

Audit, Standards and Risk Committee

24 March 2022

Risk Management

Is the paper exempt from the press and public?	No
Purpose of this report:	Monitoring/Assurance
Funding Stream:	Not applicable
Is this a Key Decision?	No
Has it been included on the Forward Plan?	Not a Key Decision

Director Approving Submission of the Report:

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Executive Summary:

This paper provides an update on the corporate risks of the Mayoral Combined Authority (MCA), which have been devised and reviewed over the preceding months. Management Board re-considered the Corporate Risk Register again during a meeting dedicated to the topic of Governance in February 2022. The latest version of the Corporate Risk Register is attached as Appendix A.

This paper provides the Audit, Standards & Risk Committee (ASRC) with a narrative summary setting out key activity the MCA is taking against the high and medium/high corporate risks facing the MCA.

Additionally, we attach, as Appendix B, the proposed final version of the Risk Management Framework document including a Risk Appetite Statement, which has been prepared following a specific request from members of the ASRC. A heatmap and bar chart have also been created to respond to a request from ASRC members and are included in the body of this paper.

What does this mean for businesses, people and places in South Yorkshire?

Effective risk management is a key principle of good governance and decision making, which enables the MCA to pursue its ambitions and objectives in the most effective and efficient way, bringing about better outcomes for residents and businesses in South Yorkshire.

Recommendations:

In line with the ASRC Work Plan, this paper provides the Risk Management Update Report for consideration at the March 2022 meeting. ASRC members are asked to note the updated position, agree the use of the Risk Management Framework incorporating the Risk Appetite Statement and raise any questions considered necessary.

It is worthy of note that a number of the Actions within the Corporate Risk Register fall due at the end of the 2021-22 financial year or very early in 2022-23 and it is anticipated that the next ASRC report will include additional narrative relating to actions planned to conclude in March and April 2022.

Consideration by any other Board, Committee, Assurance or Advisory Panel

Not applicable

1. Background

1.1 Following a full internal Management Board review and an Internal Audit Report in 2020, the Risk Management Framework of the MCA was revised and refreshed. The Audit, Standards and Risk Committee endorsed the revised policy and process in October 2020 and, following their recommendation, it was approved and adopted by the MCA at their meeting in November 2020.

Risk Management documentation and processes have been refreshed again as part of the Integration to bring together the MCA and the PTE. A refreshed Risk Management Framework document has been devised taking account of the good practice of both the PTE and MCA, comparable organisations and risk management standards and guidelines. The Framework document was approved at the last ASRC in January 2022 prior to inclusion of a Risk Appetite Statement.

Also, in January 2022, the Audit, Standards and Risk Committee (ASRC) agreed to stand down the previous MCA risk registers and replace with the Corporate Risk Register, attached as Appendix A to this paper.

As part of the dialogue with members of the ASRC a suggestion was made to prepare and utilise a Risk Appetite Statement, that has now been prepared. Management Board have agreed its use, at a meeting in February 2022. The Risk Appetite Statement is now included as an Appendix to the Risk Management Framework document (Appendix B to this paper).

We have also taken account of additional feedback from ASRC members to reach the proposed final version of the Framework document and processes.

2. Visual Summary

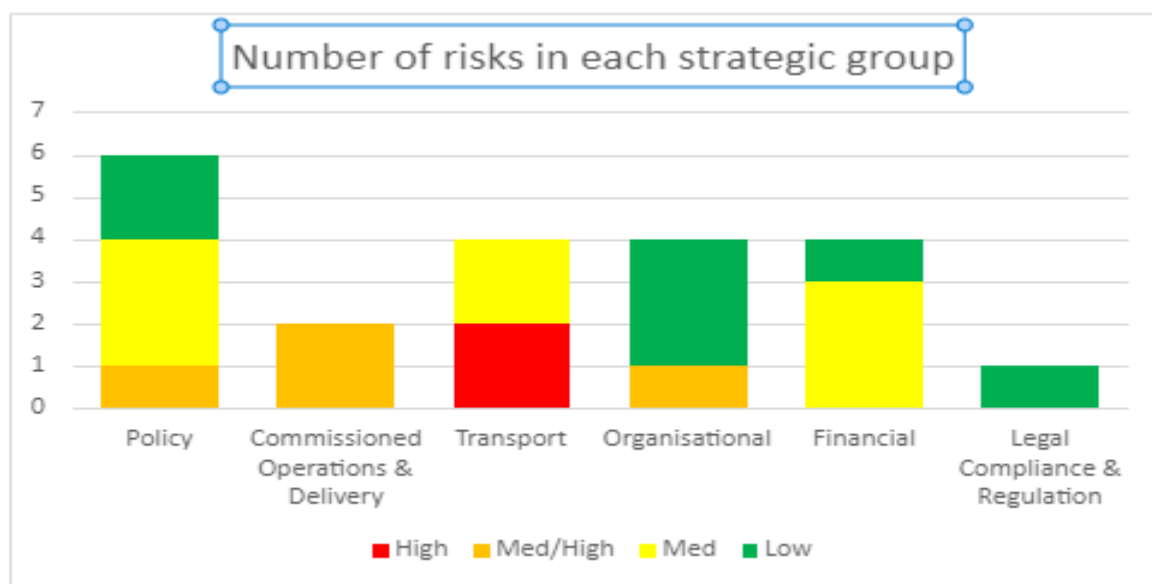
2.1 The graph and heatmap below provide a visual summary of the corporate risks and take forward a request from the ASRC to include dashboard information.

As we progress the refresh and build a technical risk management solution the intention is to develop electronic dashboard functionality to facilitate and present information in different visual formats.

Bar Chart

The following bar chart demonstrates the volume of risks and respective ratings by strategic group. The group with the greatest volume of risk is Policy. The group with the greatest volume of high-level risks is Transport. Commissioned Operations

and Delivery contains two medium/high risks. Further information relating to the high-level risks is recorded in section 3 of this paper.



Heat Map

The following heat map provides a visual representation of the position of the risks within the probability impact scoring grid. There are two high level risks and four medium/high. Further information relating to the six risks is recorded within section 3 below.

5. Critical	1	3	2	2	
4. Serious		2	2		
3. Moderate		2	1		
2. Minor	1	3			
1. Immaterial		1		1	
	1. Highly Unlikely	2. Unlikely	3. Possible	4. Probable	5. Highly Probable

3 Corporate Risk Reporting

3.1 High and Medium/High Risks

The majority of the most significant corporate risks that are categorised as high and medium/high relate to public transport. The key aspects are consistent with the January ASRC paper and the end of the financial year provides a key milestone date for three of the transport risks including those focused on recovery funding and the enhanced partnership. At the time of writing this paper the key aspects are:

Risk #008 Recovery Funding

Bus and light rail recovery funding is in place and has very recently been confirmed to October 2022. At this stage there is no certainty on the quantum that will be received by the region, nor any conditions of funding. Engagement with officials, to influence their considerations and the decision-making process, are continuing.

Given the continued uncertainty with medium to long term funding and the considerable challenges associated with the previous advice to work from home, coupled with cost inflation, operators are likely to plan for the worse-case scenario. This is leading to additional operator decisions to withdraw services across the four constituent areas.

Risks #009 and #010 Enhanced Partnership

Future funding for bus has been linked to the development and implementation of the Bus Service Improvement Plan (BSIP). The Transport and the Environment Board approved the submission of the Bus Service Improvement Plan (BSIP) to the DfT on 29 October 2021. This sets out the region's long-term ambitions for the bus network and was informed by the recommendations from the Bus Review. A funding decision is expected from government, in the first half of 2022.

The initial BSIP is intended to become a finalised Enhanced Partnership Plan, subject to due process and consultation. Following approval by the MCA in November 2021, we issued a formal notice to the bus operators informing them of our intention to enter a Statutory Enhanced Partnership, and to consult them on our Enhanced Partnership Plan (EPP) and Scheme (EPS). This statutory 28-day consultation process closed on 16 December 2021.

A public consultation of our EPP and EPS started in early January 2022 and ran to the end of February 2022. Approximately 1200 responses have been received and at the time of writing, analysis is being undertaken. A final decision to make an Enhanced Partnership Scheme, from April 2022, will be put to the MCA in March 2022.

Risk #011 Tram Services

Work is ongoing to develop options for the end of the existing tram concession as part of the Light Rail Development Programme, which has been established. A Programme Director has been appointed on an interim basis to develop and deliver the programme. Governance arrangements have been developed and the initial key milestones have been identified. The MCA Chief Executive and a small group of senior leaders and key employees are meeting weekly to discuss and drive progress forward on this major MCA programme and key risk area.

Tram Sustainability Plans, aligned to medium and long-term needs, continue to be developed and will be subject to the MCA assurance and decision-making process with an aim of a paper to the MCA Board in June 2022. Planning the activity is happening now and resources will need to be mobilised, subject to budget availability. The implementation of the contents of the plans will take several years to conclude in line with the five-year programme.

Financial reporting to the Board has flagged growing concern around the MCA's exposure to the tram's operating performance from 2024 onwards.

Risk #021 Adult Education Budget

An additional medium high-level risk has been recorded and is being reported into the ASRC, this relates to the Adult Education Budget (AEB). Analysis of provider performance data, at the mid-year point, has identified underperformance against each of the four procured AEB lots. This has led to the addition of a risk focused on provider delivery at the end of the academic year failing to achieve the intended benefits for South Yorkshire and its people.

Performance monitoring visits are currently being undertaken to gain a clear understanding of the AEB position, at a provider level, in order to define appropriate mitigation action to address the risk prior to the academic year end. Additionally, an evaluation exercise is to be commissioned, which is intended to lead to enhancements to existing processes to be applied to planning provision requirements and commissioning for 2022/23 academic year.

Risk #015 Cyber Security

Work is ongoing to achieve Cyber Essentials Accreditation and develop internal reporting. The actions recorded to manage the risk are due in April 2022, we will provide further update in June 2022.

3.2 Financial risks #018 Financial Health and #020 Supply Chain

The financial sensitivities within the environment in which the MCA operates, including the global and national supply chain pressures, impact on MCA delivery mechanisms and result in cost inflation and time delays. Whilst this is primarily driven by the pandemic and a pressure, which is being experienced more widely and is therefore not isolated to the MCA a financial update has been provided for ASRC.

The impact of the inflationary environment has become clearer and begun to emerge as a risk. In particular, the cost of buying back the existing portfolio of bus tendered services is now expected to be considerably more than current values. This cost escalation will impact upon policy choices and diminish the MCA's wider financial resilience to macro sustainability risks and the expected growth.

Inflationary pressures will exacerbate the prevailing concerns around the sustainability of the existing tram network. The MCA has agreed a second transport levy freeze for the forthcoming year, following a decade of reductions. This, along with forecast concessionary fare savings and the release of previously earmarked reserves will provide the basis of a financial mitigation package. That package will support a transition to a more commercial sustainable model but is in itself unsustainable in the longer-term.

The MCA has finalised its Business Planning processes and Budget exercise for 2022-23. This has provided an opportunity to align resource to the key challenges and priorities for the new year. There remain a number of key risks around at-risk funding streams, clarity over which has not yet been received. The Business Plan and budgets may need to be adjusted should risks around these crystallise in the new year. Performance monitoring will also be a standing item for management to consider.

Legislation that will confer the power for the MCA to borrow for its non-transport activity is currently progressing through Parliament following the consents received by the South Yorkshire local authorities. Application of these powers will be subject to a consultation launched by Government on the Capital Framework, and in particular the approach to providing for debt repayments. This consultation is of importance to the MCA's emerging Investment Strategy, and the MCA and partners have made representation to Government on proposals.

4. Consultation on Proposal

4.1 Not applicable

5. Timetable and Accountability for Implementing this Decision:

5.1 Not applicable

6. Financial and Procurement Implications and Advice

6.1 There are no specific financial risk implications however, failure to effectively manage risk could have significant financial and reputational implications and for the MCA.

7. Legal Implications and Advice

7.1 There are no legal implications as a result of this report.

8. Human Resources Implications and Advice

8.1 There are no human resources implications as a result of this report.

9. Equality and Diversity Implications and Advice

9.1 There are no equality and diversity implications as a result of this report.

10. Climate Change Implications and Advice

10.1 There are no climate change implications as a result of this report.

11. Information and Communication Technology Implications and Advice

11.1 There are no ICT implications as a result of this report.

12. Communications and Marketing Implications and Advice

12.1 There are no communications or marketing implications as result of this report.

List of Appendices Included

A Corporate Risk Register

B Risk Management Framework including the Risk Appetite Statement

Background Papers:

n/a