p>

6. This register is designed to capture strategic risk, which by its nature has a long time span. However, risk owners are engaged and have demonstrated a good

level of awareness regarding their risks. The full CRR is attached as Appendix 1 (shaded areas represent updates).

7. The improvements introduced to the risk management framework acknowledge that 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 on an ongoing basis, as necessary. Equally, as further mitigation actions come to fruition and current controls are enhanced, the risk scores will be reassessed and this will result in some risks being removed from the CRR and reflected within the relevant departmental risk register.

Specific Updates

8. Following meetings in September 2013 and February 2014 respectively, the Committee specifically requested further updates on the following:

Welfare Reform Act

9. The Committee received a presentation on the risks associated with the Welfare Reform Act (WRA). Following this, the Committee requested a further update on this risk area, specifically within the overall financial context of the MTFS once it had been agreed in February 2014. Key developments and financial risks are detailed below.
10. Responsibility for Local Welfare Provision (LWP) transferred to the County Council from 1st April 2013, with funding for the future of the scheme uncertain at that time. The Council has now received confirmation that there will be no central funding for LWP post April 2015. Due to a more focused eligibility criteria and reduced cash payments, claims have been lower than under the DWP scheme. Whilst not a statutory obligation, decisions will need to be made about the future provision of this service, giving due consideration to any impact on existing council services and resources available. Various mitigating options are currently being explored.
11. Under the WRA, the former Disability Living Allowance was reformed and replaced with Personal Independence Payments (PIP). National trend is showing that an increasing number of service users are experiencing difficulties in being granted care benefits, primarily due to more stringent medical checks. As an individual's benefit income decreases, there will be a direct negative impact on income for the Adults & Communities department. The PIP scheme does not grant continual funding, even for those with long term health conditions. This means service users have to keep 'reapplying' for funding and in many cases have failed or forgotten to do this, thus further exaggerating the problem above.
12. It should be noted that the overall care package offered to the service user will not be affected and they will continue to receive the care they have been assessed for. The risk to the County Council is that the contribution (income) we receive for their care will be significantly reduced, especially in the short

term.

13. As a result of reduced funding, over time there has been a notable national reduction in welfare benefit advice available to service users. Whilst the Citizen Advice Bureau remains the most readily available point of contact, their advice services have become restricted. This translates to the fact that service users will have very limited means to gain information on how they are able to help themselves.
14. The Adults & Communities department has been working to establish controls and risks have been mitigated as much as possible by:
 - Developing and communicating an 'Advice and Information Plan and Strategy' which will better inform people on how they can help themselves and direct them to self-service. The provision of advice and information will become a duty under the Care Bill from April 2015 and will encompass securing access to independent financial advice. The Department is currently exploring the market for this specialist provision;
 - The Community Care Finance Benefits Team provides help and support to service users with complex cases. This is done by completing the relevant DWP forms on behalf of service users and assisting them with other relevant paperwork to ensure they receive any funding they are entitled to;
 - The Finance team is monitoring the impact of benefit changes and completed modelling of potential changes to individual incomes and the associated effect on departmental income;
 - The MTFS has been built on these forecasted assumptions and takes into account the financial risks surrounding this change.

Sale of the nine Elderly Person's Homes

15. Members will recall that the transfer of the homes was expected to generate capital receipts of £3,245million, which after payment of a £100,000 deposit on the transfer of the homes left £3,145million to be paid to the County Council on a deferred payment arrangement.
16. Leicestershire County Care Limited (LCCL) has made capital payments totalling £1,025,000. The outstanding balance is £2,200,000. To date, the County Council has received interest payments of £250,000.
17. LCCL has been unable to pay the full balance due under the full deferred payment by March 2014. Therefore, in accordance with the decision of the Cabinet in February 2014, the Director of Corporate Resources and County Solicitor have negotiated and signed a new agreement which includes the following new elements:
 - i) Regular monthly Capital Payments from October 2014 to December 2016;
 - ii) Lump sum payments in September 2014, September 2015, September 2016 and December 2016, to enable full repayment of the outstanding debt by the end of 2016;

- iii) A new parent company guarantee, confirmation of an existing personal guarantee from Dr Kananda, and confirmation of a guarantee from the original parent company, Southend Care - all guaranteeing payment of the debt until such date as no further monies are due to the Council;
 - iv) Financial covenants placed on LCCL to ensure that available monies within the company are paid to the County Council and no one else;
 - v) Increased rates of interest.
18. Members are further advised that in addition to the new parent company guarantee, the following guarantees remain in force:
- i) Floating charge over the assets of LCCL and fixed charges over the nine transferred homes;
 - ii) Personal Guarantee by the owner;
 - iii) Guarantee from Southend Care Limited.

Emerging Risks

Universal Infant Free School Meals (UIFSM)

19. The Children and Families Bill places a legal duty on state-funded schools in England, including academies and free schools, to offer a free school lunch to all pupils in reception, year 1 and year 2 from September 2014.
20. The School Catering service (within the Corporate Resources Department) provides the full management and provision of school meals to 75% of all schools and academies in Leicestershire. Of the numbers currently on roll, approximately 8,000 meals are provided each day to infants through the catering service. The number of extra meals that would be needed as a result of the UIFSM policy is estimated to be 13,000 meals a day.
21. The School Food and Catering Services Manager has focused activity on understanding the implications and risks, as a result of the new policy. The following has been conducted/and or work is underway:
- Production kitchens have been maintained exceptionally well;
 - Reviews of the existing service, equipment requirements, operational staffing levels and portion sizes/selling prices for Infants/Juniors;
 - An assessment of transported meals and food supply meetings;
 - Meetings and communication with schools, governors and parents.
22. As a result of the above, the key actions being undertaken to mitigate risk include:
- Offering of a single choice menu for infants (meeting Government required standards);
 - Design and communication of the menu and a leaflet highlighting key information on 'Free School Meals' and UIFSM for parents;
 - 'Dual flow service' schools identified;
 - Recruitment of 200 operational staff;

- Working with external partners such as the Food for Life Partnership (FFLP) to promote the service;
 - Children and Young Peoples Departmental Management Team to approve proposed allocation of Government capital funding to ensure schools are in a position to deliver from September 2014.
23. A review of the service area risk register shows that all identified risks are being managed within the scope of the transition and the Corporate Resources Department, with no further escalation required to the CRR at this stage. The Lead Member for Children and Young People's Services has been kept informed of developments.

Leicester and Leicestershire Enterprise Partnership Strategic Economic Plans
(Transport implications)

24. Under previous arrangements, funding was directly allocated to the Council to support transport programmes. However, a substantial proportion of this money will, from 2015/16 onwards, be allocated via the Single Local Growth Fund (SLGF) and not ring-fenced for transport improvements. The SLGF will be managed and distributed through the Leicester and Leicestershire Enterprise Partnership (LLEP).
25. The SLGF is allocated in two ways:
- i. A proportion is automatically allocated to each Local Enterprise Partnership (LEP) by the Government, using a formula based on population;
 - ii. A proportion is allocated on a bid basis, with each LEP submitting a Strategic Economic Plan (SEP) for how they and their partners will support economic growth in their area. The LLEP submitted its SEP to the Government on 31 March 2014.
26. Transport projects form a major component of the 'Place' theme in the submitted SEP and represent a substantial call on SLGF resources. However, it is nationally known that the SLGF pot is three times oversubscribed and there is a risk that the LLEP will receive less funding than it bid for, with significant implications for the funding of transport improvement measures. In addition to this, confirmation of funding for the proposed transport schemes will be unknown until July 2014. Major transport schemes can involve extensive preparatory work, but SLGF monies have a shorter timeframe for when funds need to be spent.
27. If the above materialises, the Council's ability to invest in transport measures to support the area's economy will be severely limited and leave the Council vulnerable, as future SLGF funding will be assessed, in part, on delivery performance.
28. Risks will be mitigated as much as possible and the County Council will seek to work with the LLEP to develop its understanding and expertise on the economic importance of an effective transport system and develop processes to compare the benefits of the wide range of projects contained within the SEP to ensure

that the most appropriate projects to support economic growth are chosen.

29. Other mitigation includes:

- To develop transport projects for future annual SEP submissions (2016/17 to 2019/20) with a supporting programme for high priority schemes;
- Ensuring a supply of deliverable (shovel ready) transport schemes which can be delivered within the SLGF timeframe, should funding be approved;
- Investigating ways to accelerate the advanced planning of schemes to put the Council in a position where SEP schemes are deliverable within the SLGF timeframe and have surplus schemes available, ready to take advantage of other opportunities;
- The County and City Councils as Highways Authorities continuing to work closely with the Department for Transport (DfT), the Highways Agency and other partners to ensure transport aspects of the SEP are robust, deliverable and represent good value for money.

30. A review of the departmental area risk register shows that all identified risks are being managed within the Environment and Transport Department with no further escalation required to the CRR at this stage. The Lead Member has been kept informed of developments.

Internal Audit Review

31. The County Council's revised Risk Management Policy Statement and supporting documentation form an integrated framework that supports the Council in the effective management of risk. The Internal Audit Service completed work on a consolidated risk management audit that provided substantial assurance on framework design and associated governance.
32. As part of the above, Internal Audit also reviewed implementation and adherence at department level for both Environment and Transport and Children and Young Peoples Service, to ensure that the Department's risk management processes demonstrate adequate compliance with the corporate framework.

Environment and Transport

33. The Department's risk management processes are robust and demonstrate a good level of compliance with the corporate framework, evidenced by:
- A structured process, which ensures risks are captured at service area level;
 - Regular updates to the Departmental Management Team on the risk register in line with the corporate guidance;
 - Officers with risk management responsibilities being provided with training on the Council's approach and methodology to risk management;
 - Consistency to the framework application through use of the corporate templates and methodology.

34. Whilst a few recommendations were agreed to further strengthen the arrangements already in place, substantial assurance was given that the internal controls in place to reduce exposure to those agreed risks, currently material to the system's objectives, are adequate and being managed effectively.

Children and Young People's Service

35. Evidence within the Department reflected that some risk management activities were operating adequately, namely through a departmental risk register using the corporate templates and methodology, regular reporting to DMT and Strategic plans which identified key risks to delivery.
36. However, at the time of testing, there was an absence of a key control (i.e. flow of appropriate risk information from the Strategic and Business Plans to the Departmental Risk Register) and as such, the system was open to material risk exposure. This necessitated a "High Importance" recommendation, which resulted in only partial assurance that the internal controls in place to reduce exposure to those risks currently material to the system's objectives are adequate and are being managed effectively.
37. An action plan was agreed and refresher training was provided to staff with risk management responsibilities, e.g. Heads of Strategy and other staff, to ensure a consistent approach is embedded. A framework has been developed and embedded within the Department, which has resulted in significant and notable improvements within the 2014/15 service planning process.

Other Risk Information

Business Continuity (BC)

38. A Silver Level Resilience Planning Group (RPG) exercise took place in February, which was around a 'lock down' of County Hall due to an external threat (gas leak). The exercise proved very valuable and a post exercise report, including lessons learned, has been completed and circulated.
39. Both supplier planning and Work Area Recovery planning have progressed and to this effect a report will be discussed with the RPG and Corporate Resources Departmental Management Team. The supplier planning project is significant in size and will progress throughout the year - a full set of documentation is now complete and a pilot with one of the critical service teams (School Food) will take place prior to roll out for other critical services.
40. BC work took place to plan for the implementation of IAS (Integrated Adult Social Care System), in order to prepare for the (unlikely) event of a 'worst case scenario'. IAS went live in March and whilst there are issues to iron out, there have been no reports of significant problems.

41. There have been no major incidents for the County Council and the extreme weather between December and February was monitored carefully although there were no serious impacts in Leicestershire.

Insurance

Current Insurance Experience

42. The insurance section is continuing to experience higher than average volumes of claims. This is particularly the case in respect of public liability claims. The average number of public liability claims received each insurance year between 2006 and 2012 was 475. In the six month period between October 2013 and March 2014, 304 public liability claims have been submitted.
43. Despite an increase in the number of claims, the value of payments has remained broadly similar, as the claims are predominantly highways claims to which the County Council continues to be able to maintain its statutory defence in most cases. It is hoped that the introduction of improvements to the claims handling process will deter and better control the numbers of claims being submitted.
44. The County Council's insurance programme is due for renewal on 1st October in a climate where market conditions continue to deteriorate. This is due to lack of market competition generally and insurer concern over local government business because of increases in the number and values of claims made. There is also insurer concern about the potential for future claims trend deterioration owing to the financial position of local authorities across the country. This introduces the risk that the County Council's insurance premium could increase significantly for the second successive year.

Municipal Mutual Insurance

45. Leicestershire County Council was insured by Municipal Mutual Insurance (MMI) between 1969 and 1992. MMI entered administration in 1992 and since this time has been the subject of a Scheme of Arrangement with its creditors. In November 2012 the County Council was notified that there would not be a solvent run off of claims, due to high numbers of historic abuse and mesothelioma claims.
46. In order to restore the company's balance sheet the Scheme Administrator has imposed a 15% levy on all claims paid to date and on all claims yet to be settled, requiring the County Council to make an initial payment of £2.2 million.
47. Claims trend data indicates that the numbers of claims still coming forward for the period when the MMI was writing business, in particular mesothelioma claims, continue to be ahead of the forecast long term trend. Should this pattern continue it is possible that the Scheme Administrator may have to impose a further levy, or levies, on all scheme creditors.

Recommendation

48. That the Committee:

- (a) Notes the current status of the strategic risks and emerging risks facing the Council and make recommendations on any areas which might benefit from further examination;
- (b) Identify a risk area for presentation at its next meeting;
- (c) Approve the updated Corporate Risk Register.

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, 3 February 2010

Report of the Director of Corporate Resources – ‘Risk Management Update’ – Corporate Governance Committee, 2 September 2013

Report of the Director of Corporate Resources – ‘Risk Management Update’ – Corporate Governance Committee, 25 November 2013

Report of the Director of Corporate Resources – ‘Risk Management Update’ – Corporate Governance Committee, 10 February 2014

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Appendices

Appendix 1 – Corporate Risk Register