CHESHIRE EAST COUNCIL

Audit and Governance Committee

Date of Meeting:	31st January 2013
Report of:	Performance and Risk Manager
Subject/Title:	Risk Management Update Report
Portfolio Holder:	Councillor David Brown

1.0 Report Summary

1.1 This is an update report from the Performance and Risk Manager to the Audit and Governance Committee. The Audit and Governance Committee has a key role in providing an oversight of the effectiveness and 'embedding' of risk management processes, and in testing and seeking assurance about the effectiveness of control and governance arrangements. In order to form an opinion on these arrangements, it needs to establish how key risks are identified, evaluated and managed, and the rigour and comprehensiveness of the review process. The purpose of this report is to provide the Audit and Governance Committee with a summary of risk management work so that it may undertake this oversight.

2.0 Recommendation

2.1 The Audit and Governance Committee is requested to consider and comment on the update report on risk management which is for information.

3.0 Reasons for Recommendation

3.1 With calls for greater transparency, demand for better quality services during a time of financial adversity, economic uncertainty and social change, there is a need for sound early warning mechanisms. Factor in partnership working across organisational boundaries, changing leadership and management structures, innovative commissioning and service delivery, de-commissioning and leaner business models and it becomes obvious that Cheshire East requires a strong risk management framework to recognise and address diverse threats and opportunities.

3.2 Cheshire East Council is publicly accountable and must be able to demonstrate effective management of the kinds of risks which threaten the achievement of its strategic objectives, the effectiveness of its operations, the reliability of its financial reporting and the security and value of its assets.

3.3 Being able to demonstrate effective systems for managing risks is a critical step in producing supportable statements of internal control for annual reporting purposes. The benefit of a strong risk management framework from a governance viewpoint is that it gives a greater level of confidence that management have properly and adequately fulfilled their responsibility in operating an effective system of internal control. This is turn gives confidence also to have a higher appetite for risk, at a time when major change is necessary and desirable.

4.0 3 Year Council Plan - Challenges, Opportunities and Risk Appetite

4.1 In shaping the 3 Year Council Plan, Cabinet is taking strategic decisions about where to allocate (and invest) limited public funds and resources to get the greatest value for local people. Setting out the Council's vision and medium term priorities means that the 3 Year Council Plan brings new risk challenges, we will need to consider these, seize new opportunities, create energy and invoke the necessary changes required to serve the people of Cheshire East and achieve the future and outcomes that we want.

4.2 It is timely to re-evaluate the key corporate risks and for Cabinet and management to consider how it can ensure that risks and opportunities are properly addressed. Risk management provides a healthy self-criticism encouraging reflection and innovation leading to different approaches and direction in order to achieve objectives.

4.3 Risk management is not about eliminating or avoiding risk but it is necessary to understand the overall level of risk exposure to determine what level of risk appetite the Council is prepared to take in attaining its aims and objectives.

5.0 Risk Appetite

5.1 Most decisions are made based on which risks we are prepared to take on, which risks we need to reduce, and which risks we are prepared to accept. Risk appetite describes where the Council places itself along the risk spectrum, ranging from risk taking to risk averse as illustrated in ***Table 1*** below. It is the amount, and type of risk, that Cheshire East Council deems acceptable in attaining the aims and objectives of its 3 Year Council Plan.

5.2 Establishing and articulating risk appetite helps to ensure that consideration in the way management, Cabinet and Council respond to risk is consistent and that there is a shared vision for managing risk.

Table 1

Assessment	Description
High Risk Appetite 5	The Council **accepts opportunities that have an inherent high risk** that may result in reputation damage, financial loss or exposure, if it is considered that the overall balance of the risk and associated reward to the Council is acceptable.
Moderate Risk Appetite 4	The Council **is willing to accept risks** that may result in reputation damage, financial loss or exposure, if it is considered that the overall balance of the risk and associated reward to the Council is acceptable.
Modest Risk Appetite 3	The Council **is willing to accept some risks in certain circumstances** that may result in reputation damage, financial loss or exposure, if it is considered that the overall balance of the risk and associated reward to the Council is acceptable.
Low Risk Appetite 2	The Council **is not willing to accept risks in most circumstances** that may result in reputation damage, financial loss or exposure; **even** if it is considered that the overall balance of the risk and associated reward to the Council is acceptable.
Zero Risk Appetite 1	The Council **is not willing to accept risks under any circumstances** that may result in reputation damage, financial loss or exposure; **even** if it is considered that the overall balance of the risk and associated reward to the Council is acceptable.

5.3 There are risks for which the Council is custodian on behalf of the public and the environment, where risk appetite may be very low, and there may be risks with choices about investment in projects, research and delivery roles, where risk taking may be encouraged. The response to risk should be firmly based on the Council's strategy and risk appetite and not on individual views and preferences to risk taking. It is important to articulate and communicate risk appetite levels, as this will set a clear mandate for the amount and type of risk to accept and manage and those to avoid.

6.0 Wards Affected

6.1 All

7.0 Local Ward Members

7.1 All

8.0 Policy Implications

8.1 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.

9.0 Financial Implications (Authorised by the Director of Finance and Business Services)

9.1 None in relation to this report, a risk around financial control is included as a key corporate risk on the corporate risk register.

10.0 Legal Implications (Authorised by the Borough Solicitor)

10.1 As well as the need to protect the Council's ability to achieve its strategic aims and to operate its business, general principles of good governance require that it should also identify risks which threaten its ability to be legally compliant and operate within the confines of the legislative framework, and this report is aimed at addressing that requirement.

11.0 Risk Management

11.1 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 mitigate the following risks:-

Key Risks
That Cheshire East Council fails to properly develop, implement and demonstrate an effective risk management framework
That Cheshire East Council fails to apply its risk management policy consistently across the

Council
That Cheshire East Council fails to recognise risk or make correct decisions to tolerate, treat, transfer or terminate risk due to poor risk management

12.0 Background and Options

12.1 Key Corporate Risks

It has been agreed that a risk and opportunity workshop be undertaken with Cabinet and the Corporate Management Team in February/March to review the key corporate risks to achieving the Council's objectives and to update the key corporate risk register. This workshop was previously arranged for December but was postponed to ensure that the timing of the risk and opportunity workshop is undertaken at the right time alongside the development of the 3 Year Council Plan and objectives. Further work will then be undertaken to determine the Council's risk appetite so that qualitative high level statement of risk preferences can then be defined for business areas.

12.2 Risk Themes

It is likely that some key risk themes will come out of the risk and opportunity workshop some of which are highlighted for thought below. These are not necessarily Cheshire East risks and do not include full causes and consequences of risks but these are likely to be areas discussed during the workshop:-

External Risk Areas
Political Environment: That development and changes as a result of government policy and reviews compromise the Council's ability to deliver. (E.g. the welfare reform may create financial hardship for some residents resulting in negative community impacts and unexpected increase in demand for Council services)
Managing Expectations: Risk that there is that there is no mutual understanding and recognition of responsibilities between the people of Cheshire East and the Council of the expected objectives and outcomes of the Council reform.
Legal: The rate of change and different delivery models may mean doing things quickly without recognising and/or acting accordingly to prevent a significant challenge to a decision, or a compensation trend emerges.
Strategic Risk Areas
Strategic Leadership and Management: That the changing landscape of public services, new thinking, organisational shape and a multitude of contributing and cross impacting factors result in ineffective strategic leadership and management arrangements.
Financial Control: Inaccurate financial planning in the short term and longer term and/or ineffective financial control threatens financial stability and service continuity.
Evidenced Decision Making: Due to ineffective use of information and business intelligence, we do not properly and adequately take account of public need and fail to apply evidence based decision making.
Reputation: That consideration is not given to making decisions that take account of reputational impact and that action is not taken to effectively manage the reputation of the Council.
Public Sector Effort: Risk that a lack of consensus and joint strategic planning results in duplication of effort and use of resources by several partners in varying geographic areas, or those efforts are contradictory/leave gaps and do not maximise public resources.

Local Development Plan - Housing: Risk that the local development plan is inadequate to meet housing demand such that we are unable to provide the right type of housing and development sites in the right places.
Public Health and Wellbeing: Poor understanding of public health work across the organisation, in conjunction with insufficient detail of contracts and projects, and unclear responsibilities for activity and programmes during the transitional stage of public health into the local authority results in the breakdown of the provision of health services.
Workforce: Pace of change results in overstretched staff capacity resulting in poor motivation, increase in staff stress and sickness levels, loss of productivity and loss of key staff.
Operational Risk Areas
Contract, Project and Programme Management Skills: Insufficient skilled and knowledgeable staff managing contracts, projects and programmes, such that they fail to deliver expected outcomes and/or within budgeted costs and/or within expected timescales.
Fraud: Inadequate management arrangements, policies and procedures in place to mitigate the risk of fraud such that public money is misappropriated.
Commissioning and Service Delivery Chains: Increasingly complex provider and delivery chains for both back office and front line services (i.e. outsourcing, contracted suppliers and providers, shared service delivery, joint ventures, private finance initiatives and partnership working) leads to increased risks (e.g. failure to meet service expectations, supplier/partner financial failure, increase in supplier incidents, tension between profit motives and public sector ethos, business ethics, health & safety practices, financial security, budget overruns and systematic risks in shared services and business critical areas).
Prevention and Early Intervention: Uncoordinated and/or deficient intervention between internal and external partners results in young people and families being escalated up the levels of need, more children and young people ending up in the criminal justice system and care, resulting in exponential increase in need and expenditure.
Vulnerable Care: Inability to develop the market to provide sufficient, quality placements/care packages to meet demand, leaving vulnerable children and adults without safe and stable accommodation.

12.3 Financial Control Risk

The Audit & Governance Committee requested that it receive a short briefing at each meeting from the Risk Owners / Managers of the highest key corporate risks. At the previous meeting of the Audit & Governance Committee the key corporate risk around financial control was discussed. This risk has since been updated and a summary of the changes is provided below:-

KCR2 Financial Control	
"“Risk that the Council fails to manage expenditure within budget, due to inaccurate financial planning in both the short term and longer term and/or ineffective financial control leading to a failure to maintain an adequate level of reserves , thereby threatening financial stability and service continuity and preventing the achievement of Cheshire East's Priorities.”	The net risk rating is 12 High Risk. Whilst the likelihood of this risk fluctuated between 3 and 4 over the last few months there is no change to the overall risk rating since the last report to the Committee. The likelihood of this risk materialising remains high due to general economic uncertainties and risks associated with proposed changes in national funding arrangements and new legislation. The existing and future controls have been updated to take account of a number of recent developments including :- • an improved 2012/13 out-turn forecast at Third

	Quarter Review, evidencing the positive impact of cost control measures during the year. • improvements in the business planning process and actions to address the weaknesses identified in relation to developing business proposals and managing significant projects as set out in the Annual Governance Report Action Plan. • specific action, as part of the business planning process, to de-risk future out-turn delivery by addressing base budget pressures and undeliverable savings targets. • provision within the 2013/15 draft budget for significant investment in service transformation and management change to secure longer term financial sustainability. The likelihood of this risk is currently assessed at 3 (likely). However, this level should fall when the Council puts in place shortly a robust 3 year financial strategy but factors outside our control remain significant. The impact on the corporate objectives if this risk materialised will always be a 4 critical.

12.4 Reputation Risk
For this meeting the Committee requested a briefing on key corporate risk 15 – Reputation, the most up to date version of the risk stewardship template for this risk will be available for discussion with the Risk Owner during the meeting.

13.0 Access to Information

13.1 Risk Management Policy
The updated Risk Management Policy was approved by Cabinet at its meeting on 20 August 2012.

13.2 The background papers relating to this report can be inspected by contacting the report writer:

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