

**Audit Committee**

**6 March 2009**

**Corporate Risk Management**



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

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**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 October - December 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.

**2. Local Government Review (LGR)**

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Risks related to 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. Internal Audit have recently undertaken a review to determine an independent level of assurance of the governance arrangements over the Programme.

**3. Current Status of Risks to the Council**

At the end of December 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 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.
- Failure to achieve successful implementation of new Financial Systems. Steps are in place to address issues which occurred after the system went live in November 2008, and project management controls and a plan are in place to integrate District systems into Oracle during 2009/10.

A complete list of all current Corporate and Service Strategic Risks is attached in Appendix 3.

#### **4. Changes to major risks in this quarter**

There have been no significant changes to the major risks during the quarter.

#### **5. Emerging risks**

In the quarter September to December 2008, the major item which emerged as raising a potential risk is the Government Connect Project. This is a project to implement secure arrangements for transferring data with central government departments, such as the Department for Works and Pensions. Management are currently assessing the risks to the Council if this project is not implemented by September 2009.

In the quarterly report for July to September 2008, the major item which emerged was the implications for local authorities of the current global financial crisis. Management continue to monitor the situation to identify and manage any risks as they arise.

#### **6. Summary of Key risks facing the District Councils**

Appendix 2 highlights the key risks currently faced by the District Councils.

#### **7. Recommendation**

That Audit Committee Members note the contents of this report.

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on behalf of the Corporate Risk Management Group**

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**Appendix 1: Implications**

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**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

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## **Appendix 2: Current Major Risks facing the District Councils**

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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. During the production of the Annual Governance Statement for 2008-09 for the outgoing Authority, key risks will be reviewed with managers in support of the assurance process.

### **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 facing the 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

- The increasing difficulty of retaining or replacing key service delivery staff due to local government reorganisation.
- Delivery of our transition plan.
- Capital programme being not completed by 31<sup>st</sup> March 2009.
- Our ALMO (Dale and Valley Homes) not achieving the decent homes standard.

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 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. Appointments to the housing company positions of Chief Executive and Directors have been made, and the Heads of Service appointments process has commenced. 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: Summary of the current Corporate and Service Strategic Risks

This table reports the Net Impact and Net Likelihood of the risks to the Council. The conclusion refers to the approach that management consider is appropriate to managing the risk. If further actions to reduce the level of risk are proposed, the risk will be treated. Where further actions are not cost-effective or practical, then the existing controls are considered adequate to contain the level of risk.

Service	Risk	Net Impact	Net Likelihood	Conclusion
Chief Executive	Legal challenges on equal pay will potentially result in a significant financial cost to the Council	Major	Highly Probable	Treat
Chief Executive	Failure to deliver the Building Schools for the Future programme within time and budget: with minimal disruption to service delivery	Critical	Probable	Treat
Neighbourhood Services	Failure to effectively implement the proposed Waste Management Contract	Critical	Probable	Treat
Resources	Failure to achieve implementation of financial systems	Major	Probable	Treat
Regeneration & Economic Development	Reduced Public satisfaction and CAA performance due to deteriorating Highway Network	Major	Probable	Treat
Neighbourhood Services	Implementation of Job Evaluation Scheme	Major	Probable	Treat
Chief Executive	Financial implications of increasing fuel and energy costs	Moderate	Highly Probable	Treat
Regeneration & Economic Development	Failure to identify alternative funding streams	Critical	Possible	Treat
Resources	Failure to comply with employee legislative requirements	Moderate	Probable	Treat
Resources	Breakdown in working relationship with third party IT provider on BSF	Major	Possible	Treat
Resources	Projects may not be effectively managed	Moderate	Probable	Treat
Resources	Commercial Relationship Management	Moderate	Probable	Treat
Regeneration & Economic Development	Failure to improve the economic well-being of the County	Major	Possible	Treat
Regeneration & Economic Development	Repayment of grant already received due to lack of records	Moderate	Probable	Treat
Resources	Loss or unavailability of funding resulting from short-term investments.	Major	Possible	Existing controls considered adequate
Adults, Wellbeing & Health	Personal agenda is not taken forward appropriately for all specialisms	Major	Possible	Treat
Resources	Breakdown in working relationship between third party IT providers ITWORX / Microsoft and ITSS / DCC.	Major	Possible	Treat
Resources	Failure to carry out and manage operational risk assessments	Critical	Unlikely	Treat
Adults, Wellbeing & Health	Travellers sites Health and Safety	Critical	Unlikely	Treat
Adults, Wellbeing & Health	Injury or death during Festivals and Events	Critical	Unlikely	Existing controls considered adequate
Regeneration & Economic Development	Injury or loss of life due to the collapse of a lighting column	Critical	Unlikely	Treat

Service	Risk	Net Impact	Net Likelihood	Conclusion
Neighbourhood Services	Inability to maintain Reserve position	Moderate	Probable	Treat
Chief Executive	Failure to support well-being of workforce	Moderate	Probable	Treat
Resources	Inability to attract & retain staff & skills	Moderate	Possible	Existing controls considered adequate
Resources	Failure to effectively implement the Contact Centre processes for the new Authority	Moderate	Possible	Existing controls considered adequate
Regeneration & Economic Development	Not producing Minerals element of Minerals and Waste Development Framework Document on time	Moderate	Possible	Treat
Regeneration & Economic Development	Failure to deliver 'Environmental Improvements' to the Major Centres & Rural Major Centres	Moderate	Possible	Treat
Regeneration & Economic Development	Failure to achieve 2% reduction of CO2 emission as committed by the County Council.	Moderate	Possible	Treat
Resources	DRIVE - breakdown of systems and procedures post implementation	Major	Possible	Treat
Chief Executive	Failure to effectively implement Single Status and Job Evaluation	Moderate	Possible	Treat
Chief Executive	Impact of climate change may lead to significant environmental changes in County Durham	Moderate	Possible	Treat
Assistant Chief Executive	Data quality not to the required Audit Commission standard across the Council	Moderate	Possible	Treat
Children & Young People's Services	Children and families experience a lack of interface between Adult and Children's Services	Moderate	Possible	Existing controls considered adequate
Resources	Inadequate level of service delivery to end users	Moderate	Possible	Treat
Resources	Outside influences on procurement strategies	Moderate	Possible	Existing controls considered adequate
Regeneration & Economic Development	Failure to effectively manage a major civil incident	Moderate	Possible	Treat
Neighbourhood Services	Implementation of DRIVE project results in adverse impact on service delivery	Moderate	Possible	Treat
Adults, Wellbeing & Health	Failure to effectively recruit and retain ASWs or AHMPs in the Service	Moderate	Possible	Treat
Adults, Wellbeing & Health	Precarious state of the Voluntary and Community sector	Moderate	Possible	Treat
Adults, Wellbeing & Health	Failure to manage markets to achieve necessary changes	Moderate	Possible	Treat
Children & Young People's Services	Partnership Arrangements	Moderate	Possible	Existing controls considered adequate
Children & Young People's Services	Reduced overall County Council judgement in external inspection due to negative outcomes of OfSTED Inspection of Children's Homes	Moderate	Possible	Existing controls considered adequate
Resources	Adequate & effective IT Strategy not in place	Moderate	Possible	Treat
Adults, Wellbeing &	Unauthorised Gypsy and Traveller encampment	Minor	Probable	Existing controls



Service	Risk	Net Impact	Net Likelihood	Conclusion
Health				considered adequate
Neighbourhood Services	Loss of facilities management contracts in schools due to BSF programme	Minor	Probable	Treat
Children & Young People's Services	Failure to protect child from death or serious harm (where service failure is a factor or issue)	Major	Unlikely	Treat
Resources	Major Interruption to IT Service Delivery	Major	Unlikely	Treat
Resources	Failure to achieve implementation of centralised services throughout County Durham	Major	Unlikely	Treat
Assistant Chief Executive	Local Area Agreement may not work effectively	Major	Unlikely	Treat
Resources	Failure of the County Durham E-Government Partnership and CRM Partnership	Major	Unlikely	Existing controls considered adequate
Resources	Failure to achieve implementation of Wimax coverage of County Durham	Major	Unlikely	Treat
Regeneration & Economic Development	Failure to deliver 'Environmental Improvements' to the Smaller Town & Village Centres	Major	Unlikely	Treat
Regeneration & Economic Development	Not complying with Traffic Management Act Regulations	Major	Unlikely	Treat
Regeneration & Economic Development	Civil Parking Enforcement	Major	Unlikely	Existing controls considered adequate
Chief Executive	Failure to adequately resource & retain staff & skills	Minor	Possible	Treat
Assistant Chief Executive	Partnership Arrangements	Moderate	Unlikely	Treat
Assistant Chief Executive	Failure to maximise opportunities for further joint-working with external third parties	Minor	Possible	Existing controls considered adequate
Adults, Wellbeing & Health	Health and safety of staff and service users	Moderate	Unlikely	Existing controls considered adequate
Children & Young People's Services	Premises risks	Moderate	Unlikely	Existing controls considered adequate
Resources	Failure to adequately resource & retain staff & skills	Minor	Possible	Treat
Resources	Failure to maintain CPA use of resources level 3 as a minimum	Moderate	Unlikely	Treat
Regeneration & Economic Development	Not successfully embedding asset management principles throughout environment	Moderate	Unlikely	Treat
Neighbourhood Services	Reduction in core work load	Minor	Possible	Treat
Neighbourhood Services	Uneven workflow pattern	Minor	Possible	Treat
Neighbourhood Services	Cost of Personal Injury Claims	Minor	Possible	Treat
Resources	Failure to achieve use of resources level 3 as a minimum in transition from CPA to CAA	Moderate	Unlikely	Treat
Resources	Inadequate Resources To Deliver the Human Resources Service	Moderate	Unlikely	Treat
Resources	Lack of market capacity	Moderate	Unlikely	Treat
Resources	The delay in implementing and integrating DCC & District Council Financial & Associated Feeder systems into single / consolidated 'fit for	Moderate	Unlikely	Treat

Service	Risk	Net Impact	Net Likelihood	Conclusion
	purpose' Financial Management System for the Unitary Authority may lead to a major impact in delivering a 'fit-for-purpose' financial service.			
Resources	DRIVE - partnership arrangements with Northumberland CC not working effectively	Moderate	Unlikely	Treat
Resources	Contractor collapse/Lack of performance	Critical	Remote	Treat
Resources	Incorrect procurement advice due to ignorance/error/non compliance	Critical	Remote	Treat
Chief Executive	Failure to meet organisational goals on Equality and Diversity within the Council: and across County Durham	Moderate	Unlikely	Treat
Assistant Chief Executive	The Council does not effectively interact with the Community	Moderate	Unlikely	Treat
Children & Young People's Services	Failure to manage high-cost placements effectively	Moderate	Unlikely	Existing controls considered adequate
Children & Young People's Services	Loss of YJB contract- due to service failure	Moderate	Unlikely	Existing controls considered adequate
Children & Young People's Services	Business Planning, Emergency & Business Continuity Planning	Moderate	Unlikely	Existing controls considered adequate
Resources	Failure to ensure safe swimming pools	Moderate	Unlikely	Existing controls considered adequate
Regeneration & Economic Development	Major business disruption	Moderate	Unlikely	Treat
Regeneration & Economic Development	LTP2 delivery not being to Centre of Excellence Standard	Moderate	Unlikely	Treat
Assistant Chief Executive	Failure to develop policies to support / reflect national policy	Minor	Unlikely	Treat
Assistant Chief Executive	Failure to provide correct information to other parties	Minor	Unlikely	Existing controls considered adequate
Children & Young People's Services	Failure to Achieve Financial Balance for Service	Minor	Unlikely	Existing controls considered adequate
Children & Young People's Services	Inability to attract & retain staff & skills	Minor	Unlikely	Existing controls considered adequate
Children & Young People's Services	Representations - Failure of Representations System	Minor	Unlikely	Existing controls considered adequate
Children & Young People's Services	Violence and Aggression	Minor	Unlikely	Existing controls considered adequate
Resources	Receipt, Custody and Opening of Tenders	Minor	Unlikely	Existing controls considered adequate
Resources	Continued functionality of the Council's administrative headquarters at County Hall	Minor	Unlikely	Treat
Children & Young	Key Stage 3 and Key Stage 4 attainment	Minor	Unlikely	Existing controls

Service	Risk	Net Impact	Net Likelihood	Conclusion
People's Services				considered adequate
Children & Young People's Services	Failure to promote access to and expand service delivery re new statutory vocational training in schools.	Minor	Unlikely	Existing controls considered adequate
Children & Young People's Services	Loss of control of public resources to a private partner	Minor	Unlikely	Existing controls considered adequate
Children & Young People's Services	Failure to meet required targets for improving educational attainment of 'Looked after Children'	Minor	Unlikely	Existing controls considered adequate
Children & Young People's Services	Student Loans Company SLA	Minor	Unlikely	Treat
Resources	Failure to deal with complaints in acc. with DCC & LGO procedures	Minor	Unlikely	Existing controls considered adequate
Resources	Breakdown in Ethical Standards	Minor	Unlikely	Treat
Resources	Failure to safeguard the interest of schools and the public under statutory requirements i.e. Food Safety, Health and Safety.	Minor	Unlikely	Existing controls considered adequate
Neighbourhood Services	Impact of LGR on maintaining adequate performance of the Service	Minor	Unlikely	Existing controls considered adequate
Chief Executive	Failure to implement DRIVE Project within time and budget: with minimal disruption to service delivery	Moderate	Remote	Existing controls considered adequate
Resources	Failure to deliver the perceived benefits of the DRIVE project across the County Council	Moderate	Remote	Existing controls considered adequate
Children & Young People's Services	Health and Safety - potential for accidents / harm and/or resulting civil litigation	Minor	Remote	Existing controls considered adequate
Children & Young People's Services	Increased negative outcomes of school inspections by OfSTED	Insignificant	Unlikely	Existing controls considered adequate
Children & Young People's Services	Reduced number of Educational Visits & Field Trips.	Minor	Remote	Existing controls considered adequate

**Appendix 4: Summary of the current Corporate and Service Strategic Risks**

This table highlights the total number of risks to the Council per each Net Impact and Net Likelihood category.

	<b>Critical</b>	2	4	1	2	
↑	<b>Major</b>		9	6	3	1
<b>IMPACT</b>	<b>Moderate</b>	2	18	19	6	1
↓	<b>Minor</b>	2	17	6	2	
	<b>Insignificant</b>		1			
	<b>LIKELIHOOD</b> ← →	<b>Remote</b>	<b>Unlikely</b>	<b>Possible</b>	<b>Probable</b>	<b>Highly Probable</b>