

Horizon Scanning : Trends, Risks and Issues.

October 2023

An overview of potential
threats to local authorities

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Introduction & Background

County Councils have encountered a multitude of challenges and transformations that have significantly shaped operations and responsibilities over the last decade. These have included economic fluctuations and budget constraints along with evolving societal needs and technological advancements. Lincolnshire County Council has been at the forefront of addressing complex issues and adapting to changing circumstances. This period has witnessed a range of significant events, including the aftermath of a global financial crisis, the impact of austerity measures, the rise of digitisation, a global pandemic and subsequent national lockdown as well as the increasing demand for sustainable and inclusive communities. As a result of these, Lincolnshire County Council has been compelled to navigate a dynamic landscape, seeking innovative solutions to deliver essential service, foster economic growth, promote social wellbeing, and continue to engage effectively with our communities.

Some would suggest times cannot get more challenging, but as often is the case, emerging risks and threats surround us as we strive to continue our delivery of quality services.

The purpose of this report is to raise awareness of emerging trends, risks and opportunities facing local authorities across the country. It is not a comprehensive list of risks and threats facing Lincolnshire County Council. Lincolnshire County Council have some effective strategies and controls in place to resist numerous threats, and the assurance, governance and internal and financial control frameworks have significant strength within them.

Being aware of pressures and themes impacting upon other public bodies and local authorities can improve our approach to assurance and the reliability that the Audit Committee considers.

Annually the Institute of Internal Auditors (IIA) produces a risk focus report for the coming year. The report for 2024 asked Chief Audit Executives (Heads of Audit) what they believed were the top five risks facing their organisations. The top risks referenced in the report are:

1. Cyber security and data security
2. Human capital, diversity, talent management and retention
3. Changes in law and regulations
4. Macro economy and geopolitical uncertainty
5. Digital disruption, new technology and artificial intelligence.

Annually Mazars produce a risk horizon scanning document which focuses on public services and the intelligence they gain through their work with public sector organisations.

This report covers aspects within both reports to raise awareness of trends, emerging areas for focus and aims to provide prompts for the committee when considering the reliability and adequacy of reported assurances.

Economic Challenges

When considering economic challenges, the reality is often that multiple economic risks impact on other risks not identified as having dependency on financial risks. Where recent Section 114 notices have been issued, the narrative covers gaps in financial budgets, reserves and financial delivery. When considering the published reports alongside public governance actions, there is often an untold narrative where unforeseen circumstances, poor governance decisions or inadequately managed or considered risks develop with the added impacts from economic challenges.

Currently we are delivering our services within two ongoing economic situations, the cost of living and the cost of energy. Both continue to impact upon the cost of borrowing, the stability and availability of contractors and suppliers, and the ability to deliver services at a time of increased demand. These may not be identified as being impacted by financial aspects, however ensuring the impactors and root causes of risks are known and considered through the assurance work of the Committee, will add value to the application of directorate assessment and give assurance to the reliability of mitigations.

Research has identified the main areas for financial risks for assurance activity as:

Budgetary pressures: Having seen several high-profile failures and S114 notices continuing to be issued nationally, a time of financial difficulty is anticipated across many councils for several years. Areas for key consideration over the coming years include budget planning, level of reserves and achievement of planned savings as increased assurance would be expected. Local authorities are frequently meeting increasing demand using the same resource by looking at innovative methods of delivery. Whilst opportunistic it may add pressure to the sustainability when this model is applied.

Contractors and suppliers: As a Council we have a reliance upon contractors to deliver a large proportion of our key services. In times of economic instability, the risk of supplier failure increases and councils may require greater reliance upon the assurance that robust quality contract management activities are being undertaken.

Capital programmes: The reality of capital programme delivery may be impacted by rising costs, contractor financial viability and having access to affordable financing at appropriate levels.

Workforce Crisis

Numerous organisations have identified workforce aspects as significant risks which became more explicit following the Covid pandemic. This has been referred to as a 'recruitment crisis' by the Local Government Association (LGA). The Institute of Internal Auditors (IIA) lists talent management and retention as their second biggest institutional risk. The national press refer to the '2021 Great Resignation' which data supports as still ongoing three years later.

Each of the risks associated with human resources can have roots back to the economic challenges experienced by individuals. The pandemic saw a reassessment of employee priorities with some reprioritisation making quality of life, work life balance and working conditions as the focus for their employment decisions.

The main risks facing councils that relate to the workforce crisis include:

Recruitment: There are some areas where recruitment in County Councils is working well, however in 2023 the LGA shared that 74% of councils reported difficulties in recruiting the right calibre of staff. Recruitment techniques remain a source of discussion in how to attract people who want to work in local authority. New job hunters may not see the appeal that previous seekers have found when considering a career in a local authority.

Retention: Keeping the right people in the organisation to be able to deliver the increasing demands is a risk area. The use of monetary incentives has increased across the public sector, along with the expectation of flexible working to support the priorities of work life balance and quality of surrounding, both of which have increased since the pandemic. Effective performance management is key to retaining the right calibre of staff across councils and ineffective performance management can impact upon effective employee's morale and their retention rates. Competing with private sector salaries has been a consideration for the public sector for some time, however national figures show a larger proportion of local authority leavers are moving to other local authority employment rather than private sector.

Succession: The UK has seen a dramatic increase in resignations since 2020, which may be linked to employee's self-priority changes. Workforce demographics show that less than 5% of the council's workforce tends to be under 25 and more than 70% tend to be over 40. This could be developing a longer-term risk for succession planning. Effective and active succession planning as a mitigation now could reduce the risk of losing corporate knowledge.

Interims: The use of temporary appointments is not a new concept for Councils, especially at senior level, however national data shows there has been a steady increase in the use of interim or agency staff over the longer term. Interim roles bring specific skill to a project or cover for short term skill shortage, these have a lower risk impact than interim roles which exceed 12 months. Long term solutions bring additional financial burdens, due to increased costs, and sustainability risks arising from a lack of affordable or available candidates seeking permanent roles. Assurance for the effectivity of delivery and future-proofing skills is an area where assurance can be overlooked.

Technology, Digital and Cyber

Local Authorities are embarking upon a significant digitalisation transformation as it can deliver improved efficiencies as well as resource savings. This type of work may introduce risks that Councils may not be used to managing.

Digital transformation: Research shows that 82% of public sector leadership intend to increase their spend in maintaining and evolving IT systems, despite facing cost pressures. It is seen that IT is integral to delivering organisational strategy and/or driving efficiencies. IT tends to be an area of specialist language and supports the perception of unique skills and knowledge. Risks that require assurance when embarking upon digital transformation include:

Strategy alignment: The organisational strategy, vision and goals need to be established with how technology adoption will compliment this.

Executive level technology capability: Sufficient technology capability should be readily available to the decision makers to successfully execute digital strategy. IT executive

inclusion in the strategic and organisational architecture can support delivering the digital operating model. There is a shortage of employed IT specialists within the market resulting in council's being increasingly reliant upon interim roles which require additional financial resources.

Key processes & programme management: Clear definition of 'as-is' and 'to-be' business processes help to provide assurance to the delivery of core activities, both now and in the future. The programmes should support end to end IT management to provide assurance that technology is deployed in line with the objectives and requirements within the established framework, and that the end user can successfully adopt the changes with minimal impact.

Technology governance and business value: The underpinning by governance and standards in the technology strategy will be a source of assurance for delivery aims and architecture. Understanding the deployment, core operational implications, procurement strategy, current staff capability, with any skills and training needed, and scaling opportunities are areas that require evidence based assurances. Understanding and reporting key measures for success and tracking progress aids monitoring throughout the lifetime of the transformation.

Cloud adoption: Councils are adopting the public cloud infrastructure, platforms and applications. It is often perceived that concerns over risks relating to data privacy, security and resilience have been addressed by the provider. Whilst this is usually the reality; it remains essential to have considered the architecture's (model that defines the service design) sufficiency. Insufficient available capacity may impact upon outage and inappropriate configuration may introduce risks around security and controls.

Cyber security: As we know, cyber threats are present all around us bringing new attacks, data leaks and costs on a regular basis. Cyber security is recognised as a major preoccupation amongst leaders. It remains at the top of the IIA's Risk in Focus publication.

Ransomware: This is one of the biggest cyber threats to the UK. They come with significant financial and reputational costs beyond the ransom itself, with many stopping critical business services for days or even weeks. Local authorities and public sector organisations have suffered multiple high-profile attacks which are usually reported nationally. As a result, it is critical to have adequate and reliable assurance against cyber security best practice for the protection, detection and responses to ransomware attacks. Having an understanding of the mitigation provided with a particular focus on impact reduction along with assurances to inform the current risk profile is important.

Security culture and awareness training: The recognition that the culture (*the values and beliefs that underpin the norms of expected behaviour*) needs to align with the approach to awareness training may support the reliability of assurance provided. Whilst culture is harder to have assurances against, understanding proactive work and future action areas can provide a level of assurance.

Sustainability

The public has increased awareness of the environmental, social and governance (ESG) agenda. Since 2020 the country has experienced record high temperatures, drought-like

conditions and ‘unprecedented’ flooding. Climate change is no longer viewed as a problem of the future, but one impacting upon communities now. The government has set targets relating to climate change in the form of net zero carbon emissions in the UK by 2050. The Energy white paper (December 2020) sets the scene for risk and opportunities in responding to climate change. In 2023 the Climate Change Committee identified 61 climate risks. It was viewed that 34 of these required firmer action by government over the subsequent five years.

Key areas where climate change and the sustainability agenda are recognised at having potential impact upon local communities.

Flooding: Projections show that a two degree rise in temperature could increase flooding across non-residential properties by 27% by 2050 and 40% by 2080.

High temperature: The global rise in temperatures has highlighted the ability of organisations to deal with extreme heat. It is estimated that heat related deaths could triple by 2050. Employee welfare is a rising concern and local authorities may come under pressure to ensure they have adequate infrastructure to support their employees.

Energy: The recent war in the Ukraine has reinforced the volatility of energy prices. The government already had plans for addressing the expected shortfall in electrical supply and demand and support development through renewable initiatives.

Net zero: Local authorities can be pivotal in delivering local net zero efficiency. To do this well an understanding of the steps needed in achieving net zero requirements is required.

Fraud

Fraud costs local authorities significant sums of money each year and given the financial challenges in place, engagement with the National Fraud Initiative plays a key role in informing mitigative action. However, as the nature of fraud change this means the risks to councils change too. Keeping abreast of developments and how they may impact is essential.

Introduction of the Public Sector Fraud Authority (PSFA): In August 2022 the PSFA was launched with the aim to ‘hunt down fraud committed against the public purse’. Councils are not bound by the mandated action contained within their standard (yet) but engagement with their principles and shared practices, are an effective assurance source against agreed public sector standards.

Long standing prevalence: Existing risk areas for fraud against councils have long been recognised. Over time other frauds have been introduced yet existing fraud areas have not diminished or abated. The areas for a County Council include:

Procurement, blue badge, social care, insurance claims, internal fraud committed by staff (e.g., expenses, overtime). It is recognised that during times of financial pressure, individuals may take fraud opportunities they would not ordinarily consider. As services face increasing pressure from demand and staff capacity, there can be an unintended lessening of control systems. The pace, quality and knowledge of what counter fraud staff deliver is key in the provision of assurance in this area.

Developing frauds: Since the covid pandemic agile working has been introduced by numerous councils. There has been an increase in the number of local authority staff being

dismissed for carrying out more than one job. Whilst it is not illegal to have more than one job or employer at the same time, consideration for our employment contracts, agency contracts, HR policies and recruitment methods must align with our expectations at each employment tier.

Projects and programmes

The delivery of public sector projects has frequently been critiqued publicly. In times of economic challenge, the introduction of technology driven change is appealing. There have been huge advances in the amount of technology changes available and the array of uses for artificial intelligence (AI) can be seen to create efficiency and cost savings (e.g. data analysis and demand mapping). As a provider of services, there are additional aspects that require consideration over just financial savings and efficiency. Risks that are often associated with technology driven changes include:

Lack of skills, depth of understanding, experience/understanding of technology applications, and ineffective or incomplete technology road mapping. Being cognisant of the potential impact upon business-as-usual activities and how unsuccessful technology deployment impacts engagement or manual controls, are often overlooked at the planning, oversight and delivery points in projects. The application of change management should be part of the assurance provided to increase the likelihood of successful delivery.

Capital projects and programmes: Capital projects have always faced risks from regulation changes, market conditions and project interruptions. In the current market, the likelihood of market conditions and economic factors increase and create risks such as inflation risks leading to higher project costs, interest rate increases may impact upon borrowing rates, supply risks through materials theft, resource shortages and contract operational issues. Delivering effective contract visibility and oversight ownership and reporting can provide greater assurance to all areas of risk.

Capital contracts which are reliant upon third party arrangements usually have greater susceptibility to cost controls, project impacts, coordinating changes and monitoring progress through accurate reporting and forecasting.

Conclusion

In conclusion the report provides risk patterns emerging from recent events to aid thinking about assurance, risk mitigation and challenge and issue awareness. Lincolnshire County Council has an effective risk management service, awarded a level 4, Embedded and Integrated, in the last externally commissioned internal audit (2022). The audit estimated Lincolnshire County Council to be in the top 10% of local authorities for its risk management practices.