

CHESHIRE EAST COUNCIL

AUDIT AND GOVERNANCE COMMITTEE

Date of Meeting:	27 th March 2014
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 a summary of risk management work undertaken since the previous meeting of the Audit and Governance Committee on 30 January 2014.
- 1.2 The purpose of this report is to provide the Audit and Governance Committee with a summary of recent risk management work so that it may continue its role to oversee risk management processes and the effectiveness of control and governance arrangements. A strong risk management framework strengthens the effectiveness of our governance. It provides a focusing mechanism to ensure that the scale of risk and reward is balanced in our decision making, through risk identification we anticipate eventualities and it helps us to respond to changes in need, ensuring that we are fit for purpose to serve Cheshire East residents and businesses.
- 1.3 Learning from risk management judgements gives us a key competitive advantage enabling our leaders and managers to act proactively on their accountabilities and facilitate strategic thinking so that we are able to exploit opportunities which enables innovation and better value for public money.

2.0 Decision Requested

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

3.0 Reasons for Recommendations

- 3.1 The Council must be able to demonstrate effective management of the risks which threaten the achievement of its strategic objectives, as outlined in the Council's 3 Year Plan.
- 3.2 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 in turn gives confidence to both Members and staff to support a higher appetite for risk, at a time when major change is necessary and desirable.

4.0 Cheshire East Council 3 Year Plan – Corporate Risk Update

- 4.1 Achievement of the 3 Year Council Plan brings both risk challenges and opportunities. Cabinet and management work to ensure that the vision, culture and organisational structure are fully aligned, as the Council works as one to increase efficiency and undertakes major change programmes to innovate as effectively and cost efficiently as possible.
- 4.2 At a time of change, when managers are dealing with competing demands, it is possible to miss the risks that arise suddenly or unexpectedly. Risk identification, assessment and management are therefore an integral part of the delivery of our 3 Year Council Plan. Consideration and response to existing and new threats, and the ability to recognise and seize new opportunities, is fundamental to achieving desired outcomes.
- 4.3 The tables below inform the Audit and Governance Committee on progress against key risks. Attached at **Appendix A** is a more detailed summary of these risks including the Risk Owner, Cabinet Strategic Lead and comments on the net risk rating.

Table 1: 4 Highest Rated Corporate Risks

Ref	Type	Risk Title	Rating	Direction
CR20	Threat	Contract and Relationship Management	12 High	↔
CR15	Threat	Protection of Children and Young People	12 High	↔
CR9	Threat	Workforce	12 High	↓
CR11	Threat	Commissioning & Service Delivery Chains	12 High	↓

Table 2: Risk Watch List

Ref	Type	Risk Title	Rating	Direction
CR22	Threat	ASDV Business Plans	9 Medium	↔
CR17	Threat	Adult Social Care	9 Medium	↔
CR18	Threat	Legal Challenge	9 Medium	↓
CR19	Threat	Fraud and Corruption	9 Medium	↔

Table 3: Managed (Dying) Risks

Ref	Type	Risk Title	Rating	Direction
CR10	Threat	Project and Programme Management Skills	6 Medium	↓
CR3	Threat	Strategic Leadership and Management	4 Low	↓

Table 4: New (Emerging) Risks

Ref	Type	Risk Title	Rating	Direction
CR23	Threat	Health Integration Programme	9 Medium	(New)

4.3 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. (For this purpose, short briefing means attending the meeting and being able to talk through the risk stewardship template to explain the risk and controls.) The most up to date version of the risk stewardship template for corporate risk 20, Contract and Relationship Management Risk is attached at **Appendix B** to this report for discussion with the Risk Owner/Risk Manager during the Audit and Governance Committee meeting.

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

5.0 Wards Affected

5.1 All

6.0 Local Ward Members

6.1 All

7.0 Policy Implications

7.1 Risk management is integral to the overall management of the authority and, therefore, key policy implications and their effective implementation are considered within service risk registers and as part of the risk management framework.

8.0 Financial Implications

8.1 There are no financial implications in relation to this report. However, a risk around financial control is included as a corporate risk.

9.0 Legal Implications

9.1 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.

10.0 Risk Management

10.1 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 threats or to exploit, share, enhance or ignore opportunities due to poor risk management

11.0 Access to Information

11.1 Risk Management Policy

The updated Risk Management Policy was approved by Cabinet at its meeting on 22 July 2013. The background papers relating to this report can be inspected by contacting the report writer:

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 Designation: Performance and Risk Manager
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Top 5 Corporate Risks

Ref & Type	Risk Description	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CR20 Threat	<p>Contract and Relationship Management:</p> <p>Risk that the Council does not have a sufficient number of skilled, experienced and knowledgeable staff to manage contracts and ongoing relationships with the Council's new alternative service delivery vehicles (ASDVs) and other providers, such that contractual arrangements may not be robustly specified (including exit strategies), 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. 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 of Strategic Commissioning	Corporate Policy Portfolio Holder	<p>12 High</p> <p>↔</p>	<p>Likelihood of this risk occurring at present has been recognised as very likely and work on an intelligent client function is underway, alongside the retention of staff that understand the outsourced services. The impact of this risk is clearly major if it were to materialise due to the nature of contracting and the significance of the service delivery areas being outsourced. Further work is planned to mitigate this risk and the net score of 12 high risk is expected to reduce.</p>

Ref & Type	Risk Description	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CR15 Threat	<p>Protection of Children and Young People:</p> <p>The risk that a combination staff retention and an inability to recruit sufficient qualified and competent social workers and supervisors to meet statutory children Social Care statutory duties, results in children and young people being unprotected and at potential risk of harm thus impacting upon our ability to deliver the outcome of local people living well and for longer.</p>	Director of Children's Services	Children and Family Services Portfolio Holder	12 High ↔	The overall net risk rating is 12, high risk. This is not exclusive to Cheshire East, there is presently a national risk around social worker recruitment. The existing mitigation will take a period of time to reduce this risk, so at present likelihood is 3, very likely. The impact of children not being adequately safeguarded should it materialise would have a major impact on the council's outcomes of; local people living well and for longer and our communities being strong and supportive.
CR9 Threat	<p>Workforce:</p> <p>Risk that the fast pace and scale of change in the Council results in a de-motivated, disengaged and poor performing workforce which prevents the Council from achieving all its outcomes and priorities and fails to be a leading Council.</p> <p>The fast pace and scale of change gives rise to:-</p> <ul style="list-style-type: none"> disconnect of roles and responsibilities increased pressure on staff to improve their skills and knowledge overstretched staff capacity increase in staff stress and sickness levels loss of productivity loss of key staff, skills and knowledge 	Chief Executive	Performance Portfolio Holder	12 High ↓	The likelihood of this risk occurring is a 3 likely, capacity as Officers move into the new management structure but continue to undertake their previous roles remains a concern, as is clarity over accountability during this time. Impact should this risk occur would be a 4 as the workforce has a major impact on the achievement of the corporate outcomes and performance (reduction in likelihood may result in less disengaged staff and would result in a less negative impact on performance and capacity). The overall rating for this risk is 12 high risk

Ref & Type	Risk Description	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CR11 Threat	<p>Commissioning and Service Delivery Chains:</p> <p>Risk that as the Council moves into a more active “market making” role, it will progressively form complex and more fragmented supply 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) increasing the materialisation of commissioning and service delivery chain risks which would prevent the Council from achieving its planned objectives, priorities and outcomes.</p>	Chief Executive	Corporate Policy Portfolio Holder	<p>12 High</p> <p>↓</p>	<p>The likelihood of this risk at present is a 3 ‘likely’ and has a number of interdependencies with other corporate risks. We are working on strengthening our corporate infrastructure in order to become more strategic and commissioning and the staffing review plays an important role in this. The impact of this risk if it were to fully materialise would have a critical impact on the achievement of our corporate objectives and so is presently a 4, giving an overall risk rating of 12 ‘High Risk’.</p>

Corporate Risks – Watch List

Ref & Type	Risk Description	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CR22 Threat	ASDV Business Plans: Risk that there is inadequate information available to allow the development of rigorous and fully costed business cases and plans for the alternative delivery vehicles. This may result in the vehicles not being viable and in the worst case scenario eventually failing. This may affect the Council's ability to meet its statutory duties in the short-term, give rise to legal, financial and credibility issues and have a detrimental impact on achieving some of the Council's outcomes (dependent upon area at risk).	Chief Operating Officer	Leader of the Council	9 Medium ↔	The likelihood of this risk is mitigated in the short-term because of the existing knowledge and intelligence held by the Council in the longer-term the business plans are to be presented to the shareholder annually. The risk is scored as 3 likely at present as some of the detail is still to be determined and the business plans produced. The impact of this risk should it materialise and an ASDV fail (worst case scenario) is that the consequences would have a major impact on the Council's ability to achieve some of its planned outcomes. The net risk rating is therefore 9 medium risk.
CR17 Threat	Adult Social Care: The risk that a combination of causes such as staff turnover, sickness and an inability to recruit, mean that there is insufficient qualified and capable staff to meet statutory adult social care duties (e.g. reassessments). This may result in some individuals assessed needs and risks not being met, individuals not being effectively safeguarded, consequential legal challenges and credibility issues (e.g. with CQC) and could have a detrimental impact upon our ability to deliver the outcomes of local people living well and for longer, and of our communities being strong and supportive.	Executive Director of Strategic Commissioning	Health and Adult Social Care Portfolio Holder	9 Medium ↔	Presently the likelihood of this risk is assessed as a 3 which is likely; a number of the actions taken may take a while to reduce the likelihood and the impact of the risk. The impact of the risk should it materialise is mitigated by the action taken but would still have a major impact, score of 3, on the Council's outcomes of local people living well and for longer, and of our communities being strong and supportive. The overall net risk rating is therefore 9 medium risk.

Ref & Type	Risk Description	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CR18 Threat	<p>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 diverting significant financial and non financial resources into possibly lengthy legal disputes and impacting upon the Council's ability to achieve its key outcomes. Examples include:</p> <ul style="list-style-type: none"> inappropriate procurement of goods and services no proper consultation undertaken or findings acted upon no equality impact assessment undertaken or findings acted upon ineffective governance 	Chief Operating Officer	Leader of the Council	<p>9 Medium ↓</p>	There are a number of causes and interdependencies with other corporate risks that affect the likelihood of this risk, the impact is dependent upon the type or extent of legal challenge, but is mitigated through requesting and taking legal advice and would be mitigated through use of reserves if required. The overall net risk rating is 9 medium risk.
CR19 Threat	<p>Fraud and Corruption Risk: 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 at a time of financial hardship, such that public money is misappropriated. 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>	Chief Operating Officer	Finance Portfolio Holder	<p>9 Medium ↔</p>	As the Council commissions and lengthens its supply chain and the uncertainty of the level of controls and assurance arrangements the likelihood of this risk is increased. Alongside this, change of key personnel due to the staffing review may also increase the risk of unexplained or suspicious expenditure. The impact of this risk should it occur is a 3 'major' as the amount of funds at risk could be significant and jeopardise financial resources to achieve the outcomes. The overall risk rating is 9 medium risk.

Corporate Risks – Managed (Dying) Risks

Ref & Type	Risk Description	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CR10 Threat	<p>Project and Programme Management Skills: Risk that the Council does not have a sufficient number of skilled and knowledgeable staff managing projects and programmes, such that they fail to deliver expected outcomes and/or within budgeted costs and/or within expected timescales. 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>	Chief Operating Officer	Performance Portfolio Holder	8 Medium ↓	Likelihood is reduced to less than 40% chance of this risk occurring given the increase in project management staff and up skilling of existing staff. The impact of this risk is clearly critical if it were to materialise due to the high level and significant number of change programmes and contracting. The score is 8 medium risk.
CR3 Threat	<p>Strategic Leadership and Management: Risk that a number of interlinked change factors result in ineffective strategic leadership and management arrangements in place meaning there is no clear and consistent understanding of our business for staff, members and partners. This reduces our ability to achieve all of our priorities, objectives and outcomes.</p> <p>These factors include:</p> <ul style="list-style-type: none"> new strategic commissioning operating model management restructure new and incoming senior appointments scale of delivery on substantial change programmes 	Chief Executive	Leader of the Council	4 Low ↓	There are significant existing controls and processes which are now embedded. The likelihood of this risk occurring has reduced significantly with the permanent CLT now in place and meeting regularly, staff roadshows have also provided clarity of direction so that there is a shared understanding. The impact of this risk has also reduced significantly because the performance management framework demonstrates direction of travel towards achieving the Council's 3 Year Plan and allows for early intervention thus reducing the impact of the risk. This risk is recognised as a dying risk and the net score has reduced to 4 low risk and will be removed from the corporate risk register.

Corporate Risks – New (Emerging) Risks

Ref & Type	Risk Description	Risk Owner	Cabinet Lead	Rating & Direction	Comments
CR23 Threat	Health Integration Programme: The risk that programme timescales do not pay attention to available resources such that there is a lack of commitment to maintain the pace required to meet the multiple partner health integration programme, this could have a detrimental impact upon our ability to deliver target budget savings (adult social care), meet the conditions of funding arrangements, and to deliver the outcomes of local people living well and for longer, and of our communities being strong and supportive.	Executive Director of Strategic Commissioning	Health and Adult Social Care Portfolio Holder	9 Medium (New)	Further work is required on internal targets and timescales to reduce the likelihood of this risk which is 3, very likely at present. The programme is key to the Councils outcomes of people living well and for longer, and communities being strong and supportive so would have a major impact and is rated as 3. The overall net risk rating is 9 medium risk.

Risk Ref: Corporate Risk 20 (13-14)		Date template updated: 4March 2014	
<i>Cross reference the risk to the Corporate and Service Delivery Plan Objective to which it relates, only key risks that require monitoring will be recorded in the Corporate / Significant Risk Register.</i>			
Corporate Priorities / Service Delivery Objective / Project Objective :		Risk to all Council Plan Outcomes –	
		<ol style="list-style-type: none"> 1. OUR LOCAL COMMUNITIES ARE STRONG AND SUPPORTIVE 2. CHESHIRE EAST HAS A GROWING AND RESILIENT ECONOMY 3. PEOPLE HAVE THE LIFE SKILLS AND EDUCATION THEY NEED TO THRIVE 4. CHESHIRE EAST IS A GREEN AND SUSTAINABLE PLACE 5. LOCAL PEOPLE LIVE WELL AND FOR LONGER <p>∇ BE A LEADING, COMMISSIONING & RESPONSIBLE COUNCIL</p>	
<i>Risk description should include the cause of the impact and the consequence to the objective which might arise.</i>			
Identified Risk Description:			
<p>Contract and Relationship Management: Risk that the Council does not have a sufficient number of skilled, experienced and knowledgeable staff to manage contracts and ongoing relationships with the Council's new alternative service delivery vehicles (ASDVs) and other providers, such that contractual arrangements may not be robustly specified (including exit strategies), 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. 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>			
Risk Comments:			
<p>Competencies include a fundamental understanding of the relevant area, the external marketplace for that area, change management skills and strong people skills for managing the relationships. It is the role of the contract to set out how the services are to be delivered by the ASDV to the residents and businesses of Cheshire East. Part of this risk is recognised and escalated from the ASDV Steering Group risk register.</p>			
<p>This risk has interdependencies with a number of other corporate risks:-</p> <p>CR4 Financial Control CR6 Evidenced Decision Making CR7 Reputation CR9 Workforce CR14 Business Planning - Resource</p>		<p>CR18 Legal CR19 Fraud Risk CR21 Assurance of Information CR22 ASDV Business Plans</p>	
<i>Who owns and is accountable for the risk?</i>		<i>Who is responsible for taking forward the actions?</i>	<i>Is the risk new, enduring, dying or re-emerging?</i>
Risk Owner:		Risk Managed by:	Risk Status:
Executive Director of Strategic Commissioning		Head of HR in seconded role to Core Programme Action Team (CPAT)	Enduring
Strategic Lead:			
Cllr Paul Findlow, Corporate Policy Portfolio Holder			
<i>Assess the combined risk of the likelihood and impact of the risk being realised before taking account of any controls in place to manage the risk. This is the gross risk score.</i>		Likelihood	x Impact
		4	3
			= Gross Risk Score
			12
<i>What controls are already in place to mitigate the risk? Controls could consist of authorisation and approval processes, governance arrangements and monitoring processes, physical controls, segregation of duties, organisational, personnel, management and supervisory controls or arithmetic and accounting controls. Where is the evidence for these controls kept?</i>			

Existing Controls and Evidence:

- Taken on additional legal support to specifically help with contract associated issues.
- Strengthened gate keeping re procurement procedures
- Draft paper written outlining a contract function for consideration. This function will have responsibility for:
 - Day to day contract management and relationship management
 - Ensure appropriate performance delivery
 - Provide regular updates through the governance structure
 - Alert the s151 officer of any urgent issues
 - Ensure contracts are fit for purpose and continue to be so, over time
- Utilisation of previous contractual arrangements and best practice incorporated into draft specifications.
- Using our business intelligence and existing management and performance information to inform service specs
- The core service is retaining at least one member of staff who understands how the transferring service is delivered.

Assess the combined risk of the likelihood and impact of the risk being realised after taking account of the existing controls in place to manage the risk. This is the net risk score – as it is now.

Likelihood

4

x Impact

3

= Net Risk Score

12

Is the net risk now acceptable or not? Are there further reasonable controls or planned actions you can take to manage the risk down to an acceptable level? If not, consider the need for a contingency plan for what will happen if the risk is realised. Members of the Corporate Risk Management Group are responsible for ensuring that actions proposed to mitigate corporate and significant operational risks are sufficient and proportional to the risk identified.

Future Planned Actions / Contingency:

- Establishing and implementing stronger commissioning and client function capability
- External support to manage contracts – will up skill existing staff or outsource with another Council e.g. future business model expertise.
- In the process of seeking external advice to assist with the implementation of a commissioning model through undertaking a Commissioning Capability Assessment
- Identified need for continuous training and we are shaping a training programme for middle managers on understanding commissioning
- Recruiting further skills to the contracting function
- Acting upon recommendations made by internal audit to strengthen our controls around client functions
- Learning from the first phase of ASDV set-ups – a review to be undertaken after the first quarter

Next Review Date:

Monthly – End March / Early April 2014

Some risks require weekly or monthly monitoring, others will only need to be revisited following the proposed date for the completion of the planned action.

The reason for monitoring key risks is to create an early warning system; risk registers should be regularly reviewed and amended. Questions asked during monitoring are: Is the risk still relevant? Is there any movement in the net risk score? Are the controls still in place and operating effectively? Has anything occurred which may change its impact and/or likelihood? Have any significant control failures or weaknesses occurred since the risk was last monitored? Is the risk increasing - do I need to devise more controls? Is the risk decreasing – can I relax existing controls?

Monitoring Arrangements:

Key Risk Indicators:-
Contract existence
Number of Contract Variations
Corporate Performance variances
Service Complaints

Future Issues:

Predict the combined risk of the likelihood and impact of the risk being realised after taking account of the existing and planned controls in place to manage the risk. This is the target risk score.

Likelihood

1

x Impact

2

= Target Score

2

Comments

December 13: Likelihood of this risk occurring at present has been recognised as very likely and work on a contracting function is underway along with the retention of staff that understand the outsourced services. The impact of this risk is clearly major if it were to materialise due to the nature of contracting and the significance of the service delivery areas being outsourced. Further work is planned to mitigate this risk and the net score of 12 high risk is expected to reduce.

Jan 14: Risk reviewed no change in the rating.

Mar 14: Whilst there has been some reduction in likelihood of this risk work is still underway to ensure that we reduce the cause of this risk for the future shape of the Council. The score remains 12 high risk.

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.