

Report to:	AUDIT COMMITTEE
Relevant Officer:	Steve Thompson, Director of Resources Karen Smith, Director of Adult Services Victoria Gent, Director of Children’s Services
Meeting	19 January 2023

STRATEGIC RISK REGISTER DEEP DIVE – FINANCIAL

1.0 Purpose of the report:

1.1 To consider a progress report on individual risks identified in the Council’s Strategic Risk Register and to consider the controls being implemented to manage the strategic risk relating to finance.

2.0 Recommendation(s):

2.1 To consider the controls being implemented to manage the strategic risk relating to financial.

3.0 Reasons for recommendation(s):

3.1 To enable the Audit Committee to consider an update and progress report in relation to an individual risk identified on the Strategic Risk Register.

3.2 Is the recommendation contrary to a plan or strategy adopted or approved by the Council? No

3.3 Is the recommendation in accordance with the Council’s approved budget? Yes

4.0 Other alternative options to be considered:

4.1 None.

5.0 Council priority:

5.1 The risk impacts on all of the Council’s priorities.

6.0 Background information

6.1 At its meeting in March 2022, the Audit Committee agreed to continue to invite Strategic Risk Owners to attend future meetings to provide updates and progress reports in relation to the individual risks identified on the Strategic Risk Register.

6.2 Does the information submitted include any exempt information? No

7.0 List of Appendices:

7.1 Appendix 6(a) - Strategic Risk Register Deep Dive – Financial

8.0 Financial considerations:

8.1 The controls being implemented will be done so within current budget constraints.

9.0 Legal considerations:

9.1 Risks need to be effectively managed in order to comply with relevant legislation.

10.0 Risk management considerations:

10.1 To enable Audit Committee to gain assurance that strategic risks are being effectively managed.

11.0 Equalities considerations:

11.1 Equality analysis should have been undertaken, where necessary, when decisions were made in relation to the identification of the actions identified in this document. As this report presents monitoring against pre-agreed actions, no further equality analysis has been undertaken as part of this report.

12.0 Sustainability, climate change and environmental considerations:

12.1 Sustainability, climate change and environmental matters should have been considered, where necessary, when decisions were made in relation to the identification of the actions identified in this document. As this report presents monitoring against pre-agreed actions, no further analysis has been undertaken as part of this report.

13.0 Internal/external consultation undertaken:

13.1 The progress report has been prepared in conjunction with risk owners.

14.0 Background papers:

14.1 None.

Appendix 6(a)

Risk Category: Financial

Risk: a) Insufficient funding to deliver services.

Risk Owner: Director of Resources

Gross Risk Score	25	Impact - 5	Likelihood – 5
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What impact does this have?

- Insufficient capacity to deliver stretched budget savings plans, income recovery and external funding applications.
- Unplanned overspends for a variety of reasons including demographic pressures, political and/or economic factors such as interest rate rises.
- Erosion of working balances and earmarked reserves.
- Impact on staff morale and recruitment and retention.

What opportunities does this create?

- Income generation opportunities.
- Partnership working.
- Mid-year budget reviews.

What controls do we already have in place?

- Medium Term Financial Sustainability Strategy in Place.
- Statutory requirement to balance the budget.
- Financial assurance processes set out in the Medium Term Financial Plan.
- Priority led budgeting process including investment of resources where needed.
- Monthly financial monitoring including achievement of saving targets and collection of income.
- Financial governance including Statutory Finance Officer, Corporate Leadership Team, Treasury Management Panel, Executive, Scrutiny Committee, Audit Committee and Full Council.

Net Risk Score	20	Impact - 5	Likelihood – 4
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What are we doing to further manage the risk?

Ongoing financial modelling to assess the impact of funding cuts particularly given the level of uncertainty beyond 2022/23 such as the review of the Fair Funding Formula (consultation due in the Spring), Business Rate Retention and New Homes Bonus.

The Council buy into LG Futures and SIGOMA who undertake modelling across the local government sector and provide insights for the Council. Following a recommendation made in an independent review of the Medium Term Financial Sustainability Strategy, the Council have recently signed up to undertake financial monitoring with a company called Pixel.

Some modelling of grants is undertaken by the Finance team to understand how various scenarios will impact on the level of funding received by the Council.

Ensure delivery of the Medium Term Financial Sustainability Strategy.

The 6-year Medium Term Financial Sustainability Strategy (MTFSS) covering 2021/22 – 2026/27 was approved by the Executive on 8th November 2021 and whilst the principles still stand, the current economic climate has had a significant impact on the supporting Medium Term Financial Plan (MTFP).

In order to respond to this volatile environment, fortnightly meetings are held between the Director of Resources and Finance team to review the Strategy and monthly refreshers are undertaken and reported to the Executive as part of the standard financial monitoring cycle.

What will these additional actions achieve?

The principles of the Medium-Term Financial Sustainability Strategies 2016/17-21/22 and 2021/22-26/27 have been used to successfully keep pace with and deliver budget savings plans year after year. However, this position is becoming more and more challenging as further budget savings are required coupled with increasing demand for services.

What barriers do we face?

The last 12 years has seen unprecedented volatility within local government finance: 9 years of successive central government funding cuts between 2011/12 – 2019/20 were followed by the United Kingdom's exit from the European Union, 2 years of a global pandemic with ongoing consequences and now a war within the European continent.

This has all conspired to produce a perfect storm of labour and supply shortages, pay demands, spiraling inflation and rising interest rates in an attempt to stem the pressure. During this period the Council has continued to i) deliver its annual budget in line with statutory requirements; ii) maintain its reserves and balances at stable and appropriate levels that reflect the risk environment; iii) consistently fund and deliver the ambitions of successive administrations; and iv) deliver for the people of Blackpool.

However, here in the present, sector experts and economic commentators cannot agree how and when these key drivers of the economy will land, which makes medium-term financial planning and financial management extremely challenging.

Do these actions contribute to the sustainability of the Council?

Current forecasts for 2023/24 at month 7 suggest that additional savings in the region of £35 million will need to be found thus potentially having an impact on the sustainability of a number of services across the Council.

Do these actions impact on the Council's finances?

Over the 12-year period 2011/12 – 2022/23 cumulative Revenue Budget savings amounting to £194.6m have been required to be made by Blackpool Council.

This is greater than the Council's current annual Net Requirement Budget of £160m and even more starkly the compound effect over the same period amounts to nearly £1.4bn of resource that has been removed from the Blackpool economy.

This reflects one of the highest cuts per head of population across local authorities in England and in an environment of growing demands upon services as befalling an authority with such recognised pockets

of significant deprivation.

Whilst the actions identified in the strategic risk register help to manage the budget situation this is becoming more difficult given additional and ongoing pressures.

How does this contribute to the Council Plan?

The financial sustainability of the Council impacts on all of the priorities and actions set out in the Council Plan.

Any links to other strategic risks?

The current economic climate is the most challenging of recent times. High inflation, rising interest rates, supply chain issues (particularly in relation to steel) and a lack of labour are leading to increased costs, primarily on capital schemes that are likely to span a number of years. A full review of capital schemes is therefore to be undertaken to establish any schemes where approved budgets may become insufficient, and potential overspends identified. Despite the pressures, all schemes are assumed to proceed. This impacts on a number of risks on the strategic risk register around commercial, project / programme and property.

In addition, the level of revenue budget available has a direct impact on how services are delivered impacting on all other risks included in the strategic risk register.

Any additional changes to this strategic risk?

The full-year forecast position at this stage of 2022/23 shows a deterioration in the Council's financial standing when compared with the estimated draft unaudited position as at the close of 2021/22 which show working balances of £6,075k. At month 7 working balances are expected to fall to a surplus of £1,319k by the end of 2022/23 after taking account of the budgeted transfer of £6,138k to working balances. Plans are still being developed to address the 2022/23 savings targets and also the in-year pressures identified in this report. At month 7, reported to the Executive on the 5th December 2022, the forecast overspend is £10,894k.

The revised MTFP identifies for planning purposes (at month 7) a financial gap of c£35m in 2023/24 reducing to c£8m in 2024/25, c£7m in 2025/26 and c£8m in 2026/27. Given the level of uncertainty, a number of assumptions have had to be made, and these will need to be revised throughout the budget planning process, and in advance of setting the budget at Council in February 2023. A more up to date position will be provided verbally at the Committee meeting post settlement.

Risk: b) Insufficient central government funding for social care.

Risk Owner: Director of Adult Services, Director of Children's Services

Gross Risk Score	25	Impact - 5	Likelihood – 5
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What impact does this have?

- Can't achieve what we need on our own for Blackpool residents.
- Council unable to balance budget.

- Council unable to meet statutory duties and deliver reforms.
- External care market becomes unsustainable.

What opportunities does this create?

- Greater alignment and joint working between the NHS and social care.
- Broader planning and delivery as part of the place based partnership for Blackpool.
- Consider options for shared services and opportunities for flexible use of new funding streams.

What controls do we already have in place?

- Medium terms financial planning in place for Adult Services due to the complexity of funding.
- Heads of Services and Finance Lead report budget issues to the Directors so that these can be addressed.
- Heads of Services and Finance Lead actively contribute to commissioning reviews and potential service developments.
- Performance and quality impact information is accurate and kept up to date to ensure a comprehensive view of actual performance. The vast majority of expenditure relates to fees for the provision of social care.
- National Association of Directors of Children's Services and Directors of Adult Services lobbying government for additional funding.
- Various time limited grants available however these are received at short notice and cover a short duration with little information on what purpose they are for.
- Participation in national reviews, such as the children's care review, to consider wider system issues with the care service.
- Adult social care link in with the ADASS performance networks and the LGA Care and Improvement Programme. This enables the Council to contribute to the discussions around national pressures.
- Adult Services were part of the national trailblazer pilot on charging reforms therefore being able to influence the future direction.
- A peer review planned for Adult Services later in 2023.
- Use of the CIPFA predictive financial model for Adult and Children's Services to help budget setting.
- Finance lead works within the finance network for social care and has provided some leadership to this.

Net Risk Score

20

Impact - 5

Likelihood -4

What are we doing to further manage the risk?

Ensure delivery of the medium term financial plan for Adult Services to stabilise expenditure across the service.

Work has begun on updating the Department's Medium Term Financial Strategy (MTFS) as part of a wider exercise to refresh the Council's overall financial plans for the next six years. Work is well underway with Finance and the Adults Senior Management Team to understand the current levels of activity and to model future demand.

Implement the adult social care charging reforms from the Build Back Better government paper once clarity is received.

The announcement of extra funding for the health and social care sector, as part of the government's Build Back Better plan, to increase capacity in the NHS and reform adult social care, in particular by introducing a lifetime cap on care costs of £86k, was progressing but has now been placed on hold by the government for review.

Blackpool were chosen as one of six Trailblazer authorities and have engaged with our residential and domiciliary market to conduct a Fair Cost of Care exercise. This has not been published as a comprehensive response was not received and the Council were not in control of how the information was provided therefore impacting on the robustness of the results.

A Market Sustainability plan will be developed to detail how Blackpool will attempt to bridge any gaps between our current fee rates and working towards the results from our costing exercise over the forthcoming years. National funding will be needed in order for this to be affordable and therefore the progression of this scheme will be dependent on decisions from the Government about when the scheme will go live and how this will be funded.

There is significant fragility in the social care sector which will impact on fee levels. Not only is recruitment in the sector difficult the current economic climate has seen overheads significantly increase due to inflation pressures.

Ensure delivery of the medium term financial plan for Children's Services to stabilise expenditure across the service.

In 2020, Children's Social Care and Resources worked together to develop a MTFS spanning 5 years. A two year check point is currently underway to review how the strategy is progressing and update the projections to support effective service planning and budget management. Once completed, an updated Medium Term Financial Plan will be presented to the Executive for approval.

What will these additional actions achieve?

The new joint post with the ICB for Adult Services should help focus available funding in the right area, whether this be health or social care, with an integrated approach to funding to help better manage demand across the Blackpool footprint. The strategic aims of the ICB include:

- Improve outcomes in population health and healthcare;
- Tackle inequalities in outcomes, experience and access;
- Enhance productivity and value for money; and
- Help the NHS support broader social and economic development.

In addition to the above as part of the Better Care Fund a Section 75 pooled budget agreement is in place which enables joint decisions being made by health and social care to help alleviate pressures in the NHS.

The Children's Services MTFS is underpinned by actions across the service that are designed to ensure that more children and families receive coordinated and effective early help. In 2021, a new Early Help

strategy across the partnership was launched, focussed on ensuring that services working closely with families can coordinate effective support for them when it is needed, and feel supported in doing so. The MTFs developed in 2020 set out a number of interventions designed to:

- Support the right families with early, targeted support that makes a difference;
- Challenge and support partner agencies to support families and prioritise children and families at risk of intervention so that they receive the help they need from the whole system;
- See fewer children and young people in our care; and
- See fewer children in residential homes, with a greater percentage of our children living with foster families recruited by the Council.

What barriers do we face?

Soaring demand for child protection services and adult social care provision, plus the rising costs of providing care and increased overheads for providers, are still creating a burden that current levels of local taxation and Government funding struggle to meet.

Do these actions contribute to the sustainability of the Council?

The two main areas for pressures in Adults Services are within Complex Cases and Short Term Care. There was a significant investment in this year's budget for Complex Cases yet demand has continued to increase at pace, likewise investment was made to increase the Short Term Care budget linked in to the impact of speedier hospital discharges and an emphasis on avoiding admission to hospital. The service has benefited by being able to reclaim some of this expenditure through the NHS and further savings have been seen against Homecare packages. Reviewing how services are delivered and funded to help minimise financial risk will help the service deliver against its Medium Term Financial Plan however this is difficult given the pressures described elsewhere in this report.

A new model for complex cases to better attribute costs to health and social care is currently being considered. One of the issues is that due to capacity in the NHS service, users are being passed over to social care earlier and therefore have more complex needs as well as an increased number of service users.

Another key challenge for adult social care is given the fragility of the care sector, if it fails the Council has to step in and this can also increase costs.

Therefore, whilst there is a Medium Term Financial Plan in place for adult social care which is used to forecast budget pressures and requirements, there are a number of factors which can impact on this.

Delivery of the savings described in Children's Services MTFs is critical to the sustainability of the Council and can only be achieved through a cross-council effort. While many aspects of delivery squarely lie with Children's Services social work professionals and managers, experience shows that the degree of change required will need extensive support from other officers with complementary skills, especially colleagues in Finance, Legal Services and the Corporate Delivery Unit. A cross-council project team working cohesively on the major projects listed in the paper and reporting to a senior officer in Children's Services, will be essential to maintaining momentum and achieving the scale of change

required. Given its centrality to the council's budget planning, there also needs to be regular progress reports to the Corporate Leadership Team, both overall, but also for the critical individual component projects. This is a significant transformational programme and needs to be managed as such.

Do these actions impact on the Council's finances?

Demographic pressures or changes in the volume of activity due to demand are evident in the adult social care system. These pressures include:

- An increase in the number of adults requiring a Complex Case package of care at an annual cost of £750k to the service;
- The requirement for more short-term support both at home and in residential care as people are discharged from hospital within very short timescales at an annual cost of £300k to the service; and
- A reduction in income from Nursing Placements causing a pressure of £200k to the service.

Within the past two years, since the last Medium Term Financial Plan, Children's Services have seen:

- Emerging impacts from the pandemic now increasing demand; and
- Growing pressure on the market for delivery of accommodation based services, both Fostering and Residential.

All of these factors have an impact on the Council's budget and without additional funding to cover the costs of these demands, more of the Council's budget needs to be allocated to Adult and Children's Services having a detrimental effect on other services.

How does this contribute to the Council Plan?

The work of Adult and Children's Services make a significant contribution to the Council's community priority.

Any links to other strategic risks?

The work of Adult and Children's Services impacts on a number of the Council's strategic risks. Those with direct links include:

- Poor health and wellbeing outcomes;
- Poor educational attainment;
- Provision for children with special educational needs and disabilities (SEND) is inadequate;
- Failure / unsustainability / removal of Children's Services;
- Failure of Adult Services;
- Lack of capacity and capability; and
- Supply chain failure (goods and services).

Any additional changes to this strategic risk?

As at the end of October 2022 the Adult Services Directorate is forecasting an overall overspend of £2,347k for the financial year to March 2023 on a net budget of £65m.

It should be noted that in previous years adult social care have always managed to deliver their service in budget and the fact that an overspend is forecast this year is a feature of the pressure that all services are under. During the Covid-19 pandemic some of the pressures were offset against temporary Covid funding however this sources of funds has now ended. National policy has moved to a model of discharge to assess therefore service users are coming to social care earlier in their journey and often require more acute levels of care.

As at the end of October 2022 the Children’s Services Directorate is forecasting an overspend of £6,285k for the financial year to March 2023.

Therefore there is a need to continue to lobby central government (Department for Levelling Up, Housing and Communities, Department for Health and Social Care and Department for Education in particular) along with local authority peers and networks and the Local Government Association for the funding necessary to cope with the burdens and demands presenting as a result of exceptional inflationary pressures and demographic demands upon statutory services.

Risk: c) Increased fraud and error.

Risk Owner: Director of Resources

Gross Risk Score	20	Impact - 4	Likelihood – 5
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What impact does this have?

- Erosion of internal controls and less resource to tackle fraud.

What opportunities does this create?

- Increased use of civil and criminal sanctions to further act as a deterrent.

What controls do we already have in place?

- Fraud Prevention Charter in place and reviewed annually which includes a fraud risk assessment, zero tolerance policy and fraud prevention proactive work programme.
- Various training courses available to staff including fraud awareness, and more tailored training is available for areas such as procurement and election fraud.
- Participation in the National Fraud Initiative.
- Anti-Money Laundering Policy and Procedure in place supported by an iPool course.
- Annual internal and external audit plans in place.

Net Risk Score	12	Impact - 4	Likelihood – 3
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What are we doing to further manage the risk?

Deliver the actions identified in the Fraud Prevention Charter 2022/23.

Progress is being made on the implementation of all of the actions identified in the Fraud Prevention Charter for the current financial year. These include:

- The Council has fully participated in the National Fraud Initiative 2020/21 exercise, ensuring all high risk data matches are investigated and pursuing all areas relating to Council Tax data matches. This exercise is in the process of being closed and new data submitted in preparation for the 2022/23 exercise where new matches are expected to be received late January / early February;
- Undertake the mandatory post-payment assurance exercise in respect of paid Covid-19 Business Grants, by use of National Fraud Initiative data matches and continuing to respond to requests for evidence by Central Government;
- One of the Counter Fraud Officers has now received training in the use of IDEA (data interrogation) software. This learning will be used to develop plans to enable proactive targeting of resources for fraud and error testing including creditors, council tax and business rates;
- Completion of the competency assessments contained within the Government Counter Fraud Professional Standards to identify potential areas of future personal development for staff. All Counter Fraud staff now hold the Accredited Counter Fraud Specialist qualification and further continual professional development is identified through the appraisal process;
- An internal Corporate Fraud and Investigations procedure manual is being developed and will include how joint work is undertaken with the Police, DWP and other local authorities;
- Continued participation in the cross-departmental supported housing project to ensure due diligence is undertaken on prospective providers and that good quality, value for money accommodation is provided; and
- A quarterly communication strategy is in place to help residents and staff understand how to deter fraud, report fraud and prevent themselves from being a victim to fraud or being accused of potential fraud.

What will these additional actions achieve?

The implementation of the above actions will help ensure that fraud risk to the Council is minimised through proactive and reactive work.

What barriers do we face?

The biggest challenge over the last 2 to 3 years has been that the majority of the Council's Counter Fraud resource was redeployed to lead on pre and post assurance work for the various business grant schemes available due to the pandemic. However, resource is now moving back into the team which has enabled some progress to be made on the proactive work programme and this will now continue.

The fraud landscape is constantly changing and therefore the team need to be alert to new potential types of fraud and work with Council services to try and safeguard against such risks through ensuring robust controls are in place alongside Internal Audit.

The cash economy continues to be a very challenging area as such transactions often occur outside of formal systems and processes which are used to provide intelligence to the team. However, ways in which to address this, including close working with other Council services such as Public Protection,

helps ensure continued awareness.

Do these actions contribute to the sustainability of the Council?

Any fraud committed against the Council impacts on public funds. Therefore, ongoing fraud reduces access to available funds to deliver essential frontline services to our residents.

Do these actions impact on the Council's finances?

Fraud committed against the Council results in a loss.

How does this contribute to the Council Plan?

The work of the Counter Fraud team contributes to the organisational resilience priority.

Any links to other strategic risks?

Fraud risk could be a feature of the vast majority of actions which the Council takes and therefore links to most risks on the strategic risk register. Areas of higher risk would include financial systems, procurement and contract management all which feature in the strategic risk register.

Any additional changes to this strategic risk?

The Charter is reviewed on an annual basis and this will be done in preparation for the new financial year. As part of this the fraud risk assessment is reviewed and updated and is included in an appendix in the document and will highlight any potential areas of new or increased risk. This will take into account that current economic climate which could give greater incentive for people to commit fraud.