

## **Audit Committee**

**31 May 2013**

### **Strategic Risk Management Progress Report for the Quarter period January to March 2013**



### **Report of Corporate Management Team**

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**Don McLure, Corporate Director Resources**

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#### **Purpose of the Report**

1. The purpose of this report is to highlight the strategic risks facing the Council and to give an insight into the work carried out by the Corporate Risk Management Group during the period January to March 2013.

#### **Background**

2. Each Corporate Director has a designated Service Risk Manager to lead on risk management at a Service Grouping level. In addition, the Council has designated the Portfolio Member for Risk Management and the Corporate Director, Resources as Member and Officer Risk Champions respectively. Collectively, they meet together with the Risk and Governance Manager as a Corporate Risk Management Group (CRMG). A summary setting out how the Council deals with the risk management framework is detailed in Appendix 2.
3. Throughout this report, both in the summary and the Appendices, all risks are reported as 'Net Risk' (after putting in place mitigating controls to gross risk), which is based on an assessment of the impact and likelihood of the risk occurring with existing controls in place.

#### **Current status of the risks to the Council**

4. As at 31<sup>st</sup> March 2013, there were 39 strategic risks, which is a decrease of five from the previous period on 31 December 2012. In summary, the key risks to the Council are:
  - Slippage in delivery of the MTFP will require further savings, which may result in further service reductions/ job losses;
  - Failure to identify and effectively regulate Contaminated Land;
  - Coastal erosion and improved environment may be adversely impacted if a programme of repairs to Seaham North Pier is not undertaken;
  - Potential claw-back from MMI (former insurers) under the Scheme of Arrangement (SOA);
  - Damage to Highways assets as a result of a severe weather event;
  - Government budget plans announced in the Chancellor's March 2013 budget to cut local government funding further in 2014/15,

2016/17 and 2017/18 will have a major impact on services including frontline services;

- Potential restitution of search fees going back to 2005;
- School funding reforms & LACSEG reductions threaten viability of some centrally managed services for children and young people;
- If proposed funding reforms are implemented, the Council may have a major funding shortfall for Post 16 High Needs Placements.

Progress on addressing these key risks is detailed in Appendix 3.

5. Appendix 4 of this report lists all of the Council's strategic risks as at 31 March 2013.
6. Management has identified and assessed these risks using a structured and systematic approach, and is taking proactive measures to mitigate these risks to a manageable level. This effective management of our risks is contributing to improved performance, decision-making and governance across the Council.
7. The following, ongoing projects have been supported in various ways, including risk analysis through workshops and meetings, giving critical feedback on risk management documentation and procedures, attending project / board meetings and helping to maintain the risk register through challenge and identifying controls.
  - Community Buildings;
  - Financial Management Computer System;
  - Internet Project;
  - Library Strategy;
  - Local Council Tax Support Scheme;
  - Revenues and Benefits Computer System, Phase 2;
  - Welfare Reforms.

### **Recommendations and reasons**

8. Audit Committee is requested to confirm that this report provides assurance that strategic risks are being effectively managed within the risk management framework across the Council.

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## **Appendix 1: Implications**

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**Finance** - Addressing risk appropriately reduces the risk of financial loss.

**Staffing** - Staff training needs are addressed in the risk management training plan.

**Risk** – Not a key decision

**Equality and Diversity/Public Sector Equality Duty** - None

**Accommodation** - None

**Crime and disorder** - None

**Human rights** - None

**Consultation** - None

**Procurement** – None.

**Disability issues** – None.

**Legal Implications** – None.

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## **Appendix 2: Background**

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A large amount of work is being carried out across the Council in shaping and developing our approach to risk management where the Cabinet and the Corporate Management Team have designated the Portfolio Member with responsibility for risk management and the Corporate Director, Resources as Member and Officer Risk Champions respectively.

Together they jointly take responsibility for embedding risk management throughout the Council, and are supported by the Manager of Internal Audit and Risk, the lead officer responsible for risk management, as well as the Risk and Governance Manager. Each Service Grouping also has a designated Service Risk Manager to lead on risk management at a Service Grouping level, and act as a first point of contact for staff who require any advice or guidance on risk management. Collectively, the Risk Champions, Service Risk Managers and the Risk and Governance Manager meet together as a Corporate Risk Management Group. This group monitor the progress of risk management across the Council, advise on 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 Corporate Directors 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 on 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 Care Quality Commission, 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 Risk Register with the Cabinet Member responsible for their Portfolio Service.

An assurance mapping framework is being developed to demonstrate where and how the Council receives assurance that its business is run efficiently and effectively, highlighting any gaps or duplication that may indicate where further assurance is required or could be achieved more effectively.

## Appendix 3: Strategic Risks

Risks are assessed at two levels:

- Gross Impact and Likelihood are based on an assessment of the risk without any controls in place;
- Net Impact and Likelihood are based on the assessment of the current level of risk, taking account of the existing controls/ mitigation in place.

As at 31<sup>st</sup> March 2013, there were 39 strategic risks, a decrease of five from the number of risks at the end of the previous period at 31 December 2012.

The following matrix summarises the total number of strategic risks based on their Net risk assessment as at 31 March 2013. Where there have been changes to the number of risks from the last quarter period end, the risk total as at 31 December 2012 is highlighted in brackets.

### Overall number of Strategic Risks as at 31 March 2013

Impact					
Critical	1 (1)	3 (2)	3 (3)		
Major		3 (3)	4 (4)	1 (1)	2 (2)
Moderate		2 (2)	11 (13)	4 (5)	3 (2)
Minor			0 (3)	2 (2)	0 (1)
Insignificant					
Likelihood	Remote	Unlikely	Possible	Probable	Highly Probable

In summary, key points to draw to your attention are:

#### 1 Beneficial outcomes

Due to the Services effectively managing their risks:

- The financial impact of changes to the Ordinary Residence guidance has been minimised; **(CAS)**
- The funding distribution for schools has been finalised; **(CAS)**
- The implementation of the Public Health and NHS reforms has enabled a planned response to the provision of mandatory public health services; **(CAS)**
- The project to deliver the proposed Waste Management Solution has now progressed to the procurement of contracts. **(NS)**

## 2 Significant New and Increased Risks

Two new risks have been identified this quarter:

- *'If proposed funding reforms are implemented, the Council may have a major funding shortfall for Post 16 High Needs Placements'*. From 2013/14, funding reforms bring together all funding for Post 16 High Needs Placements and the LA will be both the commissioner and funder. This enhanced role means that each local authority will have a single high needs budget to cover their funding responsibilities for all high needs children and young people aged up to the age of 25. There is a potential major shortfall of funding. **(CAS)**
- *"Lack of asbestos management plans in the former District Council Buildings"* The lack of plans may result in the Council being non-compliant with Health & Safety Legislation. **(NS)**

We monitor emerging risks on an ongoing basis, and in this respect, the Council anticipated that the implementation of welfare reforms from 1 April 2013 would have a major impact on a range of services and this is reflected in a number of risks in the risk register in Appendix 4. Since implementation of the reforms on 1 April, the impact on the wider community is also becoming clear and the consequent increase in demand for services, such as Housing Solutions having seen up to a 100% increase in enquiries as a result of the Welfare Reform changes, demand for 3 bedroom properties in the social rented sector is plummeting, and households having reduced expenditure to spend on a range of services, with a consequent impact on the high streets of town centres. These are just a few examples of early impact. These raise potentially new risks, and the Council will be monitoring these as they emerge in the coming months.

## 3 Removed and Reduced Risks

The following risks are now considered by CAS Management Team to have been reduced to an acceptable level to be managed as business as usual risks, and have therefore been removed from the strategic risk register:

- Viability of many accommodation-based services in supported housing sector is threatened by proposed reductions in HB subsidy;
- Management and administration of service users medications;
- Work Related Stress – STAFF;
- Potential financial, operational, and reputational risks arising from proposed NHS Reforms;
- Potential for the Police Reforms to weaken the ability of the Council and its partners to cut crime and anti-social behaviour;
- Increased cost to the authority from revision to "Ordinary residence" guidance;
- Merger of Children/Adults Services.

The only significant risk which has reduced during the quarter is:

- *“Failure to develop the proposed Waste Management Solution”*. Procurement of the contracts is now complete which has reduced the likelihood of this risk from Possible to Unlikely. Once transition period is complete it is anticipated this risk will be removed from the Strategic to the Operational Risk Register. **(NS)**

#### 4 Key Risks

The risks shown in the tables below are considered the key risks to the Council. Where there have been changes to the risk assessment from the last quarter period end, these are highlighted in the column headed ‘Direction of Travel’. The target for when the risk will be at an acceptable level, or where further improvements in mitigation are not possible, is highlighted in the column headed ‘Anticipated date when risk will be at an acceptable level’.

<b>Impact</b>					
Critical			<b>Risks 1, 2 and 3</b>		
Major				<b>Risk 6</b>	<b>Risks 4 and 5</b>
Moderate					<b>Risks 7, 8 and 9</b>
Minor					
Insignificant					
<b>Likelihood</b>	Remote	Unlikely	Possible	Probable	Highly Probable

Ref	Service owning the risk	Corporate Theme	Risk	Net Impact	Net Likelihood	Proposed Key Actions	Direction of Travel	Anticipated date when risk will be at an acceptable level
1	RES Risk Owner: Don McLure	Altogether Better Council	Slippage in delivery of the MTFP will require further savings, which may result in further service reductions/ job losses	Critical	Possible	The Delivery plan implementation will be monitored by CMT and Cabinet.		This will be a significant risk for at least the next 4 years. No further mitigation is planned at the current stage.
2	NS Risk Owner: Joanne Waller	Altogether Greener	Failure to identify and effectively regulate Contaminated Land	Critical	Possible	All sites will be inspected in two phases by 31/10/2012 and 31/3/2013 respectively, and then confirmed by an external review by July 2013.		We will have reduced the risk to an acceptable level by July 2013.
3	NS Risk Owner: Terry Collins	Altogether Wealthier	Coastal erosion and improved environment may be adversely impacted if a programme of repairs to Seaham North Pier is not undertaken	Critical	Possible	Funds will be allocated in future budgets for the design and undertaking of repairs to the structure.		The mitigating actions to bring this risk to an acceptable level will be completed by Autumn 2014
4	RES Risk Owner: Don McLure	Altogether Better Council	Potential claw-back from MMI (former insurers) under the Scheme of Arrangement (SOA)	Major	Highly Probable	The cost of any clawback will be met from the Insurance Reserve.		A levy of 15% will be charged on all claims previously paid by MMI, meaning that at some point during 2013/14, we will be expected to pay approximately £815,000 to MMI. As this is not a solvent run-off of MMI, we are likely to be required to pay additional levy contributions in future years
5	NS Risk Owner John Reed	Altogether Safer	Damage to Highways assets as a result of a severe weather event.	Major	Highly Probable	A revised inspection and maintenance regime to be implemented.		



Ref	Service owning the risk	Corporate Theme	Risk	Net Impact	Net Likelihood	Proposed Key Actions	Direction of Travel	Anticipated date when risk will be at an acceptable level
6	RES Risk Owner: Don McLure	Altogether Better Council	Government budget plans announced in the Chancellor's March 2013 Budget to cut Local Government funding further for 2014/15, 2016/17 and 2017/18 will have major impact on services including frontline services that customers rely on.	Major	Probable	Sound financial forecasting based on a thorough examination of the Government's "red book" plans is in place.  Early engagement with Cabinet and a timetable of key milestone dates will be agreed, so that this risk will be managed and mitigated to best effect.		This is related to key risk 2 above.
7	RES Risk Owner: Colette Longbottom	Altogether Better Council	Potential restitution of search fees going back to 2005	Moderate	Highly Probable	The Council has signed up to a class action defence by LGA appointed solicitors		Dependent upon the outcome of the negotiations/litigation currently being defended by lawyers instructed in group litigation
8	CAS Risk Owner Caroline O'Neill	Altogether Better for Children and Young People	School funding reforms & LACSEG reductions threaten viability of some centrally managed services for children and young people	Moderate	Highly Probable	Reviews of major areas of the service are underway.		An ongoing review of staffing structure is underway to manage LACSEG reductions in 2013-14
9	CAS Risk Owner Caroline O'Neill	Altogether Better for Children and Young People	If proposed funding reforms are implemented, the Council may have a major funding shortfall for Post 16 High Needs Placements	Moderate	Highly Probable	The Education Funding Agency (EFA) has agreed some additional funding but has been unable to quantify the amount. The eligibility threshold for Post-16 High Needs Learners will be reviewed.	<b>NEW</b>	The EFA is expected to notify the additional amount of funding imminently. The situation is being monitored and reported periodically to CAS MT.

## **Appendix 4: List of all Strategic Risks (per Corporate Theme)**

Based on the **Net** risk assessment as at 31 March 2013, the following tables highlight the risks for each Corporate Theme.

### **Corporate Theme – Altogether Better Council**

<b>Ref</b>	<b>Service</b>	<b>Risk</b>
1	ACE	Risk that the Council does not respond to the Government's changes to Welfare Reform
2	ACE	Failure to substantially deliver the Community Buildings Strategy by March 2014, leading to continuation of current issues
3	Resources	Government budget plans announced in the Chancellor's March 2013 Budget to cut Local Government funding further for 2014/15, 2016/17 and 2017/18 will have major impact on services including frontline services that customers rely on.
4	RED	Increased demand for Housing Solution Service beyond current staffing capacity due to changes in Government Welfare legislation.
5	RED	Adverse impact on Durham City Homes revenue, capacity and resources and tenants due to changes in Government legislation.
6	Resources	Medium Term Financial Plan forecasts relating to the impact of the Local Council Tax Support Scheme and the Business Rate Retention on the Council's budget prove to be detrimentally inaccurate.
7	Resources	Major Interruption to IT Service Delivery
8	NS	If Local Authority schools choose not to take our services, Building Services could see a loss of business if the academies do not use Council services and/ or opt out of the SLA to procure outside agencies to carry out compliance, building and maintenance/ grounds maintenance works.
9	Resources	Industrial Action will adversely impact service delivery
10	Resources	Due to the amount of change occurring across the Council, the potential for fraud and error is increasing.
11	NS	Consistent health and safety policies, practices and procedures across the Neighbourhoods Service are not embedded across NS
12	ACE	Failure to consult with communities on major service & policy changes leading to legal challenge & delays in implementation

Ref	Service	Risk
13	ACE	Failure to consider equality implications of decisions on communities leading to legal challenge and delays in implementation
14	ACE	Serious breach of law regarding management of data/information, including an unauthorised release requiring notification to ICO
15	Resources	Potential claw-back from MMI (former insurers) under the Scheme of Arrangement (SOA)
16	Resources	Potential restitution of search fees going back to 2005
17	Resources	Slippage in delivery of the MTFP will require further savings, which may result in further service reductions/ job losses
18	NS	Contamination of material collected from kerbside from Alternate Weekly Collection scheme is having a negative impact on income (MTFP implications) and may reduce availability of recycling outlets.
19	Resources	National Non-Domestic Rates and Council Tax collection rates do not reach target set for 2013/ 14
20	Resources	Inconsistent approach to managing funding bids by Services could expose the Council to financial losses and reputational damage.

### Altogether Safer

	Service	Risk
21	CAS	Unauthorised encampment
22	CAS	A service failure of Safeguarding leads to death or serious harm to a service user.
23	CAS	Failure to protect child from death or serious harm (where service failure is a factor or issue)
24	RED	Serious injury or loss of life due to Safeguarding failure (Transport Service)
25	NS	Lack of asbestos management plans in the former District Council Buildings.
26	RED	Disused unmaintained Coal Authority mine workings on DCC land may result in serious injury/financial claims against the Council

27	ACE	Failure to prepare for, respond to and recover from a major incident or interruption, and to provide essential services.
28	NS	Damage to Highways assets as a result of a severe weather event.
29	CAS	Violence and Aggression Staff

#### Altogether Greener

	Service	Risk
30	NS	Failure to identify and effectively regulate Contaminated Land
31	NS	Failure to effectively deliver the proposed Waste Management Solution.

#### Altogether Better for Children and Young People

	Service	Risk
32	CAS	If proposed funding reforms are implemented, the Council may have a major funding shortfall for Post 16 High Needs Placements
33	CAS	School funding reforms & LACSEG reductions threaten viability of some centrally managed services for children and young people
34	CAS	Failure to meet escalating costs of external and high-cost placements effectively where highly-specialised provision is required
35	CAS	Children/families experience a lack of interface between services for children & adults as a result of failure to work together
36	RED	Employment Services for young people (18-24 year olds) are under resourced and unco-ordinated between service groups.

### Altogether Wealthier

	Service	Risk
37	NS	Coastal erosion and improved environment may be adversely impacted if a programme of repairs to Seaham North Pier isn't undertaken
38	RED	Private housing stock condition worsens with adverse implications for local economy, health & neighbourhood sustainability.
39	RED	Diminishing Capital Resources, continuing depressed land values and slow growth in the private sector will impact on the ability to deliver major projects and Town initiatives within proposed timescales.

### Altogether Healthier

There are no strategic risks to achieving the objectives of the Altogether Healthier corporate theme.