

CHESHIRE EAST COUNCIL

REPORT TO: AUDIT & GOVERNANCE COMMITTEE

Date of meeting: 1 June 2017
Report of: Daniel Dickinson, Interim Director of Legal Services
Title: Risk Management Update Report
Portfolio Holder: Councillor Peter Groves

1.0 Report Summary

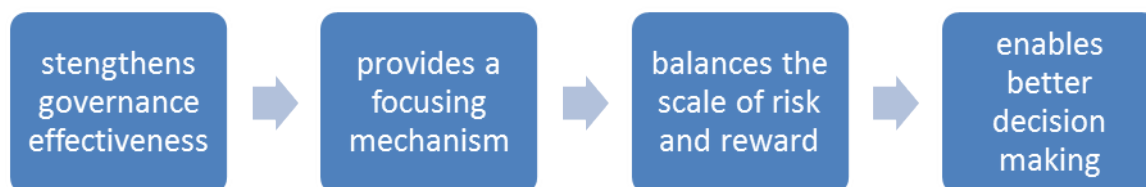
- 1.1 This report provides the Audit and Governance Committee with a summary of the most significant threats and opportunities facing the Council which may prevent, or assist with, the achievement of the Council's Corporate Plan 2016-20.
- 1.2 Audit & Governance Committee requested a short briefing at the meeting from the Risk Owner / Manager for the corporate opportunity risk "CRO1 - EU Exit" to briefly explain the opportunity, and the Council's response to this.

2.0 Recommendation

- 2.1 Audit and Governance Committee is requested to note and comment on the update report on risk management, which is for information and assurance.

3.0 Reasons for Recommendations

- 3.1 It is the role of Audit and Governance Committee to provide independent assurance to the Council on the adequacy of the risk management framework and the internal control environment. Risk management is not about being risk averse, indeed some amount of risk taking is inevitable if the Council is to achieve its objectives. It is about effectively managing risks that could affect the achievement of the Council's objectives and ensuring that an appropriate risk culture is in place.
- 3.2 A risk is concerned with a threat, or a possible future event, which will adversely or beneficially affect the Council's ability to achieve its objectives. Risk management is central to good governance; managing risk is all about people making the best decisions at all levels within the organisation. It is not just about strategy and tactics but also judgements and behaviours of people. Decision makers fundamentally want to do the right thing; an open and respectful risk culture mitigates risk and reputational damage. It encourages higher performance and efficiency, and develops a sustainable and ethical business model.
- 3.3 A strong risk management framework:-



- 3.4 As the Council looks towards 2020, even over this relatively short period of time, there will be a host of factors which influence the nature of the Council's relationships with its residents, businesses, communities, neighbouring authorities, and other key partners. These factors will challenge the Council to review its current systems and approaches, and experiment with new ideas to allow mixed and flexible use of its resources. In this constantly evolving environment, with a need to continually adapt internal organisation to meet

economic challenges, urban changes, demographic and social changes, it is possible for managers and decision makers to miss risks that may arise suddenly or unexpectedly. Through risk identification we anticipate eventualities and it helps us to respond to changes in need. Consideration and response to existing and new threats, and the ability to recognise and seize new opportunities, is fundamental to achieving the Council's desired outcomes in the Corporate Plan 2016-20.

4.0 Corporate Risks

4.1 There are presently nine threats and four opportunities detailed on the Council's corporate risk register. There has been some movement of the risks since the previous update to Audit and Governance Committee; with CR3 Financial Resilience risk reducing to medium risk but still on the watch list, CR7 Cheshire East Local Plan Adoption and CR8 Community Cohesion moving from the corporate risk register down to directorate risk registers, and the opportunity around CRO4 Regeneration Funding increasing to 9 medium risk. The tables below inform the Audit and Governance Committee on progress against key risks; attached at **Appendix A** is a more detailed definition of these risks including the Risk Owner, Cabinet Strategic Lead, and comments on the net risk rating. **Appendix B** shows a heat map of the threats and opportunities.

4.2 For this meeting, the risk manager for CR01 EU Exit will attend the meeting to talk through the opportunity risk.

Table 1: Highest Rated Corporate Risks

Ref	Type	Risk Title	Rating	Direction
CR1	Threat	Increased Demand for People Services	12 High	↑
CR2	Threat	NHS Funding and Sustainability and Transformation Plan (STP) Impact	12 High	↔
CR4	Threat	Contract and Relationship Management	12 High	↔

Table 2: Risk Watch List

Ref	Type	Risk Title	Rating	Direction
CR3	Threat	Financial Resilience	9 Medium	↓
CR5	Threat	Information Security and Cyber Threat	9 Medium	↑
CR6	Threat	Countering Fraud and Corruption	6 Medium	↔
CR10	Threat	Business Continuity	6 Medium	↔

Table 3: Managed (Dying) Risks

Ref	Type	Risk Title	Rating	Direction
CR7	Threat	Cheshire East Local Plan Adoption	4 Low	↓
CR8	Threat	Community Cohesion	4 Low	↓

4.3 The assessment methodology used to score the risks is attached at **Appendix C** to this report for information.

5.0 Wards Affected and Local Ward Members

5.1 Risk management is inherent in everyone's role and responsibilities but no specific ward members have been consulted on this report.

6.0 Implications of Recommendation

6.1 **Policy:** Risk management is integral to the overall management of the authority and, therefore, key policy implications and their effective implementation are considered within team and department risk registers and as part of the risk management framework.

6.2 **Financial:** There are no financial implications in relation to this report. However, a risk around financial resilience is included as a corporate risk and general reserves are focused on the Council's potential exposure to risk. In addition, where a particular area has been identified as specific risk or investment opportunity, then an amount will be earmarked for that specific purpose as part of the Medium Term Financial Strategy (MTFS) process.

6.3 **Legal:** This report is aimed at addressing the requirement that the Council achieves its strategic aims and operates its business, under general principles of good governance and that it identifies risks which threaten its ability to be legally compliant and operate within the confines of the legislative framework.

7.0 Risk Management

7.1 This report relates to overall risk management; the Audit and Governance Committee should know about the most significant risks facing the Council and be assured that the risk management framework is operating effectively. The content of this report aims to achieve the following risk objectives:-

Key Risk Objectives
That Cheshire East Council properly develops, implements and demonstrates an effective risk management framework
That Cheshire East Council applies its risk management policy consistently across the Council
That Cheshire East Council recognises risks and makes correct decisions to tolerate, treat, transfer or terminate threats or to exploit, share, enhance or ignore opportunities

8.0 Access to Information/Bibliography

8.1 Risk Management Policy Statement and Strategy

The updated Risk Management Policy was approved by Cabinet at its meeting on 10 February 2016. The background papers relating to this report can be inspected by contacting the report writer:

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Corporate Risks

Ref & Type	Risk Description (Including cause, threat and impact upon outcomes)	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CR 1 Threat	<p>Increased Demand for People Services</p> <p>(Cause) Risk that Cheshire East’s local social, economic and demographic factors lead to an increase in the level of need and demand for adults and children’s care services, (threat) such that the capacity of the Council’s systems in these areas is unable to continue to absorb the pressures, (impact) resulting in a possible lack of continuity of social workers/service providers, unmet need, potential safeguarding issues, and difficulty in achieving the Council’s outcomes that people live well and for longer, and have the life skills and education they need to thrive.</p>	Interim Executive Director of People	Joint: Portfolio Holder, Adult Social Care and Integration Portfolio Holder, Children and Families	12 High ↑	Likelihood of this risk occurring has been scored as ‘likely’ as it is known that both adult demand, and children’s demand is increasing alongside population growth, and longer life expectancy for both adults and children with complex needs. Taking a prudent approach to the risk scoring, if the increase in demand was significant the impact of this risk if it were to materialise could be critical with possible safeguarding issues due to the nature of the service delivery areas. Further work is planned to mitigate the impact of this risk in both service areas but presently the net score remains at 12 high risk.
CR 2 Threat	<p>NHS Funding and STP Impact</p> <p>(Cause) Risk that due to the financial deficit in the NHS, the five-year Sustainability and Transformation Plan (STP) to reshape the delivery of NHS services across the wider region, may cause a reduction in Cheshire East Council shared service delivery and NHS service delivery, (threat) shifting costs and demand which places additional strain on Council resources (impact) resulting in unmet need and potential difficulty in achieving the Council’s outcomes that people live well and for longer and local communities being strong and supportive.</p>	Interim Executive Director of People	Joint: Portfolio Holder, Health Portfolio Holder, Adult Social Care and Integration	12 High ↔	The STP has been drawn up on a regional basis and the likelihood of this risk occurring has been scored as ‘likely’ because there are significant financial issues to be addressed. If this results in a shift in costs and demand to the Council, this could have a critical impact on the achievement of the corporate outcomes and performance, with long term high costs. The net score remains at 12 high risk; work is ongoing to attempt to mitigate the likelihood and impact of this risk.

Ref & Type	Risk Description (Including cause, threat and impact upon outcomes)	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CR 3 Threat	<p>Financial Resilience (Cause) The reduction in funding from Central Government means the Council must manage funding shortfalls over the next four years, through reduced expenditure or increased local income. (Threat) There is a possibility that the Council does not adopt its financial plans in sufficient detail quickly enough, either by deferring the difficult decisions about services, using over-optimistic planning assumptions, or not rethinking sources of income. (Impact) This may result in difficulties in closing and managing the funding reductions, financial stress and may impede the Council's ability to meet its statutory requirements, and deliver all of its intended outcomes and objectives in full.</p>	Interim Director of Finance and Procurement	Portfolio Holder, Finance and Communities	<p style="text-align: center;">9 Medium ↓</p>	This risk is not exclusive to Cheshire East, and is presently a national risk for local government although Cheshire East is in a significantly better position than many other local authorities. The Council has financial plans in place to manage funding shortfalls which will be reviewed regularly. The impact of this risk should it materialise is reduced as the Council has a track records of underspends or managing year end positions within the parameters of the Reserves Strategy. The overall net risk rating has been reduced to 9, medium risk but is on the watch list.
CR4 Threat	<p>Contract and Relationship Management: (Cause) Risk that the Council does not improve the effectiveness of its contract management arrangements, including skilled staff, to manage contracts and ongoing relationships with the Council's providers, in a timely manner (Threat) such that contractual arrangements may not be robustly specified, or that they fail to deliver expected outcomes and/or within contracted costs and/or within expected timescales and/or fail to comply with contract agreements. (Impact) This will affect the Council's ability to achieve all of its priorities and outcomes, realise agreed savings to ensure better value for money, and may have a detrimental effect on the Council's reputation for failing to deliver on our promises.</p>	Executive Director Place	Portfolio Holder, Corporate Policy and Legal Services	<p style="text-align: center;">12 High ↔</p>	The Council has a significant number of large value and service critical contracts. A recent audit of this area has resulted in a number of recommendations to improve the effectiveness of this control area with specified timescales. When this mitigation has been fully implemented and embedded this should reduce both the likelihood and impact of this risk. Presently the net risk rating is 12 high risk.

Ref & Type	Risk Description (Including cause, threat and impact upon outcomes)	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CR5 Threat	<p>Information Security and Cyber Threat (Cause) Risk that as the Council continues to move towards using new technology systems to reduce costs and fulfil communication, accessibility and transaction requirements, (threat) it becomes increasingly at risk of a security breach, either malicious or inadvertent from within the organisation or from external attacks by cyber-criminals. (Impact) This could result in many negative impacts, such as distress to individuals, legal, financial and reputational damage to the Council, possible penetration and crippling of the Council’s IT systems preventing it from delivering its Corporate Outcomes.</p>	Chief Operating Officer	Portfolio Holder, Democratic and Public Engagement, Assurance and ICT	<p>9 Medium ↑</p>	<p>The Council handles large quantities of data on a daily basis and receives a large amount of emails, around 90 million this financial year to date. Of this volume 78% is malware, viruses or spam. The risk of a security breach of some nature is ‘likely’, already this Financial Year we have more Incidents than last year, 73 compared to the last financial year of 56. The sophistication of the attacks is increasing and so the number and types of technologies to protect the Council will need to evolve to deal with the different complexity. There is increasing public concern, the Council needs to continue to provide a level of service and care of its information that will engender trust from residents and businesses.</p> <p>Existing mitigation controls reduce the likelihood, the Council has a number of technologies to reduce the risk of infection; this approach is known as layered defence or defence in depth so that if the infection evades one technology then others will stop any incursion but this is a constantly changing digital arena. If the risk materialises there is the potential of a ‘major’ impact on the corporate plan which may affect services in one or more areas for a short period and so the net risk rating is 9 Medium risk.</p>

Ref & Type	Risk Description (Including cause, threat and impact upon outcomes)	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CR6 Threat	<p>Countering Fraud and Corruption</p> <p>(Cause) Risk that the Council fails to have proper, adequate, effective and efficient management arrangements, policies and procedures in place to mitigate the risk of fraud and corruption, particularly in a time of financial austerity, (Threat) such that public money is misappropriated. (Impact) This would result in a loss of funds to the Council, have a detrimental effect on services users, a negative impact on the Council's ability to achieve all of its priorities, value for money, and may have a negative impact on the Council's reputation.</p>	Interim Director of Finance and Procurement	Portfolio Holder, Finance and Communities	<p>6</p> <p>Medium</p> <p>↔</p>	<p>In line with CIPFA Code of Practice guidance, the Council's leadership team acknowledge the threats of fraud and corruption and the harm they can cause to the organisation, its aims and objectives and to its service users. Although the Council has a robust anti-fraud and corruption framework, as the Council commissions and lengthens its supply chain with uncertainty of the level of controls and assurance arrangements within the chain, the likelihood of this risk is increased. Alongside this, change of key personnel due to the organisational restructuring may also increase the risk of unexplained or suspicious expenditure. The impact of this risk should it occur is a 3 'significant' as the amount of funds at risk could be significant and jeopardise financial resources to achieve the outcomes. As the Council's maturity levels increase in this area the risk should reduce, at present, the overall net risk rating is 6 medium risk and is on the 'watch' list.</p>

Ref & Type	Risk Description (Including cause, threat and impact upon outcomes)	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CR7	<p>Cheshire East Local Plan Adoption</p> <p>Risk that there are delays to the adoption of the Cheshire East Local Plan Strategy, resulting in further delays to the planning framework, leaving Cheshire East vulnerable to unwanted development, budget pressures, loss of public and government confidence, impacting upon Cheshire East's ability to provide the right type of housing and development sites in the right places to stimulate growth in the local economy affecting the achievement of all of the Council's outcomes.</p>	Executive Director of Place	Portfolio Holder, Housing and Planning	4 Low ↓	Given that we have now completed the examination period and have completed consultations on proposed modifications. We now assess this threat as being very unlikely, we anticipate the plan will be approved by full Council this summer. This risk will be monitored via the Directorate risk register.
CR8	<p>Community Cohesion</p> <p>(Cause) Lack of integration - Risk that low socio economic status (including job insecurity, poor quality employment, housing and health inequalities); negative national political attitudes towards social groups, and ethnic diversity, in some parts of Cheshire East (threat) creates perceptions of unfairness, rumour and animosity, affecting community cohesion and resilience, (impact) impacting upon the Council's ability to ensure that all of its local communities are strong and supportive, that people live well and for longer and that Cheshire East is a green and sustainable place.</p>	Interim Executive Director of People	Portfolio Holder, Finance and Communities	4 Low ↓	The likelihood of this risk occurring has been reduced to unlikely due to the work completed to date. The overall risk rating has been reduced to 4 low risk. The impact on the Council objectives could be significant if the risk materialised as there could be substantial costs and resource required to restoring cohesion. It should be noted that risk factors are influenced by current external environmental issues. As the Council and partners continue to move forward with their action plan for this risk, mitigation will be a key consideration in its approach to community cohesion and this risk will be monitored via the Directorate risk register.

Ref & Type	Risk Description (Including cause, threat and impact upon outcomes)	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CR9	<p>Increased Major Incidents (Cause) Risk that there is a lack of capacity, planned reserves and resources to deal with an increased frequency and severity of major incidents which affect Cheshire East (e.g. extreme weather events, flooding, sinkholes, fire incidents, chemical incidents, dangerous structures, pandemic, or deliberate incidents such as terrorist acts) such that (threat) the Council needs to shift capacity and resources away from day to day operational activity and may be unable to sustain an effective response or to act in a timely manner alongside emergency responder partners, (impact) resulting in potential public safety issues and a reduced level of achievement across all of its intended outcomes.</p>	Executive Director of Place	Portfolio Holder, Democratic and Public Engagement, Assurance and ICT	<p>6 Medium</p> <p>↔</p>	<p>The net risk rating for this risk is 6 medium. Whilst it is unlikely that there will be a significant increase in the number of major incidents, this is outside of our control, and if this was to materialise the impact on the Council's objectives would be major.</p> <p>There have been a number of major incidents that the Council has responded well to and the risk score will be reviewed if and when any further incidents occur.</p>
CR10	<p>Business Continuity (Cause) Risk that an internal or external incident occurs which renders the Council unable to utilise part or all of its infrastructure (such as buildings, IT systems etc) such that (threat) the Council is unable to deliver some, or in extreme cases all of its services and (impact) putting residents at risk for a period of time and resulting in a reduced achievement of Corporate Plan outcomes over the longer period</p>	Chief Operating Officer	Portfolio Holder, Democratic and Public Engagement, Assurance and ICT	<p>6 Medium</p> <p>↔</p>	<p>The net risk rating is 6 medium.</p> <p>Whilst the majority of incidents are outside of the Council's control this risk remains unlikely but could have a major impact if it materialised.</p> <p>Contingency planning to reduce the impact requires improvement and so this risk is on the 'watch' list.</p>

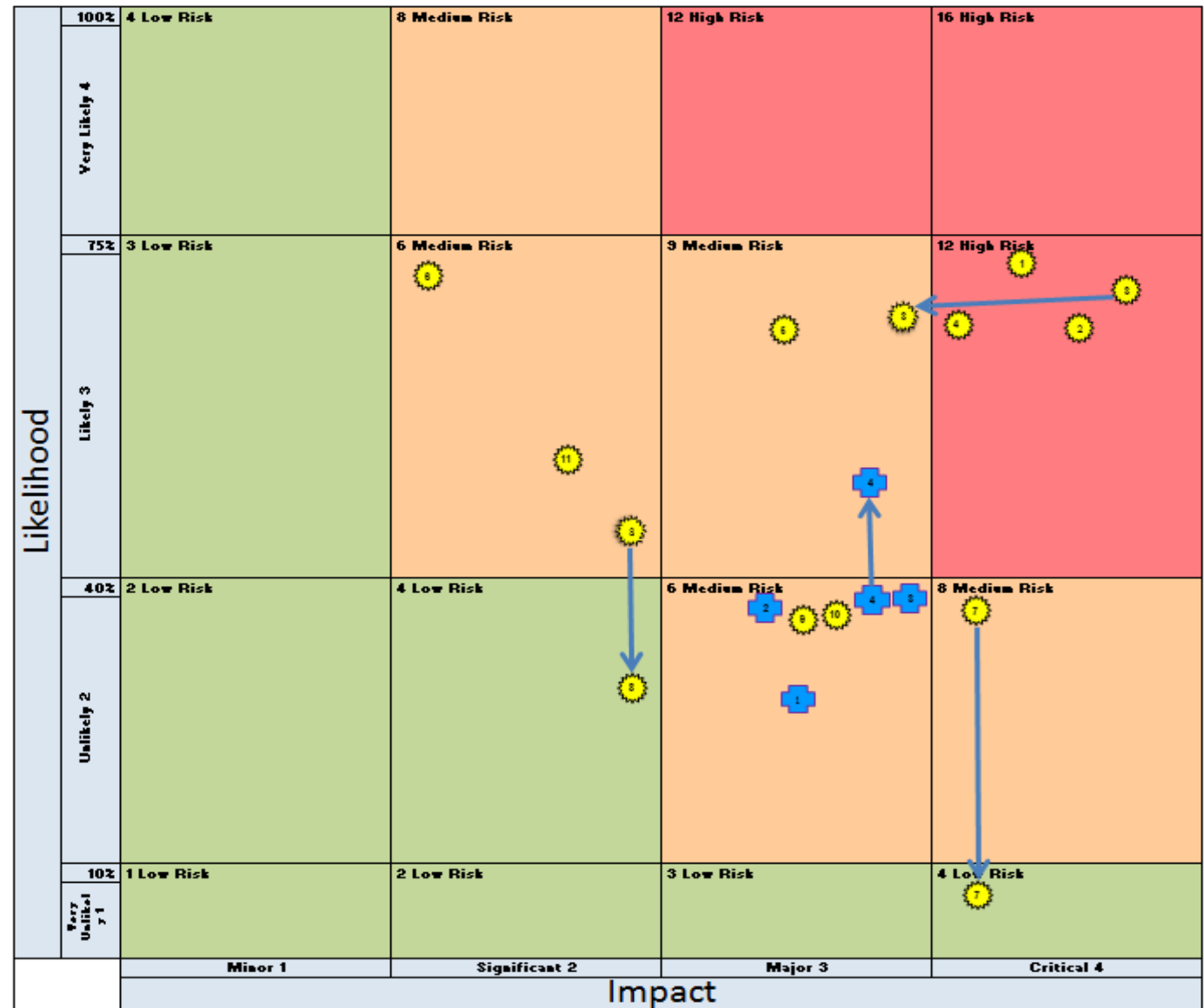
Ref & Type	Risk Description (Including cause, threat and impact upon outcomes)	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CR11 Threat	<p>Employee Engagement and Retention</p> <p>(Cause) Risk that as demand increases and resources decrease, the Council's most skilled and experienced staff may feel under more pressure and become less engaged, and (threat) because of the specialist nature of some of the roles, the Council is less able to recruit and retain core professional employees (e.g. social workers, solicitors and planners). This may result in (impact) high recruitment costs and loss of talent and organisational knowledge which may have a damaging impact on service users and the Council being unable to fully deliver across all of its outcomes.</p>	Chief Operating Officer	Portfolio Holder, Policy and Legal Services	<p>6 Medium</p> <p>↔</p>	<p>Whilst the employee engagement score has increased, the Council recognises that retention of skilled staff remains a threat. Employee engagement and retention is an area the Council needs to keep improving, for example through the use of talent management initiatives. Increase in demand with fewer resources is likely and may impact on core areas which could be significant. This risk is a medium risk.</p>
CRO 1 Opp'ty	<p>EU Exit, Single Market and Local Growth</p> <p>(Cause) Keeping abreast of discussions about exiting the EU and access to the single market means that the Council can anticipate which areas are going to be significantly affected in Cheshire East e.g. changes in demand, changes to economic sectors, including the rural economy, and the labour market in the local area, significant impacts on local companies, possible successor regional aid funding schemes, changes to state aid and procurement laws. (Opportunity) This creates an opportunity to seize the initiative and influence the debate on the new UK legislative agenda for how a new regime should be shaped, including more entrepreneurial models that (impact) may benefit Cheshire East's local economy and local growth.</p>	Executive Director of Place	Portfolio Holder, Regeneration	<p>6 Medium</p> <p>↔</p>	<p>Note that risk scoring for opportunities is the opposite way around to threats so a better risk outcome is to travel towards a higher score.</p> <p>The likelihood of this risk is presently unlikely as this is a possible opportunity which has yet to be fully investigated by management.</p> <p>The impact is relatively unknown but could be significant to Cheshire East's rural and local economy.</p> <p>The net risk rating is 6 Medium Risk and is worth further investigation.</p>

Ref & Type	Risk Description (Including cause, threat and impact upon outcomes)	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CRO 2 Opp'ty	<p>Devolution (Cause) Central Government has been working with various cities and sub-regions to achieve devolution of powers and funding from central government to local areas which presents an opportunity for Cheshire East to (opportunity) work with key partners to bring an informed, coherent and persuasive case to secure more funding and powers through a devolution deal which would (impact) support Cheshire East's outcomes of protecting and enhancing its Quality of Place, improving local economic growth assisting with the achievement of all of its corporate outcomes.</p>	Executive Director of Place	Leader	<p>6 Medium ↑</p>	<p>Cheshire East is committed to the devolution agenda and will work with its sub-regional partners to secure the best possible agreement for the Borough.</p> <p>The Council has been working with partners in the sub region to develop a draft deal (together with a draft investment programme). This puts us in a good position to outline our proposals with Government after the general election. The timelines however are uncertain until we get a clear position from Government.</p>
CRO3 Opp'ty	<p>Partnership Working (Cause) Public Service delivery is currently under-going reform, impacting upon capacity and resources of agencies and organisations partnered by the Council and other public sector agencies. (Opportunity) This presents an opportunity for co-production with joint strategic planning to reduce contradictory and duplication of efforts, minimise delivery gaps, exploit new business models and maximise best use of public and private sector resources to (impact) achieve joint and complementary objectives and assist with the achievement of the Council's corporate outcomes.</p>	Interim Executive Director of People	Leader	<p>6 Medium ↑</p>	<p>The Leaders' Board is working with the Council's key strategic partners, including Town and Parish Councils, and the Voluntary, Community and Faith Sector to exploit this opportunity and so the likelihood of this risk requires careful management to increase the likelihood rating.</p> <p>The impact could see a major increase in the Council's ability to achieve one or more strategic outcomes. The opportunity requires further work and monitoring to ensure that it comes to fruition.</p>

Ref & Type	Risk Description (Including cause, threat and impact upon outcomes)	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CRO4 Opp'ty	<p>Regeneration Funding</p> <p>(Cause) The Council has a number of ambitious regeneration and development initiatives (e.g. Crewe Regeneration including HS2, and Macclesfield Regeneration) involving many third party organisations.</p> <p>(Opportunity) There is an opportunity to create the right conditions and confidence to lever in significant investment (public and private) to deliver these initiatives and to create (impact) further significant growth and prosperity in the Borough.</p>	Executive Director of Place	Portfolio Holder, Regeneration	<p>9</p> <p>Medium</p> <p>↑</p>	<p>The Council is working with partners to enable it to be in the strongest possible position to make bids and have access to government funding, which increases the likelihood of this opportunity. Following the general election the Council will be able to start dialogue with the government regularly on investment priorities in the Borough.</p>

Cheshire East Council Corporate Risks Heat Map (May 2017)

Corporate Risk Titles	
Threat	
CR1	Increased Demand for People Services
CR2	NHS Funding and STP Impact
CR3	Financial Resilience
CR4	Contract and Relationship Management
CR5	Information Security and Cyber Threat
CR6	Countering Fraud and Corruption
CR7	Cheshire East Local Plan Adoption (to be removed)
CR8	Community Cohesion (to be removed)
CR9	Increased Major Incidents
CR10	Business Continuity
CR11	Employee Engagement and Retention
Opportunity	
CRO1	EU Exit, Single Market and Local Growth
CRO2	Devolution
CRO3	Partnership Working
CRO4	Regeneration Funding



Threat	
Opportunity	

SCORING CHART FOR IMPACT				SCORING CHART FOR LIKELIHOOD				
	Factor	Score	Effect on Corporate Objectives		Factor	Score	Description	Indicator
Threats	Critical	4	Critical impact on corporate objectives and performance and could seriously affect reputation. Long term damage that may be difficult to restore with high costs.	Threats	Very likely	4	>75% chance of occurrence	Regular occurrence Frequently encountered - daily/weekly/monthly
	Major	3	Major impact on corporate objectives and performance, could be expensive to recover from and would adversely affect reputation in the medium to long term.		Likely	3	40% - 75% chance of occurrence	Within next 1-2 yrs Occasionally encountered (few times a year)
	Significant	2	Significant impact on corporate objectives, performance and quality, could have medium term effect and be potentially expensive to recover from.		Unlikely	2	10% - 40% chance of occurrence	Only likely to happen 3 or more years
	Minor	1	Minor impact on the corporate objectives and performance, could cause slight delays in achievement. However if action is not taken, then such risks may have a more significant cumulative effect.		Very unlikely	1	<10% chance of occurrence	Rarely/never before
	Factor	Score	Effect on Corporate Objectives		Factor	Score	Description	Indicator
Opportunities	Exceptional	4	Result in major increase in ability to achieve one or more strategic objectives	Opportunities	Very likely	4	>75% chance of occurrence or achieved in one year.	Clear opportunity, can be relied on with reasonable certainty to be achieved in the short term.
	Significant	3	Impact on some aspects of the achievement of one or more strategic objectives		Likely	3	40% to 75% chance of occurrence. Reasonable prospects of favourable results in one year.	May be achievable but requires careful management. Opportunities that arise over and above the plan.
					Unlikely	2	<40% chance of occurrence or some chance of favourable outcome in the medium term.	Possible opportunity which has yet to be fully investigated by management.