

Audit and Governance Committee

Date of Meeting:	24 th November 2022
Report Title:	Risk Management Update
Report of:	Jane Burns, Executive Director Corporate Services David Brown, Director of Governance and Compliance
Report Reference No:	AG/21/21-22
Ward(s) Affected:	All wards

1. Purpose of Report

- 1.1. Effective risk management is central to good governance and supports the efficient delivery of the Council's corporate plan objectives. The Audit and Governance Committee provides an independent assurance to the Council on the adequacy of the risk management framework.

2. Executive Summary

- 2.1. This report provides the Audit and Governance Committee with an update on the Strategic Risk Register for the period Quarter 1 22/23, and an overview of other risk management activity in the organisation. Appendix A covers the Strategic Risk Register in detail.

3. Recommendations

- 3.1. To note the update provided by this report to the Audit and Governance Committee.

4. Reasons for Recommendations

- 4.1. Risk management is central to facilitating good governance and the achievement of corporate objectives. As a publicly accountable body, the Council must demonstrate effective identification and management of the risks that threaten the achievement of its corporate objectives and the effectiveness of its operations.

- 4.2. The Audit and Governance Committee have responsibility for monitoring the effective development and operation of risk management across the Council.

5. Other Options Considered

- 5.1. No alternative options considered; this is an update report to support the Committee in meeting its responsibilities under its Terms of Reference.

6. Background

- 6.1. Risks included on the Strategic Risk Register are those which materially threaten the organisation's ability to achieve its strategic goals, in this case our corporate objectives. This could be in the form of an individual threat to a specific objective, or the compound effect of a threat across several areas.
- 6.2. Items on the Strategic Risk Register are "owned" by members of the Corporate Leadership Team and are reviewed on a quarterly basis. Co-ordination and administration of the Strategic Risk Register and the Risk Management Framework is undertaken by the Head of Audit and Risk Management.
- 6.3. Detailed updates on the Strategic Risk Register are provided to the Corporate Policy Committee on a (retrospective) quarterly basis, with the update on Quarter 1 activity reported on 6th October 2022. A detailed update on Quarter 2 activity is included on the agenda for 1st December 2022 Corporate Policy Committee, and a copy of this report will also be circulated to the Audit and Governance Committee.

Quarter 1

- 6.4. The Quarter 1 period covered significant challenge and change nationally, particularly in relation to political leadership, with the election of a new Prime Minister and Cabinet. The situation in Ukraine has continued, along with further increases in the cost of living, which is presenting challenges to projects and initiatives in the organisation. Demand across Adult and Children Services has increased, not only in volume, but also in the increasing complexity of casework, against existing fragility in the care market and budget pressures.
- 6.5. Table 1 below sets out the strategic risk register content and the gross and net scores for Q1 22/23; the direction of travel being informed by the net position of the risk at the previous quarter review; Q4 2021/22. A number of the strategic risk descriptions (and scores) have been revised during the first quarter. Details are provided in Appendix A

Table 1- Strategic Risk Register Position Quarter 1 2022/23

Ref	Risk	Q4 Net	Q1 Gross	Q1 Net	Target	Travel
SR1A	Increased Demand for Adult's Services	16	16	16	9	↔
SR1C	Increased Demand for Children's Services	9	16	12	9	↑
SR2	NHS Funding	16	16	16	12	↔
SR3	Financial Management and Control	9	16	9	6	↔
SR4	Information Security and Cyber Threat	12	16	12	12	↔
SR5	Business Continuity	9	12	9	9	↔
SR6	Organisational Capacity and Demand	12	16	12	12	↔
SR7	Council Funding	12	16	12	6	↔
SR8A	Governance and Decision Making	9	16	9	4	↔
SR8B	Political Uncertainty	12	12	12	6	↔
SR9	Capital Projects	6	16	6	6	↔
SR10	HS2 Infrastructure Investment	16	16	16	6	↔
SR11	Pandemic Virus	9	12	9	6	↔
SR12	Fragility and failure in the Social Care Market	16	16	16	9	↔
SR13	Reputation	9	16	9	9	↔
SR14	Climate Change (CEC Carbon Neutral 2025)	6	16	9	6	↑
SR15	Economy Risk	9	16	9	9	↔
SR16	Integrated Care System (ICS) Integration	-	16	16	8	NEW

Table 2 – Strategic Risk Register Items ordered by net score – highest to lowest

Ref	Risk	Net Score Q1 22/23
SR1A	Increased Demand for Adult's Services	16
SR2	NHS Funding	16
SR10	HS2 Infrastructure Investment	16
SR12	Fragility and failure in the Social Care Market	16
SR16	Integrated Care System (ICS) Integration	16
SR1C	Increased Demand for Children's Services	12
SR4	Information Security and Cyber Threat	12
SR6	Organisational Capacity and Demand	12
SR7	Council Funding	12
SR8B	Political Uncertainty	12
SR3	Financial Management and Control	9
SR5	Business Continuity	9
SR8A	Governance and Decision Making	9
SR11	Pandemic Virus	9
SR13	Reputation	9
SR14	Climate Change (Carbon Neutral 2025)	9
SR15	Economy Risk	9
SR9	Capital Projects	6

Summary of Quarter 1 review

- 6.6.** The Strategic Risk Register is set out in Appendix A, which includes a detailed commentary for each risk.
- 6.7.** Common themes in relation to causes and consequences from the quarterly review are:
- In the post pandemic recovery phase, challenges to capacity in the National Health Service are in turn causing pressures on the delivery of local social care responsibilities and services (SR1A, SR2, SR12 and SR16). This is happening at a time when socioeconomic factors are also impeding recruitment (SR1A, SR1C, SR2, SR6, SR12).
 - The interaction with central government is also flagged as causing uncertainty in several areas (SR8B, SR10, SR16), impacting both services and infrastructure development; and
 - The increase in inflation, and particularly rising energy prices, has also impacted infrastructure development (SR10, SR14).
- 6.8.** Of the 18 risks now on the Strategic Risk Register; 5 have the highest net score rating possible (16), 3 have the second highest (12), and the net score of two risks that have seen increases since the previous quarter.
- 6.9.** Overall, external causes have dominated discussions in reviewing the risks during Quarter 1. While the Council's ability to influence them might be limited, there is a clear message that managing our response is key to mitigating any potential consequences. Based on the Quarter 1 review, the most significant objectives at risk in the short-term relate to adult social care whilst to a lesser degree and in the medium-term, it is the development of the borough's infrastructure and economy.

Emerging areas – Q2 and Q3

- 6.10.** We continue to see challenges to the organisation from increasing cost of living pressures and inflationary rises to supplies and services, which will be subject to further reflection and adjustment in the following quarterly assessments.
- 6.11.** National policy direction and fiscal approach from central government is still emerging following the change of Prime Minister and Cabinet appointments from 25 October onwards; there could be significant impacts upon the Council's financial position depending on both national fiscal plans, which haven't been announced at the time of writing, and specific projects and plans within the Council which are reliant upon central government funding.
- 6.12.** These will also impact upon the national and local economy, which the Council could experience as both further increases on the cost of living for residents, service users and staff, and further demand for Council services. The financial position is already being very closely monitored and managed

through action plans; services will need to be clear about how the action required to manage our financial position impacts in relation to the achievement of Corporate Plan objectives.

- 6.13.** The outcome of the Joint Targeted Area Inspection has been carefully considered in the review of the Increased Demand for Children’s Services risk during the quarter 2 assessment of risks and this has resulted in the inclusion of a separate risk being added to the Strategic Risk Register, which will be detailed in the report to 1 December Corporate Policy Committee.
- 6.14.** Similarly, the review of the local planning service and the subsequent modernisation plan, as reported to the Environment and Communities Committee on 31st October, has resulted in the inclusion of a specific risk on the failure to achieve the modernisation plan being included on the Strategic Risk Register, again, detailed in the report to Corporate Policy Committee.

Horizon Scanning

- 6.15.** The Institute of Internal Auditors has recently published their “On Risk”¹ report identifying their top risks for 2022. Their methodology employed qualitative interviews of 30 board members, 30 executive level employees (Chief Executives, Chief Operating Officers, etc), and 30 Chief Audit Executives from 90 different organisations in North America.
- 6.16.** The report presents the top risks as having ‘universal applicability to organisations, regardless of size, industry, or type’, although they do acknowledge that some organisations may have specific, key risks related to their industry or circumstances. The table below shows how they map against the council’s strategic risks, listed in order of magnitude as per the report:

On Risk 2022 Key Risks	CEC Strategic Risks
Cybersecurity	Information Security and Cyber Threat
Talent Management	Organisational Capacity and Demand
Organisational Governance	Governance and Decision Making
Data Privacy	Information Security and Cyber Threat
Culture	Governance and Decision Making
Economic & Political Volatility	Political Uncertainty Economy Risk
Change in Regulatory Environment	Political Uncertainty
Supplier & Vendor Management	Governance and Decision Making
Disruptive Innovation	Business Continuity
Social Sustainability	Increased Demand for Adult’s Services Increased Demand for Children’s Services
Supply Chain Disruption	Business Continuity Governance and Decision Making
Environmental Sustainability	Climate Change

¹ [OnRisk Report \(theiia.org\)](https://www.theiia.org/)

6.17. Despite the sector and geographic differences between the IIA report and the strategic risk register, there is a strong level of correlation, even where some of the report's risks are more specific, e.g., supply chain disruption, there are linkages to the strategic risk register. It is positive that the organisation has already identified similar challenges as the key threats to the achievement of its objectives.

2022/23 Risk Management Approach

6.18. The production of the 2022/23 Service Plans required a related Risk Register to be completed; this required services to capture what they considered the keys risks to their area and operations. These have now been reviewed and have provided insight not only into those area's challenges but also into the maturity of risk reporting.

6.19. Across the four directorates, a total of 39 registers have now been returned, covering all service areas expected. A total of 297 risks were reviewed across the service level registers from all four directorates and engagement was generally high.

6.20. The majority of services identified risks that focused on emerging or on-going issues, rather than identifying risks to the achievement of existing service delivery responsibilities and objectives.

6.21. Where service risks registers focused on objectives, the coverage and number of risks captured was significantly more by comparison to those that focused more so on specific issues. The majority of registers included detailed information on controls.

6.22. Service registers will be subject to further analysis and feedback during the year to ensure that they are revisited, updated and developed to comprehensively cover risks associated with the service's established responsibilities as well as service development and change.

6.23. Analysis of the issues or to give them their correct risk designation, 'causes', within the service risk registers has provided the opportunity to understand the current, common themes across the organisation.

Common causes of risk	No. of risks	Average rating
Staff resource or structure	46	8.4
Maintaining BAU (inc. COVID-19)	39	8.3
Lack of compliance with regulatory requirements	15	8.3
Failure to comply with GDPR	6	10.2

6.24. The two most significant causes are not considered completely independent of each other, although there was enough distinction to separate them and obtain better insight than combining them. The following logic was used when classifying the two most common causes:

Cause of risk	Indicators
Staff resource or structure	Difficulty fulfilling positions
	Lack of required skills
	Requirement to restructure
Maintaining BAU (inc. COVID-19)	Increase in workload
	Impact of COVID-19 on productivity

- 6.25.** Regardless of the explicit issues at play, it is clear that a productivity, workload imbalance was by far the strongest theme identified. While very strongly represented, 28.6% of all risks identified, the average rating was 8.4 suggesting it was being managed to an acceptable level. Although it must be acknowledged that some areas will have rated higher than the average. Based on the nature of the areas assessed, operational, this seems like a reasonable but notable outcome.
- 6.26.** This theme is recognised in the strategic risks, SR 6 Organisational Capacity and Demand which at Q1 was rated 12 and has a target rating of 12. This indicates that the top-down view is that the risk is being managed adequately.
- 6.27.** An online session for Audit and Governance Committee members was held in September. This focused on providing members with an understanding of risk management principles, and the role Members can take in supporting effective management of the Council's risks. Slides from the session have been circulated to all committee members.
- 6.28.** An approach to allow the Audit and Governance Committee to focus on how strategic risks are managed, and how/where the risk owner receives their assurances from is being developed, with the first session planned to focus on SR 13, Reputation.

7. Implications

7.1. Legal

- 7.1.1. There are no direct legal implications arising from the recommendations of this report. This report provides assurance that the Council achieves its strategic aims and operates its business, under general principles of good governance, that it identifies risks which threaten its ability to be legally compliant and operates within the confines of the legislative framework.

7.2. Finance

- 7.2.1. There is no direct impact upon the MTFS from the recommendations of this update report. Costs relating to implementing risk treatment plans are included within service budgets. The need to provide financial security against the impact of risks is considered on a case-by-case basis and either included within specific budgets within the MTFS or considered under the overall assessment of the required level of General Reserves as part of the Reserves Strategy.

7.3. Policy

7.3.1. Cheshire East Council has adopted the Risk Management Framework approved by Cabinet in June 2020. Risk management is integral to the overall management of the authority and, therefore, considerations regarding key policy implications and their effective implementation are considered within departmental risk registers and as part of the risk management framework.

7.4. Equality

7.4.1. There are no direct implications arising from the recommendations of this update report.

7.5. Human Resources

7.5.1. There are no direct implications arising from the recommendations of this update report

7.6. Risk Management

7.6.1. This report relates to overall risk management and provides the Corporate Policy Committee with awareness of the most significant risks facing the Council, where strategic risks are emerging and assuring the Committee on how these are being managed.

7.7. Rural Communities

7.7.1. There are no direct implications arising from the recommendations of this update report.

7.8. Children and Young People/Cared for Children

7.8.1. There are no direct implications arising from the recommendations of this update report.

7.9. Public Health

7.9.1. There are no direct implications arising from the recommendations of this update report.

7.10. Climate Change

7.10.1. There are no direct implications arising from the recommendations of this update report.

Access to Information	
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Appendices:	Strategic Risk Register Q1 2022/23– Appendix A