Audit Committee

5 December 2008

Corporate Risk Management

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 period July – September 2008.

As well as good management practice, this report also positively responds to the Key Lines of Enquiry in the Use of Resources element of the Comprehensive Performance Assessment. Risks are assessed and managed at both a service and corporate level. Throughout this report 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.

3.2. Local Government Review (LGR)

Risks related to the LGR are being managed within the LGR 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. Management assessed that the overall risk of failing to implement the LGR Programme is low, as it is being effectively addressed by the existing programme governance structure.

3.   Current Status of Risks to the Council

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

- Legal challenges on equal pay will potentially result in a significant financial cost to the Council. Management continue on an ongoing basis to actively address this risk.

- 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.

- Failure to support well-being of workforce. Management continually monitor trends closely to establish if our strategies and interventions support reductions in absence.

- Failure to achieve successful implementation of new Financial Systems. The Oracle system has now gone live, and this risk will reduce considerably in likelihood if no significant problems occur in the post implementation period.

4. Changes to major risks in this quarter

Currently, the cost of fuel and energy is reducing. Nevertheless, the volatility of the market remains, and therefore this remains a high risk for the foreseeable future.

5. Emerging risks

In the quarter July to September 2008, the major item which emerged as raising a potential risk is the implications for local authorities of the current global financial crisis. There are no significant new risks at present to the Council resulting from this, but management continue to monitor the situation to identify and manage any risks as they arise.

We have re-examined the level of risk surrounding our treasury management. Based on the current policy in place, and the system of controls to ensure the policy is complied with, management assessed that the risk is still within an acceptable level.

6. Summary of Key risks facing the District Councils

Appendix 3 contains a brief summary of the key risks currently faced by the District Councils.

7. Recommendation

That Audit Committee Members note the contents of this report.

Contact: David Marshall, Corporate Risk Manager Tel: 0191 3835726
on behalf of the Corporate Risk Management Group

Appendix 1: Implications

**Local Government Reorganisation
(Does the decision impact upon a future Unitary Council?)**

None

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 Risk Champions, the lead officer, 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: Current Major Risks facing the District Councils

The following is a brief summary of the key risks faced by each of the District Councils. Further details can be provided by the risk managers in each of the Councils if required.

Chester-le-Street

The Council has 12 headline strategic risks which were subject to formal annual review in May 2008. Key risks include:
- implications of change as a result of LGR
- failure to manage retention, recruitment and workload
- failure to sustain the Councils positive direction of travel

The Council has management arrangements in place linked to its Transition Plan to ensure that performance, including key strategic risks, is actively managed and reported through to vesting day.

Derwentside

The most significant risks facing the Council are:

- Recovery of monies invested in Icelandic financial institutions which are in receivership or administration. The Local Government Association, on behalf of the affected Councils, is negotiating with central government. Management continues to monitor and analyse all relevant information on the Council's debt and investment portfolios.
- Increased targeting of Council staff by other organisations with the inevitable impact on service delivery. Management continues to monitor the impact upon service delivery of the loss of key service personnel.
- The effect upon staff of the single status process. Management continues to monitor all relevant information with regard to problems between other authorities and unions and its effect upon the single status process in Derwentside.

Durham City

The most significant risks facing the Council are its ability to maintain business as usual and continuity of service during this transition year, the impact of changes in the money markets (the credit crunch) on the Council's financial position, because of its effect on the housing market and the disposable income of residents, and the Council's continuing ability to retain staff. Members and Officers of the Council are monitoring the continuity of service delivery, the Council's financial position and staff turnover statistics on a regular basis, and taking appropriate action where necessary.

Teesdale

The most significant risks faced by Teesdale District Council currently are the difficulties in retaining and recruiting staff due to local government reorganisation and therefore sustaining business as usual, and the lack of a fully developed vision for the local economy – the Barnard Castle Vision has been adopted, but the strategic options and employment land study were deferred. The Council has action plans in place to address both of these risks.

Wear Valley

The most significant risks facing the Council are our ALMO (Dale and Valley Homes) not achieving the decent homes standard, delivery of our transition plan and capital programme being not completed by 31st March 2009 and the increasing difficulty of retaining or replacing key service delivery staff due to LGR. Management have action plans in place to address these risks.

Easington

The most significant risks facing the Council are:

- The implications arising from Local Government Re-organisation; primarily the loss of key staff and associated recruitment difficulties leading to capacity and capability issues. An LGR transitional plan is in place which is regularly reviewed and updated in addition, a separate and detailed risk assessment and action plan has been completed with regard to LGR
- Impact of Regional policy changes (Northern way/City Regions) and the ability of the Council to influence local debate. Positive representation and involvement on District, Sub Regional, Regional & National areas to ensure the local view is promoted for the benefit of the locality;
- East Durham Homes does not achieve 2-Star status and the inability to achieve Decent Homes Standard. Three Year Action Plan in place (2008-2011) contained within the Council's Housing Strategy and EDH's Delivery Plan together with pro-active monitoring arrangements
- Community aspirations and expectations are not met by the Decent Homes Standard leading to resident dissatisfaction. Various Strategies and Business, Service and Delivery plans are in place together with monitoring and review arrangements through Housing Strategy Unit.
- The Council do not fully implement or integrate the adopted Partnership Framework. Partnership framework is in place and an action plan has been developed to proportionally address priority partnerships taking into account LGR.
- The identified gap between the Councils short term strategic approach to managing deprivation versus the long term strategic approach that is required, to manage deep seated deprivation levels. Promote the requirement for local needs and priorities to be properly addressed and resourced as part of the new Unitary Authority and Area Based Grant arrangements

Sedgefield

As well as the generic risks surrounding LGR, key risks include:

- Failure to deliver new Training organisation - The proposed merger of Sedgefield Borough Council's Training service with Bishop Auckland College is proceeding satisfactorily towards a November 2008 completion. Meetings are currently taking place to resolve outstanding staff transfer matters.
- Failure to deliver Decent Homes Standard and a quality housing management service - The July 2008 LSVT ballot produced a positive result and intensive action is underway aimed at establishing Sedgefield Borough Homes from 1 April 2009. Appropriate consultants have been appointed and an officer Implementation Team has been set up to deliver all the preparatory work prior to April. The delivery of Decent Homes Standard and a quality housing management service are top priorities within the new Sedgefield Borough Homes organisation.
- Failure to deliver satisfactory property services within the revised contractual arrangement - The Housing repairs and construction service has been operated by the selected partner (Mears) since February 2008. Continual improvements have been made, with performance management being a key element of the monitoring processes introduced. Further improvements are planned as part of an agreed development planning process. This partnering arrangement will transfer from the Council to Sedgefield Borough Homes from April 2009.
- Failure to deliver the Private Sector Housing Master Plan - Steady progress is being made in delivering the Plan in relation to negotiated acquisition of property identified for clearance within Phase 1 (years 2007-2010) of the programme.

Appendix 3: Current Major Risks facing Durham County Council as at 30 September 2008 (summary)

This table reports the top 10 Net Risks (i.e. the Council's strategic risks) as at 30 September 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 4.

			Remote	Unlikely	Possible	Probable	Highly Probable
	Critical						
↑	**Major**				Risk 3	Risk 2	Risk 1
					Risk 4		
IMPACT	**Moderate**				Risk 5	`	
					Risk 6		
					Risk 9	Risk 7	
						Risk 8	
↓	**Minor**				Risk 10		
	Insignificant						
	LIKELIHOOD ← →		**Remote**	**Unlikely**	**Possible**	**Probable**	**Highly Probable**

Appendix 4: Current Major Risks facing Durham County Council as at 30 September 2008 (summary)

This table reports the top 10 Net Risks (i.e. the Council's strategic risks) as at 30 September 2008. These risks have both a high impact and are considered at least possible to occur with the existing controls in place.

No.	Service	Risk	Potential Impact if risk is not managed	Proposed Further Treatment to mitigate the Risk
1	**Strategic**	Legal challenges on equal pay will potentially result in a significant financial cost to the Council	• Employee litigation (including recent case law regarding equal pay) • Financial cost of equal pay/equal value claims based on evidence of claims against other public bodies • Poor employee relations • Performance fall off • Customer dissatisfaction • Failure to improve/project Council image • Inability to complete single status exercise with Trade Unions	Complete Single Status Project.
2	**Strategic**	Failure to deliver the Building Schools for the Future programme within time and budget, with minimal disruption to service delivery	• 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.	Project management controls and framework in place. Implementation of a change management strategy and careful management of the process.
3	**Environment**	Failure to effectively implement the proposed Waste Management Contract.	• Funds will be diverted from other Council budgets. • Extra funding from increased Council Tax. • Reputational damage.	• 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.

No.	Service	Risk	Potential Impact if risk is not managed	Proposed Further Treatment to mitigate the Risk
4	**Strategic**	Failure to support well-being of workforce	• 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.	• 'Well-being at Work' strategy being developed.
5	**Customer Services**	Failure to achieve successful implementation of new Financial Systems	• 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, both for the roll-out of the system into Durham County Council, and to meet the requirements of the LGR transition. The system has now gone-live, and this risk will reduce considerably in likelihood if no significant problems occur in the post go-live period.
6	**Environment**	Failure to improve the economic well-being of the County	• 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	• 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 • Economic Strategy to be finished and published
7	**Environment**	Reduced Public satisfaction and CAA performance due to deteriorating Highway Network	• The cost to restore DCC roads to an acceptable condition is currently £170m (based on 2006/7 data) • Increased claims for vehicle damage and personal injury • Reduced CAA score due to reduced NI168 and NI169 Performance Indicators (Road Condition Indicators) and reduced public satisfaction indicators. The latest highway maintenance survey of residents in County Durham has shown that their top priority is road condition.	Obtain funding to implement improvements

No.	Service	Risk	Potential Impact if risk is not managed	Proposed Further Treatment to mitigate the Risk
			• Increased travel delays • Potential of litigation under the Corporate Manslaughter Act due to failure to undertake County Council duty to maintain a safe Highway Network • Potential fatal accident which could be attributed to road condition (e.g. skid resistance, pothole)	
8	**Strategic**	Financial implications of increasing fuel and energy costs.	• 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.	Currently, the cost of fuel and energy is reducing. Nevertheless, the volatility of the market remains, and therefore this remains a high risk for the foreseeable future.
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	• 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	This is being developed and will form part of procurement 'model' for new authority.
10	**Corporate Services**	Projects may not be managed effectively.	• 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	This is being developed and will form part of the new authority.