

Agenda Item No: 12 **Report No:** 82/16

Report Title: Annual Report on Risk Management

Report To: Audit and Standards Committee **Date:** 20 June 2016

Ward(s) Affected: All

Report By: Alan Osborne, Director of Corporate Services

Contact Officer
Name: David Heath
Post Title: Head of Audit, Fraud and Procurement
E-mail: David.Heath@lewes.gov.uk
Tel no: 01273 484157

Purpose of Report:

To present the annual report on risk management confirming the Council's Risk Management Strategy and the strategic risks faced by the Council.

Officers Recommendation(s):

That the Audit and Standards Committee:

- 1 Receives and endorses the annual report on risk management, and notes the Council's Risk Management Strategy (Appendix 1).
 - 2 Notes the strategic risks identified by the Corporate Management Team (CMT) and the associated mitigating controls (Appendix 2).
 - 3 Considers any comments that it wishes to make to the July 2016 meeting of Cabinet.
-

Reasons for Recommendations

- 1 The Council is committed to the proper management of risk. This report forms part of the annual reporting cycle on risk as set out in the Risk Management Strategy. This report will be presented to Cabinet at its July 2016. This report is also one of the key elements in the Council's submissions to the external auditor, BDO, and will provide data for the Annual Governance Statement (AGS).

Introduction to Risk Management

- 2 Risk management is about using common sense to take effective action to prevent or limit the impact of risks so as to help the Council meet its priorities and deliver services effectively. In September 2003 Cabinet adopted a Risk Management

Strategy that sets out the responsibilities for risk management at the Council, and which is supported by a framework of procedures and guidance for the assessment of risks and the development of mitigating controls.

- 3 The Risk Management Strategy includes provision for an annual review of the strategy by CMT. The strategy was reviewed in May 2016 and has been updated with minor changes including the Audit and Standards Committee being able to comment on the report in advance of Cabinet (see Appendix 1).
- 4 To support this strategy the Council has a standard approach for assessing risk which is applied to service planning, the management of major projects and decision making. The methodology reflects the need to manage the different aspects of the uncertainty that is inevitable when making changes in how the Council works and taking new approaches to regeneration and investment. The methodology now recognises both the uncertainty that could have an adverse impact leading to loss, harm or damage (ie a risk) and the uncertainty that could have a positive effect leading to benefits or rewards (ie an opportunity).

Strategic risks

- 5 Strategic risks are those that are likely to have a significant impact across the Council, in that if they occur they are likely to prevent it from achieving its strategic objectives.
- 6 The compilation of a Strategic Risk Register provides evidence of a risk aware and risk managed organisation. Generally, the register reflects the risks that will be common to comparable local authorities in this current period of change and financial challenge for Local Government.
- 7 Appendix 2 shows the strategic risk register that has been compiled by CMT for the year 2016/17. This register shows the:
 - Risk ranking - the order of importance that is placed on each strategic risk.
 - High level description of the risk and the officer/s who are responsible for monitoring the risk and managing its mitigation.
 - Detailed background to the risk and the likely risk scenario if it is not mitigated.
 - Mitigating controls that are put in place to reduce the risk or prevent it from occurring.
- 8 CMT is responsible for ensuring that the strategic risks have mitigating controls in place. It should be noted that the Council has entered into the delivery stage of a major commercial partnership which seeks to increase regeneration and housing (the North Street Quarter). The Council in partnership with Coast to Capital Local Enterprise Partnership has also successfully applied to create an Enterprise Zone in Newhaven to facilitate inward investment, offer value for money and sustain local economic growth. This Enterprise Zone will officially commence in April 2017. These are shown as the North Street Quarter and Newhaven Enterprise Zone at Appendix 2. Both of these projects have been undertaken to address specific risks that the authority faces. Without them there is a risk that key opportunities for regeneration will not be created and affordable housing targets will not be achieved.

- 9 For 2016/17 CMT will be reviewing the strategic risks of the Council on a quarterly basis. Any new risks identified will be reported to the Audit and Standards Committee and then onto Cabinet.

Training

- 10 Heads of service and a number of senior managers received detailed risk management training in the autumn of 2015. Training is planned for the Corporate Management Team in the summer 2016 to develop a joint approach to risk management with Eastbourne Borough Council.

Financial Appraisal

- 11 There are no financial implications arising from the recommendations to this report other than those already contained within existing budgets. However, if a strategic risk is not subject to effective mitigation there could be significant financial impact on the Council.

Equalities Screening

- 12 An equalities impact assessment is not considered necessary because the report is seeking endorsement of risk arrangements at the Council including the strategic risks identified by CMT.

Risk Management Implications

- 13 If the Council does not have an effective risk management framework that is subject to proper oversight by Councillors it will not be able to demonstrate that it has in place adequate means to safeguard Council assets and services, and it could be subject to criticism from the Council's external auditor or the public.

Legal Implications

- 14 There are no direct legal implications arising from this report.

Sustainability Implications

- 15 I have not completed the Sustainability Implications Questionnaire as there are no significant effects as a result of these recommendations.

Background Papers

None

Appendices

Appendix 1: Lewes District Council – Risk Management Strategy

Appendix 2: Lewes District Council –Strategic Risk Register for 2016/17

Appendix 1

LEWES DISTRICT COUNCIL - RISK MANAGEMENT STRATEGY

1.0 Policy

- 1.1 We define risk as uncertainty that could have a detrimental impact on the achievement of the Council's objectives or service delivery. Uncertainty that could have a positive effect is an opportunity.
- 1.2 The appraisal and management of risk and opportunity will be part of our business planning and project management.
- 1.3 We will use risk management to promote innovation, and work proactively with stakeholders to minimise risks and maximise the opportunities associated with project and service decisions.

2.0 Organisation

- 2.1 This risk management strategy will be subject to approval by the Cabinet.
- 2.2 The Chief Executive is responsible for risk management. The Corporate Management Team (CMT) will support the Chief Executive in assessing and mitigating risks likely to have a significant impact on the achievement of the Council's objectives.
- 2.3 Heads of Service will implement risk management within their services and ensure that;
 - annual service plans contain an appraisal of risks to service delivery
 - managers carry out risk assessments as a routine part of service planning and project management activities
 - managers put in place appropriate controls to mitigate risks
 - managers will notify the Director of Finance of any significant risks that will require additional insurance and/or financing measures
- 2.4 The Head of Audit, Fraud and Procurement is responsible for providing advice and guidance and coordinating the Council's approach to risk management. Internal Audit is

responsible for monitoring the implementation and effectiveness of this risk management strategy and for reviewing compliance with controls introduced by CMT and their managers to manage risks.

- 2.5 The Audit and Standards Committee is responsible for reviewing the effectiveness of the systems and processes in place for managing risk, and can make recommendations to Cabinet if changes are needed to improve risk management. The Audit and Standards Committee receives the annual report on risk management in advance of Cabinet for comment.
- 2.6 Cabinet is responsible for considering overall risk and receives the annual report on risk management that includes the strategic risks of the Council. The Portfolio Holder for Finance has responsibility for risk management.

3.0 Arrangements

- 3.1 Annual service plans support achievement of the Council Plan. Service plans will include an assessment of risk which will be reviewed and updated by Heads of Service.
- 3.2 Reports to Cabinet will include risk management implications.
- 3.3 Risk management training will be provided to senior managers with the aim of ensuring that they have the skills necessary to identify, appraise and control the risks and opportunities associated with the services they provide. Councillors will receive training/information on risk management so that they can consider the implications of risks and opportunities in their work for the Council.
- 3.4 Project managers will be responsible for appraising risks and opportunities associated with their projects and make provision for dealing with them.
- 3.5 This strategy will be communicated to Councillors and staff via the Councils' intranet and will be reviewed annually by CMT.

May 2016

Appendix 2: Lewes District Council – Strategic Risk Register 2016/17

Risk Rank	Risk and Owner/s	Background and Risk Scenario	Mitigating actions
1	Loss of IT services Head of IT	Long or short term loss of IT and telephone systems through equipment failure, loss of key premises, and data corruption or loss (including cyber-attacks).	<p>Partial mitigation through:</p> <ul style="list-style-type: none"> • Preventative measures including effective security, fire prevention, and alarm systems for water ingress and overheating. • For cyber-attacks there is software monitoring of the email gateway, workstation and web content and manual interventions. The Council also subscribes to the Government's Warning, Advice and Reporting Point (WARP) which enables the sharing of cyber threat and vulnerability information. • Server virtualisation & improved back-up facilities providing additional resilience and redundancy (ie. failsafe capability) above and beyond what already exists. • Introduction of new network infrastructure to prevent network outages providing resilience and redundancy for IT users at all LDC sites. • Providing resilience and redundancy for remote workers connected to our IT systems, • Wide area network now joined into a Public Service Network compliant network service, and Telephony to a hosted Voice Over Internet Protocol service, with Survivable Remote Site Telephony capability. <p>Larger satellite sites e.g. Saxon House & Robinson Rd offices now incorporated to have equivalent resilience to Southover House. Smaller satellites will still continue to have a slightly higher risk profile than Southover House but much has been done in network infrastructure to provide increased resilience.</p> <p>The shared IT Strategy (for Lewes and Eastbourne) sets out future Disaster Recovery requirements.</p>
2	Failure to achieve the Joint Transformation Programme with Eastbourne Borough Council Chief Executive	<p>Failure to integrate our staff and services with Eastbourne Council to provided more flexible, customer focused and cost effective services which deliver the financial savings required. High level risks for the programme include :</p> <ul style="list-style-type: none"> • Ineffective strategy for change and change management process • Lack of engagement and consultation with staff and key stakeholders • Loss of reputation for the Council if the programme fails or is delayed. • Poor or reduced service to customers whilst the transformation takes place. • Financial savings are not 	<p>Mitigation through the implementation of the approved business case setting out how joint services will work in the future and the costs and benefits of integration. Mitigation to specific risk areas as follows:</p> <ul style="list-style-type: none"> • Regular and focused training for and communication with staff. • Comprehensive communication plan which is regularly monitored. • Programme managed through project management principles where progress is monitored against the plan and risks are effectively managed to the programme completion. • Effective monitoring of service performance indicators.

Risk Rank	Risk and Owner/s	Background and Risk Scenario	Mitigating actions
		<p>delivered in the timescales to deliver the Medium Term Financial Strategy.</p> <ul style="list-style-type: none"> Lack of dedicated staff resources to implement the programme. Lack of effective governance of the programme. Complexities of integrating two different sets of back office systems. 	<ul style="list-style-type: none"> Mitigation detailed in risk No 5 below. Detailed assessment of the resources required to implement the programme and consideration of filling gaps with external resources. Governance structure in place including the Joint Transformation Board (Councillor Level), Corporate Management Team, Programme Core Group and the Consultative Forum (Staff and Union representatives) Shared ICT Strategy in place which identifies the current applications and systems and moves towards a common ICT infrastructure. <p>The Programme Project Initiation Document will set out the detailed risk and mitigation approach.</p>
3	Loss of premises Director of Corporate Services	Long term or short term loss of key office buildings or depots due to fire, flood or other damage.	Partial mitigation through preventative measures e.g. fire safety arrangements, planned and responsive maintenance of buildings. If the event occurs then Business Continuity arrangements would be activated to reduce the impact on service delivery.
4	Major incident or emergency affecting the District or Region Director of Service Delivery	<p>Major incident caused by fire, flood or other disaster resulting in homelessness, disruption to Council services and local business community.</p> <p>Major infectious disease outbreak.</p>	<p>Mitigation through the Council's use of emergency powers under the Civil Contingency Act 2004 to provide temporary shelter for displaced residents and using the Council's Business Continuity arrangements to relocate to other buildings to be able to continue delivering key services.</p> <p>Mitigation by implementing the Lewes District Council Emergency Plan and Flu Business Continuity Plan.</p>
5	Failure to achieve the Council's savings target Chief Executive	Inability to achieve planned level of efficiency savings or manage the income streams for those areas where government funding and other income has reduced.	Mitigation through effective financial planning, monitoring, forecasting and delivery of efficiencies and savings to meet the required target. Balances held at a level which gives the capacity to meet short term demands. The Director of Corporate Services is confident that the 2016/17 target will be delivered. The key means of delivering these savings will be the Joint Transformation Programme with Eastbourne Council. The Council has committed almost £1 million from reserves as funding for this programme.
6	Major failure in financial systems Director of Corporate Services	Loss of key IT financial systems with immediate impact on Council's ability to process priority transactions e.g. payment of benefits, collection of local taxation revenues and payments to precepting authorities.	Mitigation through preventative measures e.g. system security, robust and supported software, training and performance monitoring. Documentation increasingly held electronically, rather than paper (with inherent risk of loss and destruction), and subject to IT continuity arrangements. If the event occurs the Council's Business Continuity arrangements would be activated. For example back up/ historic records would be used to generate payment records which would be processed by other means.

Risk Rank	Risk and Owner/s	Background and Risk Scenario	Mitigating actions
7	Loss of plant and equipment Director of Service Delivery	Loss, damage, breakdown or theft of vehicles and equipment that are key to the provision of Council services. This risk relates mainly to: <ul style="list-style-type: none"> the vehicle fleet maintained by District Services, and the emergency generator in Southover House which is the responsibility of the Director of Corporate Services. 	Mitigation through effective security, inspection, maintenance, insurance and support arrangements. In addition moving premises/depots at risk of flooding to new locations.
8	Failure of significant contractor DCS (finance, IT and corporate buildings contracts) Director of Service Delivery (planning, recycling and waste, grounds maintenance environment and housing related contracts) Director of Business Strategy and Development (regeneration related contracts) Assistant Director Corporate Services and Head of Audit, Fraud and Procurement (procurement standards)	Loss of contractor due to insolvency, contractor not meeting contracted service standards or breakdown in the supply chain. Significant contracts include: <ul style="list-style-type: none"> Financial systems IT contracts – in particular Academy Business Systems Wave Leisure Trust Grounds maintenance Council housing maintenance Public convenience cleaning Insurance Diesel fuel Recycling of glass and paper Plant maintenance 	Mitigation through proper set up and monitoring of contracts. If the event occurs then mitigation would be through the emergency appointment of an alternative contractor or, where possible, undertaking the service in house.
9	Major changes in legislation Chief Executive	Changes in Government policies or legislation creating new or increased demands on Council	Mitigation through: <ul style="list-style-type: none"> Assistant Director Corporate Services alerting officers in a timely manner. Corporate Management Team (CMT) members flagging up significant changes affecting their services

Risk Rank	Risk and Owner/s	Background and Risk Scenario	Mitigating actions
		services, or materially changing service requirements and standards.	<p>areas for discussion and consideration at CMT.</p> <ul style="list-style-type: none"> Staff training in new legislation, monitoring of government proposals for policy changes and reassigning resources to meet new priorities.
10	<p>Economic factors outside the Council's control</p> <p>Chief Executive takes overall responsibility.</p> <p>Director of Corporate Services (for financial control and services within his remit)</p> <p>Other CMT members (for services within their remit)</p>	<p>Changes in national economic climate and/or local demographics affecting demand for Council services.</p> <p>Significant fluctuations in costs of inputs (e.g. fuel) and price of commodities sold (e.g. recyclables).</p> <p>Fewer safe havens to invest day to day cash flow.</p>	<p>Mitigation through:</p> <ul style="list-style-type: none"> The Director of Corporate Services monitoring trends closely and examining possible requests for additional funding. Holding a healthy level of working balances. Budget monitoring procedures are in place to identify material fluctuations in prices. CMT members examining alternative arrangements for their services. Modelling the impact on the Council's Medium Term Budget Outlook including a range of sensitivity tests e.g. different forecasts for inflation. Consider increasing the level of internal funding to reduce the need for cash to be invested. Model the cost of aiming to be slightly overdrawn on a day to day basis.
11	<p>Governance and regulatory failure</p> <p>Assistant Director of Corporate Services.</p>	Inability to meet adequate governance standards.	<p>Mitigation through the preventative measures in the Council's Code of Corporate Governance. These include:</p> <ul style="list-style-type: none"> Internal controls and the Internal Audit service. Audit and Standards and Scrutiny committees. Risk management and partnership governance arrangements. Contract and Financial Procedure Rules. Training and guidance in regulatory requirements, and performance monitoring. Safeguarding policy and procedures.
12	<p>Damage to reputation</p> <p>Assistant Director Corporate Services</p>	Reputational damage from failure to meet statutory duties and service standards, litigation by the Council, actions by councillors and officers which bring the Council into disrepute and failure to deliver contracts e.g. contract for Council to provide services to the South Downs National Park.	Mitigation through a range of measures including effective communications, clear codes of conduct for councillors and staff, and performance monitoring.
13	<p>Major project – North St Quarter</p> <p>Director of Business Strategy and Development</p>	A large site in Lewes by the River Ouse including the former Phoenix Industrial Estate owned by the Santon Group, Lewes District Council and other interested parties. A joint planning	Overall mitigation through effective project management and governance, oversight via Members Oversight Board, financial and performance monitoring.

Risk Rank	Risk and Owner/s	Background and Risk Scenario	Mitigating actions
		<p>application on behalf of the Santon Group and the District Council has been approved by the Southdowns National Park Authority (subject to s106 agreement). LDC has entered into an interim agreement with the Santon Group and will soon enter a Joint Venture agreement and agreed heads of terms of the full JV agreement.</p> <p>With a significant project of this size there is a risk of reputational damage from failure to meet project objectives and safeguard Council interests; financial risks arising from not achieving planned returns and costs of involvement not representing sound Value for Money; insufficient capacity to meet project timetables. Key risks include:</p> <ul style="list-style-type: none"> • Insufficient capacity within the Council to meet requirements for effective governance, professional standards and timely action at key stages in the project with result that the development is delayed. • Development delayed by failure to complete site assembly because of disputes over title, and/or inability to achieve agreements with interested parties. • Employment benefits of the project are not fully realised. • The Council cannot agree the final drafting of a Joint Venture agreement with 	<ul style="list-style-type: none"> • Effective planning and liaison with the project team to identify and address shortfalls, and employ appropriate external resources where necessary. • Effective financial modelling, strong negotiating and detailed legal work to protect the Council's interests. • Employ specialist legal resources to resolve questions of title, and consider use of compulsory purchase orders where appropriate. • Regeneration Team to work with existing businesses and the developer on an effective relocation strategy. • The Council has underwritten a proportion of the planning costs and agreed a capped maximum contribution. • During the 2015/16 budget round the Scrutiny Committee recommended and Cabinet approved the principle that any net loss of retained rates income arising from a large regeneration project, could be made up by assigning additional New Homes Bonus generated from housing on a former non domestic site. • Ensure effective competition in land disposals to ensure best value for land holdings.

Risk Rank	Risk and Owner/s	Background and Risk Scenario	Mitigating actions
		<p>Santon</p> <ul style="list-style-type: none"> • There is no demand for developers to build on the consented scheme or offers from developers are lower than expected. • Loss of Non Domestic Rates taxbase and a reduction in the level of Lewes District council retained rates income. 	

Risk Rank	Risk and Owner/s	Background and Risk Scenario	Mitigating actions
14	Major Project – Newhaven Enterprise Zone Director of Business Strategy and Development	<p>The Council in partnership with Coast to Capital Local Enterprise Partnership has successfully applied to create an Enterprise Zone in Newhaven to facilitate inward investment, offer value for money and sustain local economic growth through a range of incentives. There are eight sites in the Enterprise Zone the majority of which are privately owned although significant portions of the Town Centre and Avis Way are in the Council's ownership. This is a 25 year project and the Council is at the planning stages for implementation. With a significant project of this size there is a risk of reputational damage from failure to meet the project objectives and achieve the economic benefits through the partnership.</p> <p>Key risks include:</p> <ul style="list-style-type: none"> • Lack of coordination and cooperation with landowners of the key sites. • Reduced uptake of commercial space leading to a lower level of retained business rates. • Lack of capacity to effectively manage the Enterprise Zone. • The Enterprise Manager is not effective in role. • Unclear governance and implementation structures, resulting in lack of clarity or insight into specific local issues. 	<p>Overall mitigation through effective project management, governance, financial and performance monitoring of the partnership.</p> <ul style="list-style-type: none"> • All landowners have already been invite to, and attended initial meetings with the Council's regeneration and investment team to discuss the overall plans for the Enterprise Zone. • Marketing proposals have been formulated ready for implementation, and a robust Investment Strategy has been proposed for commissioning. • Initial planning has been undertaken by the Councils regeneration and investment team with discussions being held with key stakeholders to offset the potential lack of capacity. • The requirements of the job are set to ensure the correct level of experience is recruited. • The Council's Regeneration and Investment team is working extremely closely with the Local Enterprise Partnership to develop delivery and governance structures to ensure that delivery is focused on specific local barriers.

Risk Rank	Risk and Owner/s	Background and Risk Scenario	Mitigating actions
15	Partnerships All of Corporate Management Team	Reputational damage from failure to achieve partnership objectives and safeguard Council interests; financial risks arising from not achieving planned savings and costs of involvement not representing sound Value for Money; inability to maintain service standards due to conflicting objectives, insufficient capacity, poor management oversight and governance.	Mitigation through effective management oversight, governance and accountability, financial and performance monitoring and establishment of clear objectives. Revised partnership guidance.