

CORPORATE GOVERNANCE COMMITTEE
23 SEPTEMBER 2014

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

RISK MANAGEMENT UPDATE

Purpose of 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 necessary, as well as highlight risks that may need to be given further consideration. It covers:
 - a) The Corporate Risk Register (CRR);
 - b) Emerging Risks;
 - c) Update on related risk management matters - counter-fraud initiatives.



Transfer of Responsibility for Risk Management to Internal Audit Service

2. Responsibilities for risk management, the Annual Governance Statement and counter fraud have recently been transferred from Strategic Finance to the Internal Audit Service.
3. The Public Sector Internal Audit Standards (PSIAS) do not prohibit internal auditors from assisting management in establishing or improving risk management processes. Nevertheless, there has to be safeguards to ensure that the Head of Internal Audit Service can objectively evaluate the effectiveness of the processes when delivering his annual opinion. The extent and nature of internal audit's responsibilities will need to be documented in the audit charter which is currently being developed by the Internal Audit Service (as detailed in a report elsewhere on the agenda).

Corporate Risk Register (CRR)


4. The Council maintains a CRR and departmental risk registers. These registers contain the most significant mitigated risks which the Council is managing and are owned by Directors and Assistant Directors.
5. The key changes since the CRR was last presented to the Committee in May are:






- i. The order of risks on the Register has been amended so that these are themed and grouped accordingly. Risks have therefore been renumbered;
 - ii. Removal of Risk: “Partnerships failing to agree an integrated approach to service delivery and funding will lead to ‘best services at lowest cost’ not being achieved”. It has been identified that such risks need to focus on specific partnerships, for example, Health & Social Care integration (see risk 4 paragraph 7 below);
 - iii. Addition of new risks:
 - Risk 5 - Preparation for the transition of Health Visiting (from NHS England) to local authorities;
 - Risk 11 - Members use of IT and risk of breach of Data Protection and expectations in the Public Services Network Code of Conduct;
 - Risk 15 - Community safety - difficulty in maintaining a working relationship with the Police and Crime Commissioner;
 - Risk 16 - Leicester and Leicestershire Enterprise Partnership (LLEP) – funding risk from the Single Local Growth Fund (SLGF) and implications regarding the delivery of transport programmes.
6. At its meeting on 12 May, the Committee requested that a presentation be provided on the risks associated with an increase in unplanned and speculative local developments to address the shortfall in the five year housing supply and the possible adverse impact on the functioning of the transport network, as detailed in the Corporate Risk Register (Risk 13). This will be undertaken as part of this agenda.
7. The latest assessment of the highest ranking risks is shown in the table below. The number in brackets in column two refers to the previous CRR risk number. Where a change has taken place to the current risk score a note is included.





Dept/ Function	CRR Risk No	Risk Description	Current Risk Score (incl changes)	Update	Direction of Travel (Residual Risk over the next 12 months)
Medium Term Financial Strategy (MTFS)					
All	1 (16)	Risk around the ability to deliver savings and efficiencies through service redesign and transformation as required in the MTFS.	25	Although there is no change to the previous reported position, the significant budget pressures in the current year are increasing, which will impact on the financial position of future years.	 expected to remain 'high/red'
C&F	2 (20)	Cost of school sponsorship to LCC prior to	16	The Corporate School Group continues to monitor any development and agree actions.	

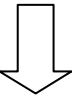


		conversion		<p>The degree of risk (financial risk) remains the same as sponsorships for Longslade College and William Bradford are yet to be concluded. A funding package for both establishments has been established and approved by Corporate Schools Group. There are robust procedures and systems to manage schools in sponsorship. LCC is working proactively with the last remaining maintained secondary schools to establish long term academy solutions.</p>	<p>the residual risk has the potential to diminish but will be influenced by OFSTED judgments of LA maintained schools</p>
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

Health & Social Care Integration

A&C	3 (2)	<p>Proposals in the Government's Care Act which provide for very significant changes and implications for Adult Social Care and the whole Council.</p> <p>(see Risk 4 for BCF)</p>	25	<p>Consultation on funding allocations for The Care Act due to be implemented in April 2015 were launched on 31 July for the :</p> <ul style="list-style-type: none"> • Universal Deferred payment Agreements; • Social care in Prisons; • New entitlements for carers. <p>The consultation, which runs until 9 October, relates to the technicalities of allocating funding for the above aspects. Progress continues to be made on assessing the financial implications associated with implementing the Care Act (planned implementation April 2015). However, accuracy is undermined by the lack of accessible data and delays in the release of costing models by the LGA/Department of Health. The risk is that:</p> <p>a) Leicestershire BCF allocations will be insufficient to cover the full cost of implementation, once known;</p> <p>b) Allocating the entire indicative Care Act allocation from the BCF will have a knock-on effect on the deliverability of the identified local priorities (£1m);</p> <p>c) The overall on-going cost of the Care Act will exceed the on-going Government funding allocation for implementation.</p>	 <p>expected to remain 'high/red'</p>
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CE	4 (17)	Risk to Health and Care Partners failing to deliver integrated care to the local population (including via the Better Care Fund (BCF) plan	15 Reduced from 20 (increased controls)	Due to changes in national arrangements for BCF plans, all areas are required to resubmit their plans by 19 September. Delivery continues through the production and approval of individual business cases for key elements of the BCF programme. An element of the funding is based on payment by results.	 expected to remain 'high/red'
All	5 (12)	Challenges caused by the Welfare Reform Act.	25	There have been delays in introducing the Universal Credit reforms, but the Government has announced that they intend to make even larger reductions in the Welfare Budget. This means the longer term risks remain significant.	 expected to remain 'high/red'
PH	6 (new)	The transition of Health Visiting (from NHS England) to Local authorities	20	Following the first publication of the proposed financial structure for the transfer of Health Visiting to LAs, negotiations are underway to determine an appropriate proportion split for LCC and Leicester City, as well as the ongoing commissioning costs for the service. The Board responsible for the transition meets monthly and will continue to update Public Health departmental management teams and chief officers on a regular basis.	 expected to remain 'high/red'
ICT, Information Security					
CR	7 (6)	Maintaining ICT systems and having the ability to restore services quickly and effectively in the event of an outage.	15	Development of a clear IT disaster recovery framework and testing plan is underway and due for completion in August 2014. The review of the Data Centre role and capability of secondary data centre is underway.	 expected to move to 'medium/amber'
CR	8 (7)	Continuing risk of failure of information security.	16	The Council has achieved PSN (Public Services Network) compliance. Security penetration testing has been undertaken as scheduled and work is underway to prepare for the next annual	 expected to move to 'medium/amber'

				submission for PSN compliance. A revised Information Security and Acceptable Usage policy has recently been signed off and is due to be launched in September 2014. Guidance and training events have been planned for staff and members.	amber'
All	9 (13)	Failure by LCC to ascertain, understand and manage increased demand for services will restrict implementation of effective strategies, impacting council wide priorities and delivery of the Transformation Programme.	15	Business Intelligence is now recognised as a core component of the Council's transformation programme and will provide evidence to support demand management.	 expected to remain 'high/red'
CR	10 (15)	Insufficient capacity to provide Information & Technology solutions.	16	Capacity planning and prioritisation of agreed organisational priorities is underway.	 expected to remain 'high/red'
CE	11 (new)	Failure by Members to comply with the new Information Security Policy	20	Members are being informed of their responsibilities and further options for accessing County Council emails via letters from the Monitoring Officer. All Members briefing planned for 23 September. Automatic forwarding of emails to cease from 1 October 2014 - technical controls will be put in place.	 Expected to move to amber
Transportation					
E&T	12 (8)	Impact of academy and secondary age conversion on home to school transport policy.	20 Increased from 16 (increased impact)	Further round of consultation undertaken following Cabinet approval. Mainstream Home to School Transport Policy agreed. Reports taken to Scrutiny on 11 July and Cabinet on 15 July. Policy will be published in September	 expected to remain 'high/red'

				2014, with implementation in September 2015.	
E&T	13 (19)	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&F	14 (4)	Outcomes relating to Supporting Leicestershire Families (SLF) not being achieved.	20	Government announced a fourth year of Payment By Results (PBR) funding into 2015/16. Leicestershire has now completed phase one of PBR and pulled down additional funding into the pooled SLF budget. Service is now fully up and running and merged into C&F Services. Whole family working is being rolled out across a range of Services. Nevertheless, risk remains around the ability of partner organisations to financially sustain the programme once government funding ceases.	 expected to remain 'high/red'
CE & C&F	15 (new)	Partnership relationships - Community Safety are not effective due to the difficulties of maintaining a working relationship with the Police and Crime Commissioner (PCC)	15	Continued PCC engagement in Leicestershire Community Safety Strategy Board, Police and Crime Panel.	 expected to remain 'high/red'

E&T	16 (new)	LLEP- insufficient funding for transport schemes to deliver economic growth	20	Continued engagement with the LLEP regarding the development of future plans and transport strategies to align with Strategic Economic Plan (SEP)	 expected to remain red
Commissioning & Procurement					
CR	17 (14)	The ability of Leicestershire County Council to effectively contract manage devolved services through new service delivery models	15	The Corporate Commissioning Contracts Board has continued to monitor the performance of 23 of the Council's key contracts. Further work has been initiated to identify all key suppliers for business critical services (based on business continuity plans) and a pilot undertaken to identify and minimise supply chain risk in two areas. A Contract Management Toolkit is to be developed as part of the Effective Commissioning Enabler (Transformation Programme).	 expected to move to 'medium/ amber'
Specific Update - EPH					
A&C	18 (18)	Risk to the County Council surrounding transfer of nine Elderly Persons Homes.	12	Officers continue to work with the provider to secure repayment of the deferred amount. Further details are provided below	 expected to remain 'medium / amber'

8. This register 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 (shaded areas represent updates and the addition of new risks).
9. 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

10. Following its meeting in May 2014, the Committee specifically requested a further update on the sale of the nine Elderly Person's Homes.
11. Members will recall that the County Council and Leicestershire County Care Ltd (LCCL) entered into a new agreement in April 2014 to secure repayment of the remaining £2.22m deferred capital sum. £0.5m of the outstanding sum was received in early September 2014, in line with the agreement, and a sum of £1.72m remains outstanding. The key remaining elements of this agreement are:
 - 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.
12. Members are advised that LCCL continues to comply with the terms of the new financial agreement, making timely interest payments at the increased rate of 7.5% (current Bank of England Base Rate, plus 7%). This rate will increase to base rate plus 8% from 1 April 2015 and to base rate plus 9% from 1 April 2016. Interest received up to the end of August 2014 amounted to £319,000.

Emerging Risks

Reduced Recycling Performance

13. There is an emerging risk related to reduced recycling performance. Recycling performance can be affected by a number of factors, only some of which are in the control of the Authority. Over the past year, performance has primarily been affected by changes in Environment Agency guidance relating to the composting of wood waste and it is anticipated that further impacts will be seen in 2014/15. Other external factors could include increased waste arisings linked to the economic climate, the potential impacts of changes in recycling services provided by the district and borough councils and planned changes in the method of calculating performance.
14. The primary consequence of reduced recycling performance could be an increase in the cost of waste disposal, if material that was previously recycled was diverted into the residual waste stream. Other consequences could include reputational damage and reduced levels of customer satisfaction.

15. Local trends in waste arisings and recycling performance are closely monitored and engagement with national groups such as the National Association of Waste Disposal Officers is undertaken to understand the national picture. The Council also engages with the WasteDataFlow user group to ensure that it is informed about any upcoming changes in guidance and changes to the method of calculating performance. A robust communication plan is in place to ensure that recycling messages remain high profile and any messages relating to reduced performance are managed appropriately.
16. The above risk is highlighted within the Environment and Transport Departmental Risk Register with no further escalation required to the CRR at this stage. The Lead Member has been kept informed of developments.

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

17. 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).
18. The LLEP has now received its SLGF settlement. Out of its original bid (for all projects, transport and otherwise) of £240m for the period 2015 to 2020, including a bid for £81m for 2015/16, it received £60m, of which £20m is available in 2015/16. Whilst the award is welcomed, it is insufficient to enable delivery of all of the transport projects submitted.
19. The process for payment of the 2015/16 monies is unclear at this time. It appears that the Government may be wishing to put in place additional controls above and beyond the assessment of bids that it has already carried out. Should this result in delays in the release of funding, there is a risk that this could impact on work to develop and deliver schemes in 2015/16.
20. The process for securing SLGF monies for 2016/17 and beyond is also unclear at this time, although it appears that the Government intends there to be, once again, some form of bidding/submission process that *might* need to be undertaken by Christmas. Whether and how the LLEP will consider previous submissions (i.e. schemes not funded for 2015/16) and whether and how it will consider any new submissions is not clear at this time.
21. Transport projects form a major component of the 'Place' theme in the submitted Strategic Economic Plan (SEP) and represent a substantial call on SLGF resources. However, in the light of the SLGF settlement and pressures on the Authority's own budgets, there remains a significant and likely risk that 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.

22. 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.
23. 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

Integrated Adults System

24. The Integrated Adults System (IAS) by Liquid Logic was the chosen solution and supplier for the replacement of the previous (historic) adult social care case management system. The finance solution (that integrates with the case management solution) is provided by ContrOcc (Oxford Computing). Both solutions are now 'live'. There were some issues that arose during the implementation of the first phase and these are in the process of being resolved.
25. Phase two of the IAS project has commenced and is due to be completed by March 2015. This phase of the project is a critical enabler to meeting the requirements of the Care Act 2014. Governance arrangements are being developed to ensure that the IAS project is not isolated from other dependent programme requirements. However, the current project plan has identified that the timescales for the release of software upgrades which are critical to meet requirements within the Care Act from April 2015 are not due to be released by the supplier until February 2015.

The risks are around insufficient project resources, supplier delays regarding software releases which could influence the time available for testing and absence of criteria to determine priorities so that the scope of phase two is not overly ambitious.

26. The above risk is highlighted within the Adults and Communities Departmental risk register with no further escalation required to the CRR at this stage.

Counter Fraud Initiatives

27. With the Audit Commission being decommissioned in early 2015, its counter fraud functions are being transferred to the public sector accountancy institute, CIPFA. CIPFA will take the lead on matters pertaining to counter fraud for public services. As part of this, CIPFA is expected to launch its Code of Practice on Managing the Risk of Fraud and Corruption shortly and is to establish a centre of excellence in counter fraud based upon the transfer of existing public sector counter fraud functions from the Audit Commission to the Institute. The Counter Fraud Centre (CFC) will be the first national centre for all counter fraud professionals and will link across the whole of the public sector and will be staffed by counter fraud specialists.
28. Operational responsibility for co-ordinating the Council's approach to Counter Fraud has now transferred to the Head of Internal Audit Service. A programme of work has been agreed upon for the 2014/15 financial year. Immediate priorities, which are well advanced, include:
 - Updating the Council's Anti-Fraud & Corruption Strategy and Procedures. As part of this update, the Council's strategy will be aligned to the new CIPFA Code of Practice on Managing the Risk of Fraud and Corruption;
 - Publishing of an Anti-Money Laundering Policy and a defining of the role of the Council's Money Laundering Reporting Officer. The Policy will be accompanied by guidance notes for staff and targeted training in areas where the risk of money laundering activity is reasonably high.
29. The refreshing of key documents such as the Anti-Fraud & Corruption Strategy will compliment recent work by the County Solicitor (Monitoring Officer) to refresh the Officer Code of Conduct, policies on Declaration of Gifts and Hospitality and revisions to the Council's Whistleblowing Policy.
30. A medium-term priority is to refresh the Council's e-learning module on Fraud and Corruption to harmonise it with recent legislation (e.g. the Bribery Act) and current internal strategies and procedures. There is evidence that the module, although mandatory, has been completed by only a minority of staff. Therefore, the new module, once finalised, will be accompanied by targeted communications to both employees and managers in a bid to raise fraud awareness across the whole organisation.
31. Other priorities later in the year will be the Council's annual fraud risk assessment as recommended in 'Fighting Fraud Locally – The Local Government Fraud Strategy' (National Fraud Authority) and the 'annual fighting fraud checklist for governance' (Audit Commission – Protecting the Public Purse).
32. National Fraud Initiative (NFI) - The Council is a mandatory participant in the Audit Commission's biennial NFI exercise. The National Fraud Initiative (NFI): National Report (June 2014) highlights that the Audit Commission's sophisticated data matching exercise has identified a further £229 million of

fraud, overpayment or error in England, Scotland, Wales and Northern Ireland, since it last reported in May 2012. The highest value categories identified in England continue to be pensions (£74 million), followed by council tax single person discount (£39 million) and then housing benefit (£33 million). Whereas district and unitary councils as council tax / benefit authorities continue to be the main beneficiaries from the NFI exercise, we continue to play an active part, for example in the provision of information to other councils.

33. The total value of cases of fraud, overpayment or error identified by the NFI is lower, albeit the number of cases rose by 19.4 per cent over the same period. The Commission believes this potentially indicates that participants are increasingly effective at the early detection of fraud, overpayment and error. This will have been helped by the Commission's introduction of a new service, NFI Flexible Data Matching, which has made it possible for participants to undertake near-instantaneous data matching at any time.
34. The next NFI exercise will take place shortly, with participants submitting data in October 2014 and potential matches being released to councils for further investigation in January 2015. Responsibility for NFI will move from the Audit Commission to the Cabinet Office in April 2015.
35. As part of a proactive approach to fraud prevention, a comprehensive review of the single person discount scheme applied across six Leicestershire District Councils was conducted in conjunction with a third party, Datatank. The review involved contacting targeted tax-payers in receipt of single persons discount to obtain assurance they continued to be eligible for this relief.
36. The review revealed a significant number (over 2,800) of individuals were taking advantage of the 25% rebate when they were ineligible. The County Council funded 75% of the cost of the review (circa £50,000) based on its approximate share of the average council tax bill. Analysis of the results indicates that, on average, savings of £13 for every £1 spent on the initiative have been achieved. In total, the benefit from extra council tax revenue is estimated to be in the region of £900,000. Of this the County Council will receive approximately £650,000, so it was a very worthwhile investment and brings a direct financial benefit to the County Council, District Councils and the Police and Fire authorities.

Recommendation

37. That the Committee:
 - (a) Notes that the Head of Internal Audit Service now has responsibility for monitoring adherence to, reporting on and developing the Authority's risk management process;
 - (b) Notes that 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;

- (c) Identify a risk area for presentation at its next meeting;
- (d) Approve the updated Corporate Risk Register;
- (e) Support the Council's initiatives to improve the prevention and pursuit of fraud;
- (f) Notes the outcomes of the collaborative work with Leicestershire's District Councils on reducing single person discount fraud.

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

Officers to Contact

Chris Tambini, Assistant Director Strategic Finance and Property
Tel: 0116 305 6199
E-mail: chris.tambini@leics.gov.uk

Neil Jones, Head of Internal Audit Service
Tel : 0116 305 7629
Email : neil.jones@leics.gov.uk

Appendices

Appendix A – Corporate Risk Register