

Audit Committee

25 June 2008



The Work of Corporate Risk Management in relation to the Year April 2007 – March 2008

Report of Keith Thompson, Head of Internal Audit and Risk Management on behalf of the Corporate Risk Management Group

1. Purpose of Report

The purpose of this report is to give an insight into the work carried out by the Corporate Risk Manager and the Corporate Risk Management Group during the year April 2007 – March 2008. As well as being good management practice, this report also responds to the Key Lines of Enquiry in the Use of Resources element of the Comprehensive Performance Assessment.

2. Background

A summary setting out how the Council deals with the risk management process is detailed in Appendix 2. The key achievements of risk management in 2007/ 08 are detailed in Appendix 3. The risks covered by this report are assessed and managed at both a service and corporate level within Durham County Council. Throughout this report, both in the summary and the Appendices, all risks are reported as Net Risk, which is based on an assessment of the impact and likelihood of the risk occurring with existing controls in place. The report contains of a summary of current strategic risks in attached Appendices 4 and 5.

3. Local Government Review (LGR)

Risks related to the LGR are being managed within the Programme, and these risks are distinct from the service and corporate risks of the County Council covered by the remainder of this report. The Corporate Risk Manager of the County Council is providing support to the Programme in the management of risk.

4. Current Status of Risks to the Council

At the end of March 2008, the major risks being managed were:

- Failure to effectively manage the implementation of the LGR Programme. There is a process in place to manage the risks to the Programme. This is part of the overall programme governance structure, which has been established to reduce the impact and likelihood of this strategic risk occurring.

- Failure to effectively implement an equality proofed pay structure under Single Status and Job Evaluation. Management continue on an ongoing basis to actively address these risks.
- Failure to deliver the Building Schools for the Future programme within time and budget, with minimal disruption to service delivery. Risks are managed by the project team, and key risks are highlighted monthly to the project board.
- Failure to effectively implement the proposed Waste Management Contract. Risks are managed by the project team, and key risks are highlighted to the joint Member/ Officer Waste Management Contract project board.

5. Summary of the changes to major risks in 2007- 08

Services formally review their risks during the year, and consequently, there have been a number of changes to the top risks compared to the last annual report. A major factor in the changes has been due to the increased risk awareness and experience of managers, resulting in improved quality of risk assessments. In addition to the increasing risks following the commencement of the LGR Programme, other major changes to note include:

- Risks surrounding the effectiveness of managing commercial relationships and projects have been identified and assessed as significant enough to be included in the strategic risk register.
- The project to implement a corporate Contact Centre has now been completed, and consequently, this is no longer a strategic risk to the Council.
- The risk that planning enforcement procedures do not follow the due process in planning control has reduced, following the implementation of a number of measures. It is believed that, at the present time, no further controls can be implemented. Again, this is no longer considered a strategic risk to the Council.

6. Emerging risks

In the quarter January to March 2008, no major items emerged which raise a potential significant risk.

7. Recommendation

That Audit Committee Members note the contents of this report

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on behalf of the Corporate Risk Management Group**

Appendix 1: Implications

Local Government Reorganisation

(Does the decision impact upon a future Unitary Council?)

Risk management covers the Council's progress towards a Unitary Council.

Finance

Addressing risk appropriately reduces the risk of financial loss.

Staffing

Staff training needs are addressed in the risk management training plan.

Equality and Diversity

None

Accommodation

None

Crime and disorder

None

Sustainability

Moving forward, risk management will increasingly highlight the key risks around sustainability.

Human rights

None

Localities and Rurality

Managing risk will positively impact localities by improving the Community Leadership of the Council.

Young people

None

Consultation

None

Health

None

Appendix 2: Background

To date within the Council, a large amount of work has already been carried out in shaping and developing our approach to risk management. In summary, Cabinet and the Corporate Management Team have designated the Deputy Leader of the Council and the County Treasurer as Member and Executive Risk Champions respectively. Together they jointly take responsibility for embedding risk management throughout the Council, and are supported by Keith Thompson (Assistant County Treasurer), the lead officer responsible for risk management, as well as the Corporate Risk Manager. Each Service also has a designated member of staff (the Service Risk Manager) to lead on risk management at a Service level, and act as a first point of contact for staff who require any advice or guidance on risk management.

Collectively, the Service Risk Managers and the Corporate Risk Manager meet together as a Corporate Risk Management Group. This group monitor the progress of risk management across the Council, advise on corporate and strategic risk issues, identify and monitor corporate cross-cutting risks, and agree arrangements for reporting and awareness training.

An Audit Committee is in place, and one of its key roles is to monitor the effective development and operation of risk management and overall corporate governance in the Authority.

It is the responsibility of the Chief Officers to develop and maintain the internal control framework and to ensure that their Service resources are properly applied in the manner and to the activities intended. Therefore, in this context, Heads of Service are responsible for identifying and managing the key risks which may impact their respective Service, and providing assurance that adequate controls are in place, and working effectively, to manage these risks where appropriate. In addition, independent assurance of the risk management process, and of the risks and controls of specific areas, is provided by Internal Audit. Reviews by external bodies, such as the Audit Commission, Ofsted and CSCI, may also provide some independent assurance of the controls in place.

Risks are assessed in a logical and straightforward process, which involves the Risk Owner (within the Service) assessing both the impact on finance, service delivery or stakeholders if the risk materialises, and also the likelihood that the risk will occur over a given period. The assessment is confirmed by the Service Management Team, and Chief Officers agree their Service Risk Register with the Cabinet Member responsible for their Portfolio Service.

Appendix 3: Achievements in 2007-08

The main achievements of risk management in 2007-08 are:

- Risk management is assessed as part of the Key Lines of Enquiry in the Use of Resources element of the Comprehensive Performance Assessment. In the 2007 assessment, our score improved from level 2 to level 3.
- Independent internal and external reviews of the risk management function, undertaken during the year, concluded that the Council is embedding risk management into the wider business processes, although improvements can always be made.
- Members are supported in their strategic decision-making following the implementation of a process to assess and report risks associated with Key Decisions.
- Risk management training for appropriate staff, and for Members from the Council, the Durham Police Authority, the County Durham and Darlington Fire and Rescue Authority and the Parish Councils has been delivered under a series of courses designed by the corporate risk management team.
- The facilitation of a number of risk management workshops on key projects, such as the Waste Management Contract, has taken place.
- Reports are now presented to the newly constituted Audit Committee, in addition to Corporate Management Team and Cabinet.
- As part of our annual review of risk management arrangements, the Cabinet approved the roles and responsibilities for risk management.
- A risk management page has been implemented on the Intranet to improve communication.
- Key documentation, such as the strategy, policy and manual, have been reviewed and improved.

Appendix 4: Current Major Risks facing Durham County Council as at 31 March 2008 (summary)

This table reports the top 10 Net Risks (i.e. the Council's strategic risks) as at 31 March 2008. These risks have both a high impact and are considered at least possible to occur with the existing controls in place. Details for each of these risks are included in Appendix 5.

	Critical						
↑	Major						
IMPACT	Moderate						
↓	Minor						
	Insignificant						
	LIKELIHOOD	Remote	Unlikely	Possible	Probable	Highly Probable	
	← →						

Appendix 5: Current Major Risks facing Durham County Council (details)

This table reports the details of each Net Risk highlighted in Appendix 4.

No.	Service	Risk	Potential Impact if risk is not managed	Recent progress in implementing actions	Proposed Further Treatment to mitigate the Risk
1	Strategic	Failure to effectively manage the implementation of the LGR Programme.	<ul style="list-style-type: none"> • Failure to achieve full benefits realisation • Reputational damage • Adverse impact on service delivery • Adverse impact on industrial relations 		Risks are being managed within the Programme at various levels, under an agreed process. This is part of the overall programme governance structure, which has been established to reduce the impact and likelihood of this strategic risk occurring.
2	Strategic	Failure to effectively implement an equality proofed pay structure under Single Status and Job Evaluation.	<ul style="list-style-type: none"> • Employee litigation. (including recent case law regarding job evaluation). • Financial cost of equal pay/equal value claims. • Poor employee relations. • Performance fall off. • Major potential impact on service provision, particularly on small groups of former manual workers. • Potential further equal pay claims from the Green book and Red book trades unions. 	Management continue on an ongoing basis to actively address these risks.	Complete Single Status Project.
3	Strategic	Failure to deliver the Building Schools for the Future programme within time and budget, with minimal disruption to service delivery	<ul style="list-style-type: none"> • Programme not delivered within timescales. • Budget overruns require extra funding from Council. • Opportunities missed for radical change in use of school sites/ buildings. • Programme cannot be agreed by Members. • Deterioration in relationships with District Councils where they do not agree with the Programme. • Damaged reputation of Council if it fails to deliver. • Education standards reduce at individual schools due to disruption of major building works. 	The BSF Board is considering options which will ensure that value for money is achieved for the Council.	Project management controls and framework in place. The next milestone which will be achieved is to close dialogue at the end of August 2008.

Appendix 5: Current Major Risks facing Durham County Council (details)

This table reports the details of each Net Risk highlighted in Appendix 4.

No.	Service	Risk	Potential Impact if risk is not managed	Recent progress in implementing actions	Proposed Further Treatment to mitigate the Risk
4	Environment	Failure to effectively implement the proposed Waste Management Contract.	<ul style="list-style-type: none"> Funds will be diverted from other Council budgets. Extra funding from increased Council Tax. Reputational damage. 	Due to re-launch, key strategic project risks have been restated for Project Board approval. Project plan and timeline are formulated, supported by a first stage project budget. The production of the Strategic Business Case will be subject to a Gateway "0" review	<ul style="list-style-type: none"> Longer-term cost and risk issues will be addressed during the work undertaken to produce a Strategic Business Case. Short term issues will be addressed in the Medium Term Financial Plan.
5	Strategic	Failure to support well-being of workforce	<ul style="list-style-type: none"> Reduced productivity. Targets not attained. Lack of commitment. No psychological contract. Potential high turnover. Lack of employee satisfaction leading to poor engagement with customers. Higher recruitment and training costs. High absence level/turnover. 	<p>A number of measures have been implemented, namely:</p> <ul style="list-style-type: none"> Stress Policy and Framework. Improved links into 'Strategic Health Improvement' initiative, and with Corporate Health and Safety group to horizon spot emerging work-related issues. Improvement to make induction more consistent. 	<ul style="list-style-type: none"> 'Well-being at Work' strategy being developed. Reviewing the role of Occupational Health.
6	Strategic	Financial implications of increasing fuel and energy costs.	<ul style="list-style-type: none"> This increased cost may lead to budgetary pressures on frontline services. Increasing fuel costs may reduce the potential for businesses to invest in the County, and therefore impact the achievement of the 'Economic Well-being' targets. Charges to the public to use Community facilities e.g. schools, may increase, reducing the use of these facilities, particularly by lower income groups. Damaged reputation of the Council if the media reports that we cannot demonstrate greatest Value for Money in procurement. 	<ul style="list-style-type: none"> Regional consortium have strengthened the existing Utilities management Team. This additional resource will help 'move' some issues from local authority to the consortium. 	<ul style="list-style-type: none"> External – Procurement energy expert to be employed by Regional Consortium. Refocus energy management control unit.

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No.	Service	Risk	Potential Impact if risk is not managed	Recent progress in implementing actions	Proposed Further Treatment to mitigate the Risk
7	Environment	Failure to improve the economic well-being of the County	<ul style="list-style-type: none"> • Overall aim of 'Building a Strong Economy' will not be realisable • LAA stretch targets not achieved • Relative increase in poverty in the County; • Increased 'emigration' of citizens from the County: leading to changing demographic profile • Increased difficulty in achieving 'Sustainable Communities' • Reduced funding for business development and community projects 	<ul style="list-style-type: none"> • An investment plan for Single Programme funding is currently being prepared for 2008-2011. Meetings with One North East have taken place to negotiate this. • Member of the regional Negotiating Team for the new ERDF programme, and a meeting with the European Commission has recently taken place. 	<ul style="list-style-type: none"> • Lobbying Government Office North East and One North East for better deal for Durham • Participating in regional negotiations for new funding programmes • Researching new opportunities • Complete consultation process for Economic Strategy document
8	Corporate Services	Projects may not be managed effectively.	<ul style="list-style-type: none"> • CPA Use of Resources not positively responded to. • Support processes do not provide consistent information for Annual Efficiency Statement • Changes not prioritised in terms of business need and aligned to corporate and services priorities • Projects not delivered on time and within budgets • Duplication of effort as more than one Service tackling a common change 	Project management processes have been developed for a number of major projects – BSF, Waste Management, DRIVE and Resource Link – which will form the basis of a more consistent approach for other projects in the future.	<ul style="list-style-type: none"> • Recognise and fund project management development • Expose all projects to appropriate Gateway Reviews • Project Management to be a core competency • Adopt a consistent and appropriate project management methodology
9	Corporate Services	The commercial relationships with external commercial partners may not be managed effectively increasing the risk that the Council will not obtain best value from the relationship	<ul style="list-style-type: none"> • Council may over commit itself in a Contract • Contracts agreed which are not the best deal negotiable • Council 'tied in' to suppliers • Excessive termination penalties • Legal challenges against award of contract • Reduced quality of service delivery when service level requirements of contract are weak 	Contract management software is currently being evaluated. The implementation of procurement dual accountability with Services is underway.	<ul style="list-style-type: none"> • Commodity management approach • Supplier relationship management • Dual accountability/business partnering <p>Being developed and forming part of procurement 'model' for new authority.</p>

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No.	Service	Risk	Potential Impact if risk is not managed	Recent progress in implementing actions	Proposed Further Treatment to mitigate the Risk
10	Customer Services	Failure to achieve successful implementation of new Financial Systems	<ul style="list-style-type: none"> • Need to find alternative method of paying suppliers etc • Reputational damage • Staff discontent • Adverse media coverage • Potential financial cost of using alternative methods 	Project management controls and framework in place. Risks are being managed within this framework.	<ul style="list-style-type: none"> • Ensure adequate IT security and business continuity arrangements are in place • Ensure IT infrastructure meets proposed user population size and meets pre defined performance standards.