

Audit, Standards and Risk Committee

21 October 2021

Strategic Risk Monitoring

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 Strategic Risks of the Mayoral Combined Authority (MCA), highlighting risks that have closed, new risks added and updating on actions.

Members are asked to note that the Management Board of the MCA are in the process of reviewing the risks, which relate to both the MCA and Passenger Transport Executive (PTE) risks. This is resulting in approximately 140 risks being categorised and sub categorised into consistent themes for read across the totality. The risks have been shared with Management Board in a programme of risk reviews. It is clear that we need to address the volume of risks reported to allow time to focus on the risks and controls that really matter to the MCA. This review will culminate in further development work to reach a new and transformed approach to risk management for the MCA from April 2022.

We will provide more information on proposals for the future of risk management over subsequent Audit, Standards and Risk Committee (ASRC) meetings.

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:

Audit, Standards and Risk Committee (ASRC) Members are asked to review the updated position on strategic risks and the associated controls and actions planned.

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.

In line with the ASRC’s Work Plan, Strategic Risk Monitoring scheduled for October 2021 and this paper presents the current Strategic Risks.

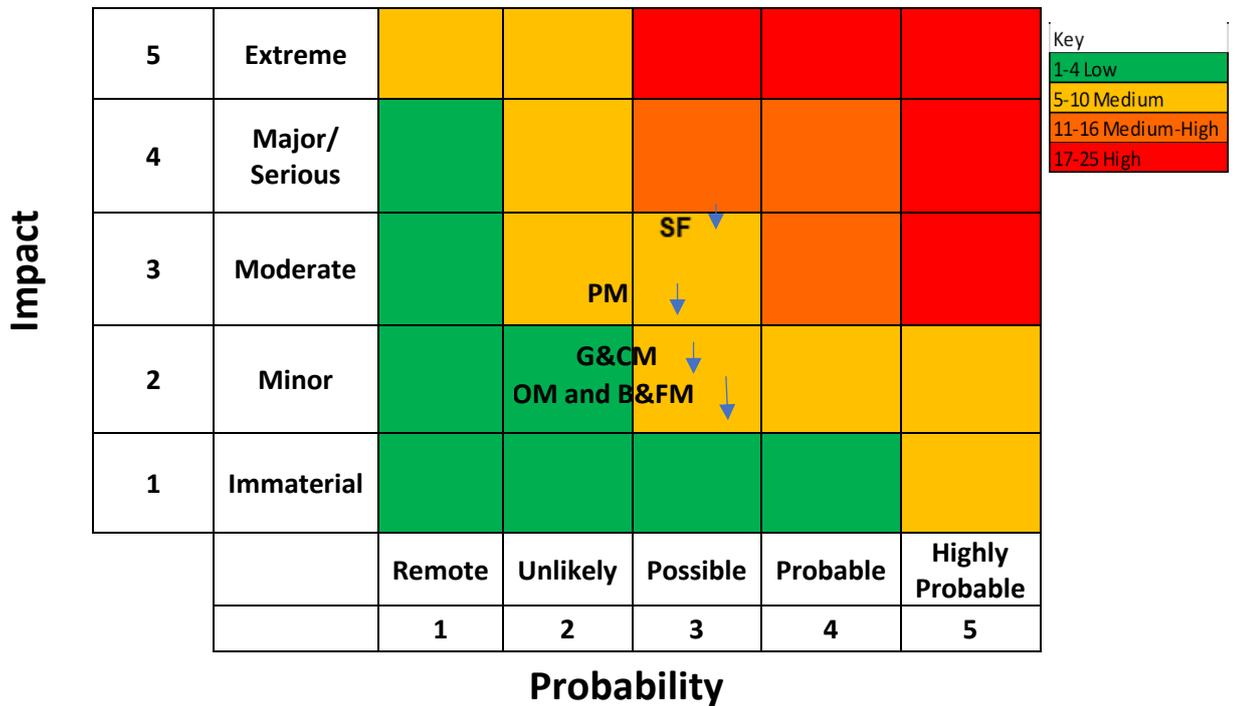
2. Key Issues

2.1 Strategic Risk Summary Update

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

	Strategy Focus	Org M'Mt	Budget & Fin M'Mt	Prog M'Mt	Gov & Comp M'Mt	Total
No. of risks in category	6	8	10	9	8	41
Overall/average mitigated probability score						
Overall/average mitigated impact score						
Overall/average mitigated risk score						
No. of highly probable risks	2	0	2	2	0	6
No. of new risks added since last report	3	3	0	1	0	7
No. of risks closed since last report	0	0	0	0	0	0
No. of open actions	6	4	6	5	6	27
No. of actions overdue	0	0	0	1	0	1

2.2 Heat Map



3 Proposal

3.1 Risk Category – Strategy Focus (appendix A)

3.1.1 Summary

The risk score for the category ‘Strategy Focus’ remains at ‘Medium-High’. Three risks (#1, #2 and #4) were closed prior to the last ASRC meeting and have now been removed from the Register and three new risks have been identified and added since the last report, resulting in six live risks.

Based on a review of the Strategy Focus category, the three new risks, #7 to #9, are primarily driven by recent events and the integration process. Integration risk reporting is currently held at an Integration Programme level and the ASRC have an agenda item to consider the progress of the Integration Programme.

New risks that have been added are:

- divergence of views between the Mayor and the MCA in agreeing a vision and a direction of travel for the region leading to a focus on small scale interventions and transactional activity rather than activity that will be transformational for South Yorkshire;
- election of a new Mayor in 2022 has the potential to change the direction of travel, priorities and programmes of the MCA; and
- the Integration process may create a disruption to the focus of the business leading to a failure to deliver the corporate and business plan of the organisation.

3.1.2 Actions being taken

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 well underway on a strategic investment framework and the associated Action to provide a current summary position associated with our plans for this, has been updated. It is proposed that the MCA will discuss options and agree a way forward on the key issues at the November MCA Board. Following this, the detail of the investment programme will be developed and Members will shape and agree this before the end of this financial year.

The significant impact, which continues to be categorised as high and is unable to be solely mitigated by local endeavours without national government investment continues to be public transport.

Bus and light rail recovery funding is now in place and confirmed to April 2022. For bus, from this point funding will be linked to the development and implementation of the Bus Service Improvement Plan (BSIP), which is planned to be submitted to the Transport and Environment Board in October 2021 and submitted to the Department for Transport by the end of October 2021 deadline. Consultation is planned to run from November 2021 to January 2022 with MCA approval for establishing an Enhanced Partnership required in March 2022 and implemented from April 2022.

Light rail recovery funding will end in April 2022 and at present there is no indication of any further funding being made available, which we are monitoring closely as there is a likely impact on Budget & Financial Management categorised risks. We are in the process of developing a tram sustainability plan (akin to the BSIP but for light rail) which will look at optimising services, increasing revenue and reducing costs where options exist.

In the period since we last reported we have considered and updated the sections within the risk register, updating the three existing actions and adding three new actions.

3.1.3 Movement

The new risks have been scored using the previously applied methodology and the ratings associated with the new risks have been factored into the overall scoring, which remains 'Medium-High'.

3.2 Risk Category – Organisational Management (appendix B)

3.2.1 Summary

The Overall Mitigated Probability score for the Organisational Management category remains 'Unlikely' and the overall mitigated impact score is 'Minor'. The overall risk score for the category remains at 'Medium'. There are no 'Highly Probable' probability scores or 'Extreme' impacts.

Since the last report, three new risks have been added:

- A new mayor will be elected in 2022, which may result in a shift in focus for the organisation to different priorities and require a refocus of the resource, capability and capacity within priority areas;
- Challenges in recruiting into key MCA posts is exacerbated due to skills shortages in the market; and
- As a result of Integration, failure to develop an organisation with a culture of ambition, which then fails to deliver the objectives of the organisation.

Additional existing mitigations have been captured and include Vision, Culture Model and Target Operating Model for the integrated organisation have been developed, an Integration Programme Plan and associated governance arrangements are embedding and enhancement of the mechanisms for communicating with employees and understanding employee engagement across the business have also been added. This will help in developing and defining the ways of working for the Integrated organisation.

A separate paper updating the ASRC on Integration is included within the Agenda and regular updates have been scheduled on the Committee's forward work plan to ensure appropriate oversight of this significant organisational transformation.

3.2.2 Actions

Three new Actions have been added:

- Manifesto Monitoring and engagement with potential Mayoral candidates
- additional workforce planning is to be developed to build capacity and capability in the team
- development of a hybrid approach to ways of working, established to ensure the business can continue to operate over the next few months and has a mechanism in place for managing any further pandemic driven arrangements.

It is proposed to close the Action 'Expansion of the HR team to ensure sufficient capacity and skills to lead and implement the integration and run an effective HR service' as three additional individuals has been recruited and a third party commissioned to deliver a HR related work package.

3.2.3 Movement

Considering the updates recorded within the Appendices and the addition of the three new risks the Overall Mitigated Risk Score remains 'Medium'.

3.3 Risk Category – Budget and Financial Management (appendix C)

3.3.1 Summary

The overall mitigated probability for the 'Budget and Financial Management' category remains 'Possible' and the mitigated impact score has moved to 'Minor' on the basis of the update below. However, the overall risk score remains 'Medium'.

Risks #5 and 6 relating to the commercial viability of transport services and the re-franchising of Supertram remain 'Highly Probable'. Whilst short term funding pressures have been released through recovery funding, up to the end of the financial year, these risk areas are still considered to be '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, which is scored 'Unlikely'.

3.3.2 Actions

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

Government funding for both bus and tram has now been committed to the end of the financial year, providing welcome near-term stability. Funding for bus has been linked to the development and implementation of the Bus Service Improvement Plan (BSIP). The BSIP has undergone a number of reviews with partners and stakeholders and will be submitted to the Department for Transport by the deadline at the end of October 2021.

Whilst there is a commitment from Government for recovery funding for light rail until April 2022, at present, there is no indication of any further funding being available beyond this point. A tram sustainability plan is in development (akin to the BSIP but for light rail) which will look at optimising services, increasing revenue and reducing costs where options exist.

In reflecting the issues previously identified, the MCA is entering its Business Planning and Budget exercise for 2022-23, which provides an opportunity to coordinate and consolidate its funding position against business plans for the year to ensure that we plan for the challenges that lie ahead.

Additionally, resource is set-aside to support the integration activity associated with the Integration Programme, covered as a separate agenda item, and the appointment of an Interim Risk Manager has taken place to free an employee to operate as the Integration Programme Manager. An Integration Budget has been established and monitoring is also taking place.

Work around the development of the Mass Transit business case has now been reoriented to reflect the likely funding source. With the potential for significant capital investment being approved in the Autumn Spending Review diminishing due to the wider state of public finances, the MCA has opted to 'modularise' the required investment into tram. This will spread the investment required over a longer-term but represents a more likely route to accessing funding via the new five-yearly City Region Sustainable Transport Settlements (CRSTS).

Work also continues around planning for the end of the current concession arrangement in 2024. The appointment of a new Project Director has provided extra capacity and focus for this change.

Finally, at the last review point new risks were 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 HM Treasury, and the tabling and passing of secondary legislation through Parliament. At the time of writing the negotiation with HM Treasury for this ceiling had largely concluded with the MCA's full request for the year being met.

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.

Since the last report the MCA has developed and submitted its bid into the City Region Sustainable Transport Settlement. At the upper level this bid sought £100m funding towards the Mass Transit project. This bid represents the first wave of asks into this new five-yearly grant stream as part of the new modularised approach to the renewals plan. Award of funding through this route will mitigate immediate risk around renewals requirements.

The MCA has also received a proposal from HM Treasury on its borrowing ceiling for the year. This proposal meets the MCA's request but will require formal MCA approval.

Looking forward, the MCA has commenced its Corporate and Business Planning processes which will support the MCA's approach to matching resource to priorities and managing key risks.

3.3.3 Movement

The primary Budget and Financial Management risks focus on Income Shortfalls, Financial and Commercial Viability and Refranchising the Supertram, which have relative risk scores.

There has been significant movement in the Impact measures, and this has resulted in the overall mitigated impact now being defined as 'Minor'. The Overall Residual Risk Score is 'Medium' however, this may change in the future given the output of the Comprehensive Spending Review and the impact for the organisation and economy of South Yorkshire.

3.4 Risk Category – Programme Management (appendix D)

3.4.1 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 risk #6 has been updated to reflect the expectation that key deliverability risk around the Transforming Cities Fund programme will be removed as the final year of TCF funding is rolled into the new CRSTS cycle.

Risk #5 has also been updated to reflect that the AEB has moved on from commissioning into monitoring and managing delivery in order that any underperformance is identified early to allow funds to be recycled through the supply chain.

One new risk (#9) has been added to reflect concerns around the pace of delivery on the Getting Building Fund and Brownfield Fund programmes. The inability to meet government funding targets in-year could see funding foregone.

3.4.2 Actions

Since the last report, the risk around deliverability of the TCF programme has abated as it was announced that the final year's funding would be rolled into the new CRSTS programme. It is expected that this change will remove the need to spend all TCF funding by March 2023.

Monitoring reports are now beginning to crystallise issues on the Brownfield programme, with the forecasts suggesting the MCA will fall short of its expenditure

targets. Work is underway with government to identify local mitigations and government flexibilities to manage this issue.

Close engagement with partners has also flagged a concern around the ability to meet all Getting Building Fund targets due to the collapse of a supplier. This will precipitate the need for the project sponsor to re-engage the market to find a new construction partner. Work is underway to find mitigations, and government will be engaged.

Work is underway with stakeholders across the region to examine opportunities to improve the business processes between the MCA and local partners. A Task and Finish Group chaired by a senior local authority officer is currently reviewing proposals.

3.4.3 Movement

Currently, Mitigated Probably has been reduced to 'Unlikely' for risks #5, #6 and #7 resulting in the Overall Mitigated Probability of 'Unlikely', Overall Mitigated Impact is 'Moderate' and the Residual Risk Score is 'Medium' in line with previous reporting.

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

3.5.1 Summary

Risk #2, #6 and #8 were closed prior to the last meeting and the detail now removed and no additional risks have been added. The overall mitigated probability score for the category 'Governance and Compliance Management' remains 'Unlikely'.

The overall mitigated impact score remains 'Minor' and the overall risk remains '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.

One existing mitigation has been enhanced to reference the work on the Governance Improvement Plan and a new mitigation added, which focuses on the Integration Programme and the associated governance arrangements.

3.5.2 Actions

Five of the actions have been updated to reflect the detailed movement since the last ASRC report, with one action is due to close. One Action is purely held for ongoing monitoring purposes, AEB Data Management, and has been updated to reflect the current position. One new Action has been added to acknowledge that Governance & Compliance Management is a workstream within the Integration Programme and risks and issues are being reported through the programme governance and separately to the ASRC.

3.5.3 Movement

The overall risk remains stable at 'Medium'.

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 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 Any risks relating to equality and diversity will be captured in the 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