

Audit and Governance Committee

Date of Meeting:	9 March 2023
Report Title:	Risk Management Update
Report of:	Jane Burns, Executive Director Corporate Services David Brown, Director of Governance and Compliance
Report Reference No:	AG/22/21-22
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 ending Quarter 2 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, Quarter 2 activity reported on 1st December 2022 and Quarter 3 activity due to be reported on 23rd March 2023. A copy of the Quarter 3 report will be circulated to the Audit and Governance Committee.

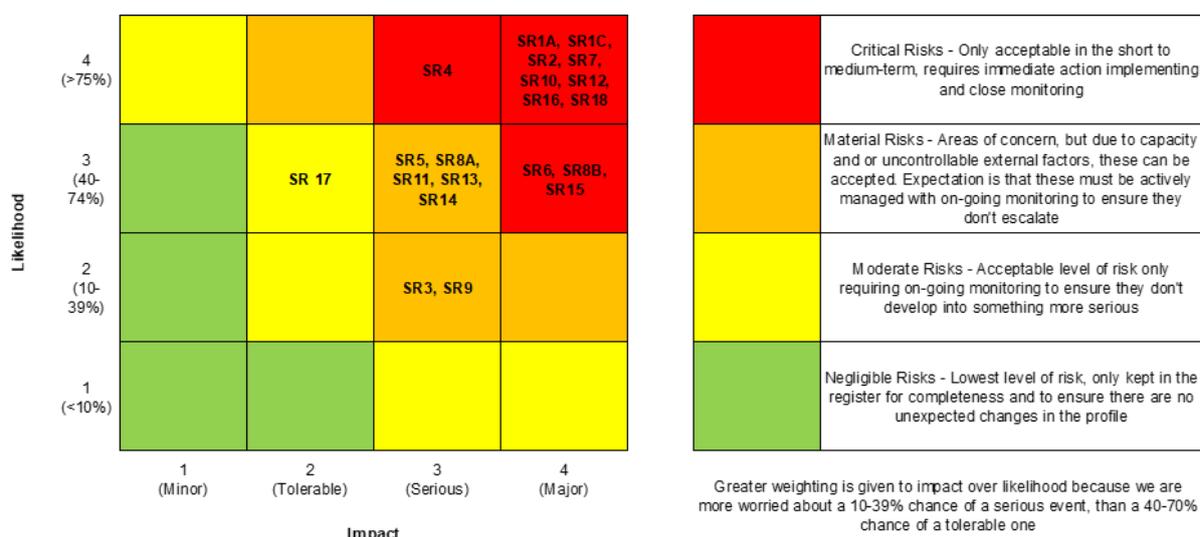
Quarter 2

- 6.4. The Quarter 2 period included continuing economic pressure and politically uncertainty for the country, and the council. During the period from July to September, inflation rose from 9.1% to 10.1%, interest rates rose to 2.25% in September, and a leadership election took place, with a Prime Minister taking office on 5 September. Continued rises in the cost of living have inevitably presented further demand for Council services, whilst the cost of providing those services continues to increase.
- 6.5. Table 1 below sets out the strategic risk register content and the gross and net scores for Q2 22/23; the direction of travel being informed by the net position of the risk at the previous quarter review. The heat map below that (Chart 1) shows more starkly, the high concentration of critical and material rated risks.
- 6.6. A number of the strategic risk descriptions (and scores) have been revised since the first quarter. Details are provided in Appendix A

Table 1 - Strategic Risk Register Position – Quarter 2 2022/23

Ref	Risk	Q1 Net	Q2 Gross	Q2 Net	Target	Travel
SR1A	Increased Demand for Adult's Services	16	16	16	9	↔
SR1C	Increased Demand for Children's Services	12	16	16	9	↑
SR2	NHS Funding	16	16	16	12	↔
SR3	Failure of Financial Management and Control	9	16	6	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	16	9	↑
SR8A	Governance and Decision Making	9	16	9	4	↔
SR8B	Political Uncertainty	12	12	12	6	↔
SR9	Capital Projects - Place	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)	9	16	9	6	↔
SR15	Failure of the local economy	9	16	12	12	↑
SR16	Integrated Care System (ICS) Integration	16	16	16	8	↔
SR17	Local Planning Authority Modernisation Plan	-	12	6	6	NEW
SR18	Delivery of the JTAI Improvement Plan	-	16	16	12	NEW

Chart 1 – Strategic Risk Heat Map Q2 2022/23



Summary of Quarter 2 review

6.7. The Strategic Risk Register is set out in Appendix A, which includes a detailed commentary for each risk.

- 6.8.** Common themes in relation to causes and consequences from the quarterly review generally represent the underlying challenges noted in the first quarter, arising from cost increases, and demand pressures. Additionally, we have noted the following:
- The effectiveness of our arrangements in relation to outsourcing and governance of partnerships and external arrangements (SR8A, SR16, SR18).
 - The continued impact of the weak national economy (SR1A, SR2, SR6, SR10, SR15).
- 6.9.** Of the 18 risks now on the Strategic Risk Register; 8 have the highest net score rating possible (16), 4 have the second highest (12), and the net scores of three risks that have seen increases since the previous quarter.
- 6.10.** 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.
- 6.11.** Two additional risks were included on the Strategic Risk Register for Quarter 2. These are detailed below.
- 6.12.** SR17 Local Planning Authority Modernisation Plan; this is a new inclusion on the Strategic Risk Register, recognising the impact that failure to achieve the objectives of the modernisation plan would have; undermining the planned transformation of the service, perpetuating, and potentially extending the issues identified and undermining the reputation of the organisation. A gross score of 12, and net score of 6 have been set for this risk.
- 6.13.** SR18 Delivery of the JTAI Improvement Plan; a new risk added by the Children's directorate with the highest possible rating for both gross and net scores. This risk recognises the potential impact of the Safeguarding children's partnership failing to achieve the improvements needed at the necessary pace, and as such failing to address the recommendations from the joint targeted area inspection (JTAI).
- 6.14.** Several changes were made immediately following the inspection to ensure that children and young people at risk of exploitation were safe, and to improve processes to protect children and young people from harm. A comprehensive partnership improvement plan is now in place which addresses all the recommendations from the inspection as detailed in the letter of findings. An Improvement Executive Board is in place to scrutinise progress against the plan and ensure that this is achieved at pace. Governance arrangements are currently being established to support effective delivery of the plan and scrutiny of its impact on outcomes for

children and young people. There is strong partnership commitment to ensuring changes are achieved for children and young people.

Strategic Risk Emerging areas

- 6.15.** 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.
- 6.16.** We also know that the Quarter 3 period traditionally presents challenges from winter pressures in health and social care. Q3 also sees the impact of continuing employee disputes and strike action in the railways, and start of action within other sectors, including Royal Mail, ambulance staff and nurses.
- 6.17.** The expectation of these challenges to the Council's ability to maintain performance and continued achievement of the organisation's objectives, during Quarter 3 was anticipated in the report to the Corporate Policy on 1 December 2022, due to the complexity and volume of these factors. The initial assessment of Quarter 3 strategic risk, which will be reported in detail to the Corporate Policy Committee on 23 March, indicates that effective risk management activity in the quarter has helped to either mitigate the impact of those challenges or avoid further increase in the risk on a number of the strategic risks.
- 6.18.** As we approach the end of the year, the focus for examining the strategic risk register during quarter 4, will be the impact of the budget proposals upon the Council's strategic risks. This could lead to changes in the content of the strategic risk register, either in the scope and, or scoring of existing risks on the register, or the inclusion of additional content.
- 6.19.** The organisation will need to closely monitor the delivery of the MTFs proposals, particularly in relation to savings in 2023/24 and beyond. This activity will be picked up in the strategic risks on Council Funding, and Financial Management and Control specifically, and more generally in all of the other risks. The impact is also expected to be seen at an operational level in the regular service level risk updates.
- 6.20.** The Council will begin its pre-election period on 27 March, and local political uncertainty should be expected to continue until the outcome of the local elections at the beginning of May is clear.

Risk Management Approach

- 6.21.** 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 key risks to their area and operations. These were reviewed by the Risk Management Function, and this provided useful insight into those area's challenges but also into the maturity of risk recording and reporting across the organisation.

- 6.22.** During 2022/23 so far, we have supported services with ad-hoc advice and guidance on specific risk management queries. We have also assisted a service with a more fundamental refresh of their operational risk register, using workshops and follow up sessions. This has resulted in great learning for all involved, and we will be able to use this in providing sessions to assist teams and services as they develop their 2023/24 service plans.

Business Continuity

- 6.23.** Business Continuity Impact Assessments have been carried out ahead of a number of events in 2022/23 so far, in order to assist the organisation in managing and prioritising the continuation of service delivery wherever possible. These have included railway strike action, the bank holiday announced for the State Funeral of Her Majesty Queen Elizabeth II and potential power outages during winter.
- 6.24.** As the contract for software currently used for business continuity plans expires in Q4 2022/23, consideration has been given to the on-going use of software to support the organisation’s administration of business continuity plans with alternative approaches being explored. These need to ensure that BC impact assessments and plans are completed in a consistent standard format and can be updated promptly and easily to reflect organisational changes.

Horizon Scanning

- 6.25.** The Institute of Internal Auditors (IIA) has recently published their ‘Risk in Focus’¹ report identifying the top risks for 2023. Their methodology was to distribute a quantitative survey to Chief Audit Executives (CAE) in 15 European countries, including the UK. The survey received 834 responses, an all-time high for the project, with the headline question being ‘What are the top five risks your organisation currently faces?’.
- 6.26.** The report presents the top risks covering all sectors and industries as a tool to inform internal audit thinking and as a benchmark for organisations to compare and contrast their own risks assessments. Organisations are encouraged to use the findings to promote discussion at Audit Committee meetings. The table below shows the risks that appeared in respondent’s answers the most, arranged by most responses at the top, and how the strategic risks map against them.

Risk In Focus 2023	CEC Strategic Risks
Cybersecurity and Data Security	Information Security and Cyber Threat
Human Capital, Diversity and Talent Management	Organisational Capacity and Demand
Macroeconomics and Geopolitical Uncertainty	Failure of the Local Economy

¹ Risk In Focus 2023 (theiia.org)

Risk In Focus 2023	CEC Strategic Risks
Changes in Laws and Regulations	Political Uncertainty
Digital Disruption, New Technology and AI	N/A ²
Climate Change and Environmental Sustainability	Climate Change (CEC Carbon Neutral 2025)
Business Continuity, Crisis Management and Disasters Response	Business Continuity
Supply Chain, Outsourcing and 'Nth' Party Risk	Governance and Decision-Making and various others ³
Financial, Liquidity and Insolvency Risks	Council Funding
Organisational Governance and Corporate Reporting	Governance and Decision Making

6.27. Despite the sector and geographic differences between the IIA report and the strategic risk register, there remains a strong level of correlation as seen in other comparisons. The phrasing and scope of risks may differ, as would be expected, but the themes and positions held are consistent, providing a measure of assurance.

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.

² There is no risk that directly maps here, digital disruption is very much a cause-based risk, rather than objective based one. For example, if there was an increase in the efficacy of AI based hacking attacks, it would be highlighted in the Information Security and Cyber Threat risk. This approach anchors an issue to an outcome, or multiple desired outcomes, and informs on its impact.

³ The Governance and Decision-Making risk would indicate how well arrangements with third parties are being implemented. However there are a number of other risks that specifically draw upon the council's reliance upon specific arrangements or interdependencies; NHS Funding, Political Uncertainty, Capital Projects - Place, HS2 Infrastructure Investment, Fragility and Failure in the Social Care Market and Integrated Care System (ICS) Integration.

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

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