

# Report

Report to:	<b>Risk and Audit Scrutiny Committee</b>
Date of Meeting:	<b>25 October 2022</b>
Report by:	<b>Executive Director (Finance and Corporate Resources)</b>

Subject:	<b>Year End Risk Management Report (2021/2022) and Review of Council's Top Risks (2022/2023)</b>
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## 1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ provide the Risk and Audit Scrutiny Committee (RASC) with an update on progress with risk management activity undertaken during 2021/2022
- ◆ provide an update on the Council's top risk register following the review and consultation process

## 2. Recommendation(s)

2.1. The Committee is asked to approve the following recommendation(s):-

- (1) that Resource compliance with the requirements of the Risk Management Strategy be noted;
- (2) that the progress being made in delivering actions to mitigate top Council risks be noted; and
- (3) that the updated Council's top risks be noted.

## 3. Background

- 3.1. Annual reviews of the Council's top risks are undertaken, with the findings of the last review reported to the RASC on 15 September 2021. This year's full review commenced in April 2022. The consultation involved views being sought from Heads of Service, Elected Members and Trade Unions on new areas of risk.
- 3.2. An informal benchmarking exercise was undertaken to review the Council's top risks against 2 authority's risk registers (North Lanarkshire Council and Renfrewshire Council). This review established that the current South Lanarkshire Council top risk register is in the main reflective of the risks faced by the 2 authorities.
- 3.3. A session was held with members of the RASC on 25 August 2022 to provide background information on the Council's risk management processes, the top risk review, and to allow members an opportunity to submit any areas for consideration as part of the top risk review.
- 3.4. The results of the work undertaken was considered and used to inform proposals for a refined set of top risks. The feedback was used to review risk descriptions, as required.
- 3.5. The content of this report provides the Committee with recommendations in respect of the review these risks.

#### **4. Resource compliance with the Risk Management Strategy**

- 4.1. Risk Sponsors are required on an annual basis to assess Resource compliance with the Risk Management Strategy and provide supporting evidence. The information for 2021/2022 is summarised in the end of year compliance statement which is attached at Appendix 1.
- 4.2. Appendix 1 shows that Resources continue to demonstrate full compliance with the Strategy, having scored 45 out of 45.
- 4.3. It is important that the current level of compliance is maintained to demonstrate effective risk management which contributes to robust service planning and improved decision making.

#### **5. Progress made in delivering actions to control the Council's top risks**

- 5.1. As at 31 March 2022, the percentage of actions completed was 70 per cent against an overall target of 90 per cent. Some actions have been delayed and carried forward.
- 5.2. Table 1 below shows the overall status as at 31 March 2022 for all actions relating to the Council's top risk register.

**Table 1 – Completion of top risk control actions**

Action status	Number of actions	Percentage of actions
Complete	14	70%
Carried forward to 2022/2023	6	30%
Total	20	100%

- 5.3. Actions identified during this year's review have been included within the 2022/2023 top risk control plan. This contains a total of 16 actions.

#### **6. Results of the review of the Council's top risks**

- 6.1. To assist the review process, the following broad criteria were recommended as a guide to concluding what constitutes a top risk:-
- ◆ it threatens delivery of corporate objectives
  - ◆ it impacts on other services or partnerships
  - ◆ there are financial impacts or it impacts on other key priority strategies
  - ◆ there are impacts of a social or demographic context
- 6.2. The Council's Risk Management Strategy uses a 5x5 risk scoring matrix to determine inherent and residual risk scores. The risk matrix is attached at Appendix 2.
- 6.3. Risks from last year's review, as detailed in the report to RASC on 15 September 2021 were mostly deemed to be still valid. The main changes to the top risks are summarised below:-
- ◆ 5 new risks have been added:-
    - ◆ The Council is unable to support households most impacted by the cost-of-living crisis, resulting in increasing levels of poverty, debt and damage to health
      - The focus of this new risk is on the support that the Council can provide to households, but it is important to note, with the gravity of the issue, the Council's support role is only a small part of the mitigation, with the Government and Energy Companies playing a lead role

- ◆ Disruption to Council services as a result of industrial action
- ◆ The Council fails to deliver the objectives of the Community Wealth Building Strategy
- ◆ Inability of the Council to effectively accommodate and support households who arrive in South Lanarkshire as part of refugee resettlement and the asylum seeker dispersal programmes
  - Partners will also play a role in mitigating this risk
- ◆ Failure to achieve the outcomes of the Council Plan
- ◆ the 'EU Exit' risk has been removed as this is no longer considered a corporate issue for the Council. Where residual risk issues remain to be addressed, these will stay on Resource risk registers and be managed accordingly
- ◆ the risk description on 'Funding' has been updated, to reflect the level of Government grant received, inflationary increases, rising energy costs, reduced income (cost-of-living crisis) and greater pressure on Council budgets
- ◆ the 'pandemic' risk description has been refocused to consider potential future events and residual effects of the current pandemic being managed at Resource level. The residual risk score has been reduced from 16 to 12
- ◆ the 'Council is materially affected by the recommendations arising from the independent review of Adult Social Care in Scotland' risk description has been updated to reflect the National Care Services (Scotland) Bill that was presented to Parliament on 20 June 2022, with the Scottish Government now committed to establishing a National Care Service by the end of the current parliamentary term in 2026
- ◆ the 'sustainable development and climate change' risk has been updated to reflect the recently approved strategy and pending development of an action plan to mitigate this risk
- ◆ the 'historic abuse' risk wording has been updated to reflect the opening of the National Redress Scheme and the continuation of the Scottish Child Abuse Inquiry
- ◆ the 'procurement' risk has been updated to reflect supply chain issues. The risk score has increased accordingly from 9 to 12
- ◆ the 'fraud, theft, organised crime and cyber attacks' risk has been updated to reflect the global increase in cyber attacks
- ◆ the 'lack of capacity and skills' risk has been updated noting difficulties with the recruitment and retention of staff
- ◆ the 'extreme weather' risk has been updated to cover droughts/water supply issues and wildfires
- ◆ IT developments and functionality - no change to the overarching top risk, however, there are three significant IT projects being progressed at present for the Integrated Housing Management System, the SWIS+ replacement and Fusion. Appropriate arrangements are in place to record and manage risks for each of these projects
- ◆ risk descriptions, controls and actions have been updated as required on individual risks, following discussion with risk owners.

- 6.4. The Council's top risk register is monitored on an ongoing basis and updates are reported annually to this Committee. Risk scores and rankings may be amended if new information comes to light that allows the position to be reassessed.
- 6.5. As a result of the above changes and taking account of the revision of risk scores, the top risk register for 2022/2023 is attached at Appendix 3.
- 6.6. Within Appendix 3, categories one and two relate to very high and high level risks. To maintain focus on the higher scored risks, those risks with a medium or low residual

risk score have been excluded. These risks will continue to be monitored at a Resource level to ensure that they are adequately managed.

## **7. Horizon scanning**

7.1. Through wider analysis, several areas that could pose potential threats and risks or are emerging issues and opportunities that could affect the Council were identified. Areas identified are listed below:-

- ◆ **Ash Dieback Disease** - Ash Dieback Disease is the most significant tree disease to affect broadleaved trees in the UK since Dutch elm disease gained prominence in the 1960s. Data from Europe suggests it will lead to the decline and death of 50% to 75% of Ash trees in Scotland over the next 2 decades. An Ash Dieback Action Plan is being developed to combat this risk in South Lanarkshire.
- ◆ **COVID-19 National Inquiry** - The terms of reference and a chair for a public inquiry into the handling of Coronavirus (COVID-19) in Scotland were announced by Scottish Ministers on 14 December 2021. This is a statutory inquiry under the Inquiries Act 2005.

It will provide scrutiny of and learn lessons from the handling of the COVID-19 pandemic in Scotland, to ensure that Scotland is as prepared as possible for future pandemics.

It is envisaged that as the Inquiry progresses, the Council will receive a number of Section 21 notices, which will be time intensive in responding to.

7.2. These areas will continue to be monitored to ensure that the Council is adequately prepared to respond where required.

## **8. Three lines model**

8.1. A model has been developed by the Institute of Internal Auditors which aims to provide assurance of the adequacy of control measures that are in place for strategic risks.

8.2. The intention of the model is to ensure that top risks are mitigated through 'three lines of defence', which are:-

Line 1 - Control by operational management

Line 2 - Control and compliance by functions that have an oversight role (for example Risk Management)

Line 3 - Independent assurance

8.3. Some initial work was completed by Internal Audit last year to group existing controls per the 3 lines model for individual top risks. Further work will be undertaken this year to revisit this for each of the updated risk control cards.

8.4. A Strategic Risk Assurance Map will subsequently be created by Internal Audit. It is envisaged that this will assist in identifying areas of potential weakness and also aid identification/articulation of controls.

## **9. Scope and appetite for risk**

9.1. The Council aims to be risk embracing, that is it will accept a tolerable level of risk in seeking service efficiencies and in agreeing control measures.

9.2. The level of risk facing the Council is measured both before (inherent risk) and after (residual risk) consideration of controls. The Council should never carry a very high

residual risk exposure as this would indicate instability, but a low residual risk exposure should also be avoided as this indicates lack of innovation.

9.3. The Council's universal risk tolerance levels were updated as part of the review of the risk management strategy last year, with the ideal risk profile defined as:-

- ◆ No more than 10 per cent of residual risks at a very high level
- ◆ No more than 15 per cent of risks at a high level
- ◆ Around 50 to 60 per cent of residual risks at a medium level
- ◆ No more than 30 per cent of residual risks at a low level

9.4. Table 2 below shows the top risks heat map, that is, it details the total number of risks for each individual risk score. Table 3 notes the overall risk profile for the top risks.

**Table 2 – Top risks heat map**

<b>Likelihood</b>	<b>5</b> Almost certain			<b>1</b>	<b>2</b>	
	<b>4</b> Likely			<b>3</b>	<b>3</b>	
	<b>3</b> Possible			<b>3</b>	<b>6</b>	
	<b>2</b> Unlikely				<b>3</b>	
	<b>1</b> Rare					
		<b>1</b> Negligible	<b>2</b> Minor	<b>3</b> Moderate	<b>4</b> Major	<b>5</b> Catastrophic
<b>Impact</b>						

**Table 3 –Top risks risk profile**

<b>Risk category</b>	<b>Risk rating</b>	<b>Number of risks</b>	<b>Percentage of risks</b>
<b>1</b>	Very high	6	28.6%
<b>2</b>	High	15	71.4%
<b>3</b>	Medium	0	-
<b>4</b>	Low	0	-

9.5. Despite the fact that the profile noted in Table 3 is out with the ideal universal risk exposure defined by the Risk Management Strategy, this risk exposure is reasonable as these are the highest level risks currently being faced by the Council.

9.6. The main changes to the risk profile from last year are:-

- ◆ 3 new very high risks have been added to the top risk register, 'the Council is unable to support households most impacted by the cost of living crisis resulting in increasing levels of poverty, debt, and damage to health'; 'the Council fails to deliver the outcomes of the Community Wealth Building Strategy'; and 'disruption to Council services as a result of industrial action'
- ◆ 2 new high risks have been added to the top risk register 'failure to achieve the outcomes of the Council Plan'; and 'Inability of the Council to effectively accommodate and support households who arrive in South Lanarkshire as part of refugee resettlement and the asylum seeker dispersal programmes'
- ◆ the high scored risk 'EU Exit' has been removed from the top risk register
- ◆ the risk score for the Pandemic risk was changed from being very high to high

- 9.7. The number of very high risks has increased from 4 to 6 from last year, with the vast majority of risks on the top risk register remaining in the high bracket. There are currently 15 risks scored at this level, two more than last year.

**10. Employee Implications**

- 10.1. There are no direct employee implications relative to this report. There are proposed risks which are classified under the heading of employee. Where this is the case the appropriate controls and actions have been included in the risk control cards and progress will be monitored.

**11. Financial Implications**

- 11.1. There are no direct financial implications associated with the Council's top risks. There are a number of proposed risks which are classified under the heading of financial. Where this is the case, the appropriate controls and actions have been included in the risk control cards and progress will be monitored.

**12. Climate Change, Sustainability and Environmental Implications**

- 12.1. There are no direct implications associated with the Council's top risks. There are a number of proposed risks which are classified under the heading of Environmental. Where this is the case, the appropriate controls and actions have been included in the risk control cards and progress will be monitored.

- 12.2. Sustainable development issues are included within the Council's top risk register as a standalone top risk and also through risks being linked directly to the Council plan outcomes 'Caring, connected, sustainable communities' and 'Good quality, suitable and sustainable places to live.'

**13. Other Implications**

- 13.1. Failure to demonstrate that risk is actively considered and managed can not only lead to avoidable financial loss but could also adversely affect delivery of services and could affect the Council's reputation. The work carried out to identify and review the Council's top risks and to determine the risks controls and actions necessary enables the Council to manage the impact.

**14. Equality Impact Assessment and Consultation Arrangements**

- 14.1. This report does not introduce a new policy, function or strategy or recommend a change to an existing policy, function or strategy and, therefore, no impact assessment is required.
- 14.2. Consultation has taken place with Heads of Service, Risk Lead Officers, Elected Members, Trade Unions and Resource Risk Sponsors.

**Paul Manning**

**Executive Director (Finance and Corporate Resources)**

5 October 2022

**Link(s) to Council Values/Priorities/Outcomes**

- ♦ Accountable, effective, efficient and transparent

**Previous References**

- ◆ Risk and Audit Scrutiny Committee – Review of Council's Top Risks/Year End Risk Management Report – 15 September 2021

**List of Background Papers**

- ◆ None

**Contact for Further Information**

If you would like to inspect the background papers or want further information, please contact:-

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