

Audit and Standards Committee

10 June 2021

Strategic Risk Monitoring

Is the paper exempt from the press and public? No

Reason why exempt: Not applicable

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 strategic risks.

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

Effective risk management is a key principle of good governance. Good governance 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:

Audit and Standards Committee Members are asked to note the update on strategic risks and identify any issues.

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 and Standards Committee endorsed the revised policy and process in October and, following their recommendation, it was approved and adopted by the MCA at their meeting in November. The workplan for the Committee sets out that strategic risk will be a standing item at each meeting.

- 1.2 This report provides an update on strategic risks.

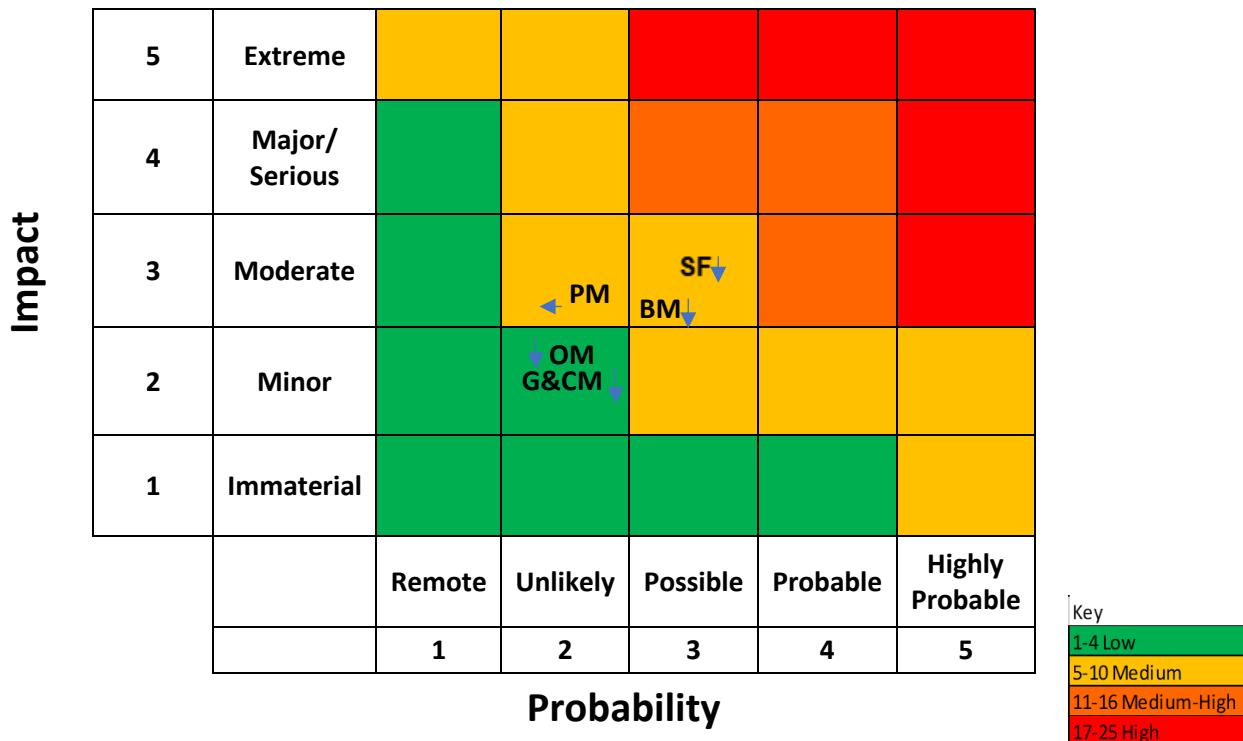
2. Key Issues

2.1 Strategic Risk Update - Summary

The table below provides a summary of the five strategic risk categories. Revised Risk Management Actions Plans are provided at appendix A-E.

| | Strategy Focus | Org M'Mt | Budget & Fin M'Mt | Prog M'Mt | Gov & Comp M'Mt | Total |
|---|----------------|----------|-------------------|-----------|-----------------|-------|
| No. of risks in category | 4 | 5 | 10 | 8 | 8 | 35 |
| Overall/average mitigated probability score | Yellow | Green | Yellow | Green | Green | |
| Overall/average mitigated impact score | Green | Green | Yellow | Yellow | Green | |
| Overall/average mitigated risk score | Orange | Yellow | Yellow | Yellow | Yellow | |
| No. of highly probable risks | 0 | 0 | 2 | 0 | 0 | 2 |
| No. of new risks added since last report | 2 | 1 | 1 | 1 | 1 | 6 |
| No. of risks closed since last report | 3 | 1 | 0 | 0 | 3 | 7 |
| No. of open actions | 3 | 2 | 6 | 3 | 5 | 19 |
| No. of actions overdue | 0 | 0 | 1 | 1 | 0 | 2 |

2.2 Heat Map



3. Risk Category – Strategy Focus (appendix A)

Summary

The risk score for the category ‘Strategy Focus’ remains at ‘Medium-High’. Three risks have been closed since the last report, two updated and two new risks have been identified.

3.1 Actions

The MCA has agreed the Strategic Economic Plan and the Renewal Action Plan and these, along with other policy documents, have been consolidated into a Corporate Plan and into detailed business plans. Alongside this work is underway on a strategic investment framework. The risk to the non-transport side of MCA focus is stable. The significant impact, which continues to be categorised as high and unable to be solely mitigated by local endeavours without national government investment continues to be public transport.

Based upon the priorities outlined in the Corporate Plan a review of the risk descriptions has taken place and risks #3 and #5 have been redefined in this section. The risks that have now been closed relate to not having a clearly articulated set of priorities and plans that could mean we will fail to respond to the downturn and the lack of defined organisational priorities and deliverable activity in the form of a corporate plan.

New risks have been added to include:

- the risk of not agreeing a strategic investment framework meaning we could continue to be reliant on short term national funding, and
- the risk resulting from a lack of clarity in government policy on levelling up resulting in an inability to plan effectively in the medium term.

In the period we have also updated and closed a number of the actions. The action relating to continued lobbying of government for support for public transport remains, and a new action linked to the development of the Strategic Investment Framework has been added.

3.2 Movement

The only change in probability score relates to risk #3 – failure to respond to challenges brought about the pandemic – where the unmitigated probability score remains ‘Medium/High’ but the mitigated probability score has reduced to ‘Probable’.

3.3 Risk Category – Organisational Management (appendix B)

Summary

The overall mitigated probability score for the Organisational Management category remains ‘Unlikely’ as does the overall mitigated impact score. The overall risk score for the category remains at ‘Medium’. There are no ‘Highly Probable’ probability scores or ‘Extreme’ impacts.

Since the last report one risk (#4) has been closed and a new risk has been added (#6) this relates to the risk of ‘failure to implement and consult on an effective plan to integrate the MCA Executive and PTE, leading to disruption, high turnover, complaints and poor performance against business plans. A separate report updating the Audit and Standards Committee on this activity is included at agenda item 9 and regular updates have been scheduled on the Committees work plan to ensure appropriate oversight of this significant organisational change.

A new mitigation control has also been added relating to the establishment of a monthly Programme Board and fortnightly Steering Group for integration to ensure any organisational capacity or capability issues are escalated for resolution.

3.4 **Actions**

Actions relating to the following areas have now been completed (see appendix)

- Adoption of Corporate Plan
- Performance Development Reviews
- HR monitoring information
- Review of non-establishment posts
- Options for employee voice forum

3.5 **Movement**

Since the last report the mitigated probably score for risk #2 (capacity or capability to deliver the emerging priorities and programmes) has increased from ‘Unlikely’ to ‘Possible’.

The mitigated impact score for #1 - increasing resignations and staff absenteeism – has decreased from moderate to minor.

3.6 **Risk Category – Budget and Financial Management (appendix C)**

Summary

The overall mitigated probability for the ‘Budget and Financial Management’ category remains ‘Possible’ and the mitigated impact score remains ‘Moderate’. The overall risk score remains ‘Medium’.

Risks #5 and 6 relating to the commercial viability or transport services and the re-franchising of Supertram remain ‘Highly Probable’.

A new impact has been added (#8) relating to the MCA not being granted borrowing powers, or not granted the debt cap that it requires to support its investment plans.

Key Issues

Budget and financial management risk continues to reflect the ongoing impact of, and fiscal response to, the pandemic, along with the change driven by the MCA’s continuing devolution journey.

The ongoing commercial sustainability of the passenger transport network remains highly contingent on the scale and longevity of government support. The MCA has adopted a financial strategy that allows it to play its role in supporting the network,

but this risk report reflects that it is predominantly the government that has the necessary powers and fiscal levers to shape post-pandemic provision.

At the time of writing there was an expectation that government funding for bus would continue to the end of the financial year, but uncertainty remained around the quantum of that support. Equally, whilst there was an expectation of some support for light rail the longevity and quantum remained unclear, with funding due to cease at the end of June.

In reflecting the issues previously identified, the MCA has used its Business Planning and Budget exercise for 2021/22 to re-set its financial plans, supporting a pivot – where possible - from reactive management of pandemic related pressures to proactive planning for the challenges that will lie ahead.

This planning has involved a re-cast of reserves and budgets to better mitigate known risks, whilst setting further resource aside to mitigate the latent potential for financial shock. Resource has been made available to support work now required around the development of Bus Service Improvement Plans, and further resource is set-aside to support the integration activity associated with delivering upon the Bus Review recommendations to merge the SYPTE into the MCA.

This latter issue presents a new challenge with incumbent risks for the MCA and is reflected in this document. Funding made available will help support the appropriate resourcing required to manage this change in a safe manner, whilst further affording the MCA the tools to exploit the opportunity to make the changes that will allow for the better delivery of services that the Bus Review envisaged.

Work continues around the development of the Mass Transit business case, and the preparations around the potential repatriation of operational services at the end of the current concession. Consideration is being given to how the totality of the renewals requirement could be packaged to better align with known government funding streams.

Finally, new risks are reflected in this document around the drawdown on borrowing powers which are available to the MCA following its devolution agreement. The receipt of these powers is contingent upon agreement of a borrowing ceiling with HMT, and the tabling and passing of secondary legislation through Parliament.

The receipt of borrowing powers will enable the MCA to shape its non-transport investment profiles in a manner in which it has not been afforded to-date where it has been reliant upon the timing of government funded streams. This opportunity presents a step-change in the maturity levels of the MCA's investment planning and the financial tools at its disposal but does come with associated risk. This iteration of risk reporting begins to reflect this issue.

3.7 Actions

Since the last report the MCA has concluded its Business Planning exercise, agreed the budget and reserves strategy for the year, and received (in informal session) its financial outturn report. Further work has also been undertaken to develop its approach to an investment strategy that will underpin how the MCA exploits its devolution money and powers.

The conclusion of the Business Planning and Budget exercise has allowed for the closure of a previous action around the sustainability of the MCA Executive. Whilst

vigilance will be required around this issue, the adopted financial plan will sustain the organisation in the medium term.

Work has also continued around the development of bus and tram plans to support the transition of the public transport network from its existing subsidy reliant model to a commercially sustainable one.

The emerging requirements for the development of a Bus Service Improvement Plan, and Tram Recovery Plans, as mandated by the Department for Transport, has meant that the previous action around the development of 'exit-strategies' has now been superseded. A new, related action has now been added.

A number of new actions have been added to reflect new strands of activity around integration; the drawdown of borrowing powers; and the development of an investment strategy.

Actions around the development of the Mass Transit business case have been reprofiled to better reflect the expected timing of the development and submission of those documents.

3.8 Movement

The probability score for risk #2 relating to income shortfalls has increased from 'Possible' to 'Probable' and the mitigated probability score has increased from 'Unlikely' to 'Possible'.

The probability score for risk #7 relating to the local contribution to mass transit has decreased from 'Highly Probable' to 'Probable' and the mitigated probability score has decreased from 'Probable' to 'Possible'.

The mitigated impact score for impact #1 relating to unsustainable deployment of reserves has decreased from 'Major/Serious' to 'Moderate'.

3.9 Risk Category – Programme Management (appendix D)

Summary

The overall mitigated probability score for the 'Programme Management' risk category remains 'Unlikely'. The overall mitigated impact score remains 'Moderate'. The overall risk score remains at 'Medium'.

One new risk (#8) has been added. This relates to integration exercise and the potential strain on the organisation, displaces focusing from existing priorities.

One new impact has been identified (#6) which relates to money that cannot be used within a funding window having to be returned to funding bodies, reducing the amount of funding investment priorities.

One new mitigation control has been implemented relating to a revenue reserve to support the resourcing of the Integration Exercise.

One mitigation weakness has also been identified relating to dependency of the integration programme on the passage of legislation through Parliament which may impact upon resourcing plans.

3.10 Key Issues/Actions

Since the last reporting date a number of new funded programmes of activity have become available, whilst the MCA has moved to operationalise new major areas of activity including AEB.

The process towards the operationalisation of AEB activity continues apace, with the procurement activity complete and the award of contracts and grant agreements imminent. Systems and processes have been designed and tested, and recruitment to new establishment posts is underway. The adoption of AEB represents a significant milestone in the MCA's devolution journey but does come with inherent risk. A significant amount of audit time has been allocated in the 2021/22 Audit Plan to support the management of that risk.

Programme performance continues to be monitored, with risk around the deliverability of schemes within funding windows a key concern. Work continues with delivery partners and funding bodies to address this, whilst a business process review is being undertaken by PWC. The findings of this review will support the deployment of a Project Feasibility Fund.

The report recognises a new risk around the integration exercise, and the latent risk that the scale of the exercise displaces focus from existing activity. The report recognises a mitigation around the resource that has been set aside through the Business Plan and Budget process to allow for additional skills and capacity to control this work.

Since the last reporting date, the Board has approved the creation of a Project Feasibility Fund and the Finance Director enabled a group wide transaction that freed up revenue funding to resource the Fund. Proposals around the deployment of this Fund will be informed by the Business Process Review activity, and it is now expected that proposals will be taken to the July MCA Board.

The Programme Management System has also moved towards operationalisation, and will be ready to go-live by the end of the month

3.11 Movement

There has been no movement in individual probability or impact scores.

3.12 Risk Category – Governance & Compliance Management (appendix E)

The overall mitigated probability score for the category 'Governance and Compliance Management' remains 'Unlikely'. The overall mitigated impact score remains 'Minor' however, the overall risk has increased from 'Low' to 'Medium'. This is largely due to the amendment and re-scoring of the risks relating to the integration programme and the approach to ensuring legislative and regulatory compliance.

Since the last report risk #2, #6 and #8 have been closed and one new risk (#11) has been identified. This risk relates to the potential failure to meet government requirements for web accessibility.

3.13 Actions

Several actions have now been completed these relate to:

- The rollout of new Contract Procedure Rules
- Mayoral Remuneration
- Operational Governance Improvement Plan
- Revised governance model for thematic boards
- Data systems for Adult Education Budget information

A new action has been added relating to the plan for addressing and managing web accessibility risks.

3.14 Movement

Following an amended to the description the mitigated probability score for risk #3 – failure to effectively plan for the integration of the MCA and PTE - has increased from ‘Unlikely’ to ‘Possible’

Following an amended to the description the mitigated probability score for risk #4 – failure to have an effective approach to ensuring legislative and regulatory compliance – has increased from ‘Unlikely’ to ‘Possible’.

The mitigated probability score for risk #7 – LEP gender diversity – has increased from ‘Unlikely’ to ‘Possible’.

The probability score for risk #10 – failure to plan and implement the 2022 Mayoral election has increased from ‘Possible’ to ‘Unlikely’ and the mitigated probability from ‘Unlikely’ to ‘Possible’.

The mitigated impact rating relating to potential financial penalties or litigation has increased ‘Minor’ to ‘Moderate’.

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 Failure to adequately manage risk could have significant financial implications 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 Any risks relating to equality and diversity will be captured in the new risk category of Organisational Management.

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 Strategy Focus Risk Management Action Plan
- B Organisational Management Risk Management Action Plan
- C Budget & Financial Management Risk Management Action Plan
- D Programme Management Risk Management Action Plan
- E Governance & Compliance Management Risk Management Action Plan

Background Papers:

MCA Risk Management Policy