

Agenda Item No: **Report No:**

Report Title: **Risk Management – Annual Report to Cabinet**

Report To: **Cabinet** **Date:** **12 July 2011**

Lead Councillor: **Councillor James Page**

Ward(s) Affected: **All**

Report By: **Director of Finance**

Contact Officer

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Purpose of Report:

To present the annual report on risk management which summarises progress and planned improvements, and confirms the strategic risks faced by the Council.

Officers Recommendation(s):

- 1 To receive and endorse the annual report on risk management.
 - 2 To note the Council's Risk Management Strategy (at Appendix 1).
 - 3 To note the arrangements to mitigate risks, including the focus on strategic risks (paragraphs 10 to 11) and the summary of the Council's risk registers (at Appendix 2).
 - 4 To note the summary of progress on key tasks in the year to June 2011 and the action plan for the year ahead (at Appendix 3).
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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. The report is also one of the key elements in the Council's submissions to the external auditor, PKF, and will provide data for the Annual Governance Statement which will accompany the statement of accounts for 2010/11.

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 annual review of the strategy by the Corporate Management Team (CMT). The strategy was reviewed in June 2011 and has been updated with minor changes (see Appendix 1).
- 4 The Council has a standard approach for assessing risk which is applied to service planning, the management of major projects and decision making. Below is an outline of the main steps that are carried out in assessing risk.
 - Establish the scope of the area to be risk assessed.
 - Identify the risks.
 - Assess the impact of each risk - scoring the risk as high (3), medium (2) or low (1) impact.
 - Assess the likelihood of each risk - scoring the risk as high (3) medium (2) or low (1) likelihood
 - Multiply the impact and likelihood scores to give an overall level of risk - scored as high (6 or 9), medium (3 or 4) or low (1 or 2).
 - Determine the actions or controls (the mitigations) that are needed to deal with the risk.
 - Re-score the impact and likelihood after mitigation to give the current overall level of risk.
- 5 The current overall level of risk determines the ways in which risks are managed and monitored, and helps to establish the priorities for further action.

Analysis of Risk in 2011/12 Service Planning

- 6 An analysis of risk has been undertaken as part of the service planning process for 2011/12. This process identified a range of risks, and for each risk managers noted the procedures and controls that reduce the impact or likelihood of risk. Managers have reported that the majority of risks are mitigated by the effective operation of controls or other measures.
- 7 Managers have assessed the current risk in terms of High (red), Medium (amber) or Low (green) to indicate the possible hazard to the Council. The High risks are those that could have a significant effect because the Council is not able to mitigate fully the impact or probability. The Medium risks are generally those for which the potential impact is high but controls and other mitigations achieve a low probability of occurrence.

Risks identified from other sources

- 8 In addition to the risks identified by managers as part of the service planning exercise there are risks that have been identified from other sources, most often internal and external audit. The Council's external auditor, PKF, identified two significant risks in the Annual Audit Plan for 2010/11 that was presented to the January 2011 meeting of the Audit Committee. CMT has agreed that these risks should be placed on the Council's risk register. These risks are:
 - Accounts - The implementation of the International Financial Reporting Standards (IFRS). There is a risk that the Council may not appropriately apply IFRS in the production of its financial statements.
 - Value for Money – The financial climate for 2010/11 remains challenging and there are a number of uncertainties in the revenue budget including potential

loss of land charges income. There is a risk that the Council may not be able to achieve its planned level of efficiency savings or appropriately manage the income streams for those areas where government funding and other income is expected to reduce.

Summary of current risks from 2011/12 Service Planning and other sources

- 9 The Council's risk register is held on Covalent, and this report includes a summary of the risk types, current risks and mitigations from all sources that are recorded on the register (see Appendix 2). The number of current risks in each category is shown in Table 1 below.

Table 1: Summary of current risks

Current Risks	2011/12	Risk score
High risk	5	Score 6 or 9
Medium risk	108	Score 3 or 4
Low risk	222	Score 1 or 2
Total	335	

Strategic risks

- 10 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. CMT is responsible for ensuring that adequate steps are taken to mitigate these strategic risks.
- 11 In June 2011, CMT revisited the list of the top strategic risks faced by the Council, taking into account the 2011/12 service planning exercise and a review of the risks from other sources. The strategic risks are ranked as follows:

- 1* Loss of IT services
- 1* Loss of premises
- 2 Major incident or emergency affecting the District or Region
- 3 Failure to achieve the Council's budget realignment target in the Medium Term Finance Strategy
- 4 Major failure in financial systems such as benefits
- 5* Loss of plant and equipment
- 5* Failure of contractor
- 6 Major changes in legislation
- 7 Economic factors outside the Council's control
- 8 Workforce planning challenges including loss of key staff
- 9 Governance and regulatory failure
- 10 Damage to reputation

* CMT considers these risks to be of equal ranking.

Progress update and key developments

- 12** Since 2003, the development of risk management has been progressed through a series of action plans to ensure that the supporting procedures and guidance are kept up to date. This report outlines the key tasks that have been undertaken over the past year to maintain an effective risk management system at the Council, and sets out the corresponding work for the year ahead (see Appendix 3).
- 13** The main focus in the past year has been the adaptation of the web based automated business and performance management software system (Covalent) to record the Council's risks. Installed in August 2010, Covalent provides an automated risk register facility that also enables managers to monitor and report on risks in ways that were not previously available. The work to maximise the use and benefits of Covalent for risk management will form the major part of the action plan for the coming year.

Financial Appraisal

- 14** There are no financial implications arising from the recommendations to this report other than those already contained within existing budgets.

Equalities

- 15** An equalities impact assessment is not considered necessary for this report. However, the service areas of the Council to which the risks identified within this report refer to will be subject to three yearly Equalities Impact Assessments. Additionally when there are changes in policy, new services are being provided, new projects are being developed or key decisions are to be made Equalities Impact Assessments will also be required.

Risk Management Implications

- 16** 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.

Environmental Implications

- 17** I have completed the Environmental Implications Questionnaire and 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: Summary of risk types, risks and mitigations

Appendix 3: Progress on key tasks in the year to June 2011 and the action plan for the year ahead.

Appendix 1

LEWES DISTRICT COUNCIL - RISK MANAGEMENT STRATEGY

1.0 Policy

- 1.1 We define risk as something that might have a detrimental impact on the achievement of the Council's objectives or service delivery.
- 1.2 The appraisal and management of risk will be part of our business planning and project management.
- 1.3 We will use risk management to promote innovation as well as to help secure our objectives.

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 risks likely to have a significant impact on the achievement of the Council's objectives. The CMT is responsible for the development of advice and guidance on risk management matters.
- 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 management activities
 - The Director of Finance is notified of any significant changes in service provision likely to arise if a risk materialises to enable him/her to ensure that appropriate and adequate insurance and financing measures are in place.
- 2.4 The Head of Audit and Performance is responsible for 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 to manage risks.

2.5 The Audit 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.

2.6 Cabinet is responsible for considering corporate risk and receives the annual report on risk management that includes the strategic risks of the Council. The Lead Councillor for Finance and Resources has portfolio responsibility for risk management.

3.0 Arrangements

- 3.1 Annual Service Plans which feed into the Council Plan will include a risk appraisal and action plan which will be reviewed and updated by CMT as a routine part of service and corporate planning activities.
- 3.2 Reports to Cabinet will include an appraisal of risk.
- 3.3 Risk Management training will be provided to CMT and senior managers with the aim of ensuring that they have the skills necessary to identify, appraise and control the risks associated with the services they provide. Councillors will receive training on risk so that they can consider the implications of risk in their work for the Council.
- 3.4 Every project team will appraise strategic and operational risks associated with their projects and make provision for dealing with those risks.
- 3.5 This strategy will be communicated to Councillors and staff and will be reviewed annually by the CMT.

June 2011

Appendix 2

Summary of risk types, current risks and mitigations

Risk Type	Summary risks and associated mitigations
Buildings	<p>Failure to properly maintain Council buildings, including leisure centres and Council houses. Mitigation through surveys of key buildings and identification of asset maintenance requirements and provision of adequate funding to undertake maintenance.</p> <p>Long term loss of key buildings such as Southover House and Lewes House due to fire or other damage. Mitigation through preventative measures. If the event occurs then Business Continuity Plan activated to reduce the impact on service delivery.</p> <p>Temporary loss of buildings due to major redecoration or refurbishment. Mitigation through identification of temporary facilities to relocate service.</p> <p>There are no risks scored as high for this risk type.</p>
Climate Change	<p>Disruption of Council services due to extreme weather event. Mitigation by activation of the Councils' Business Continuity Plan to reduce the impact on service delivery.</p> <p>Flooding or drought effecting Council's parks and gardens. Ensure contractors are properly briefed on agreed actions and that alternative options for sourcing water are identified.</p> <p>There are no risks scored as high for this risk type.</p>
Contractors	<p>Contractor not meeting contracted service standards. Mitigation through effective monitoring of contracts.</p> <p>Loss of contractor due to insolvency. Mitigation through emergency appointment of contractor until contract relet or by temporarily undertaking the service in house.</p> <p>Non compliance with European Procurement regulations and/or Council's Contract Procedure Rules. Mitigation through review of contract arrangements in place and regularisation of any anomalies.</p> <p>There are no risks scored as high for this risk type.</p>
Economic/ Social	<p>Dominance of suppliers affecting the market specifically in waste. Mitigation through monitoring of markets and developing of marketing strategies where appropriate.</p> <p>Collapse or serious fluctuation in prices e.g. recyclables. Mitigation through regular monitoring of income and expenditure with contract in place to obtain best consideration. Considered not possible to completely mitigate market risks.</p> <p>Economic climate affects demands for service including loss of income from fees for example for planning and building control. Mitigation by monitoring income levels and where possible adjusting of service levels.</p> <p>Significant changes in local demographics for example increase in demand for Disabled Facilities Grants (DFGs). Mitigation is through monitoring trends closely and possible requests for additional funding.</p> <p>There are two risks scored as high for this risk type.</p> <ol style="list-style-type: none"> 1. Economic climate declining at world and UK level. Limited scope for mitigation but will focus staff resources to maximise support for the local economy. 2. When a neighbouring authority outsources its waste and recycling service, the affect on pricing and control of glass and/ or paper bulking and storage may be detrimental to the Council. Mitigation is only achievable through planning an alternative route for the materials.

Environmental	<p>Loss of environmental accreditation due to major non conformity or failure to complete environmental audits. Mitigation by procedures being in place to ensure compliance with environmental standards and planned programme of environmental audits being undertaken with monitoring of their completion.</p> <p>There are no risks scored as high in this risk type.</p>
Financial	<p>Theft from council premises. Mitigation is preventative through intruder alarms and other security measures at key sites.</p> <p>The implementation of the International Financial Reporting Standards (IFRS). The Council may not appropriately apply IFRS in the production of its financial statements. Mitigation through the work of the IFRS implementation project.</p> <p>The Council may not be able to achieve its planned level of efficiency savings or appropriately manage the income streams for those areas where government funding and other income is expected to reduce. Mitigation is through effective financial planning and delivery of efficiencies and savings.</p> <p>Financial theft or fraud. Mitigation through key controls being in place and kept under continual review eg. segregation of duties, limitations of access to financial software, weekly bank reconciliations.</p> <p>Reduction in income due to failure to collect expected levels of rent or fees. Mitigation through effective procedures for collection and recovery of arrears/debts.</p> <p>Failure to establish new locally set planning application fees by the time the national fee scale lapses at the end of on March 2012. Mitigation through a robust programme to research, draft, consult upon and agree local fee scale.</p> <p>Failure to demonstrate value for money in service delivery. Mitigation through benchmarking and performance monitoring exercises.</p> <p>Failure of Council banks. Mitigation through investments being undertaken in accordance with approved strategy, credit ratings and other market information monitored on a daily basis.</p> <p>Reduction or failure to obtain grants/investment for the preservation of Newhaven Fort. Mitigation through maintenance and development of income streams.</p> <p>Delays in legal and planning processes could cause the loss of investment from the Homes and Communities Agency. Mitigation through early and regular meetings between key Council departments to remove barriers and promote schemes that meet housing needs and comply with planning regulations.</p> <p>Rising energy costs. Mitigation through energy saving measures and installation of photovoltaic's where appropriate in buildings and council houses.</p> <p>There is one risk scored as high for this risk type.</p> <p>1. Non retention of funding for the Clean and Green service after July 2012. Mitigation by obtaining further funding or integrating key elements of fly tipping and abandoned vehicles into another service.</p>
Health and Safety	<p>Health and Safety prosecution arising from failure to protect staff/ customers. Mitigation through regular Health and Safety audits/ inspections and risk assessments being carried out.</p> <p>Legionella present in water system's of council buildings. Mitigation through physical improvements to plumbing system, effective cleaning regimes and monitoring in place.</p> <p>Failure to comply with asbestos regulations in Council housing. Mitigation through maintenance of register of asbestos risks in Council properties and implement documented procedures when significant risks arise.</p>

	There are no risks scored as high for this risk type.
Information Management	<p>Loss of deeds/ manual files and loss of, or unauthorised access to, personal information. Mitigation through scanning of key files, effective IT security, electronic back ups and staff training.</p> <p>Inability to ensure good quality data for decision making. Mitigation through guidance on data quality and quality control arrangements.</p> <p>There are no risks scored as high for this risk type.</p>
IT	<p>Breach of IT security through unauthorised intrusion into IT network or virus attack. Mitigated by adequate and up to date security measures.</p> <p>Long or short term loss of IT and telephone systems. There are measures in place to restore services in a short time and some departments can use manual systems/ backup systems in the interim.</p> <p>There are no risks scored as high for this risk type.</p>
Legal	<p>Legal challenges against services provision, including the policy on bed and breakfast accommodation and failure in public health enforcement duties. Mitigated through enhanced provision of advice and appropriate officer training to ensure compliance with relevant legislation and regulations. There are internal procedures which should ensure that liability is kept to a minimum.</p> <p>Insurance claims arising from accidents for example in car parks and public conveniences where Council is held to be negligent. Mitigation by ensuring buildings and other locations are regularly inspected and properly maintained, and any potential hazards actioned.</p> <p>There are no risks scored as high for this risk type.</p>
Major Incident	<p>Major incident through flood, fire or other disaster resulting in homelessness, staff unable access buildings, depots being unusable. Mitigation through measures including the use of Council's emergency powers to relocate homeless residents and implementing the business continuity plan to relocate key staff to other buildings. Also, Environment Agency early warning system in place to enable vehicles to be moved out of depots before event occurs.</p> <p>Major infectious disease outbreak such as swine flu. Mitigation by implementing emergency plan and swine flu business continuity plan.</p> <p>There are no risks scored as high for this risk type.</p>
Operational Management and Control.	<p>Partnerships not working effectively or failing to obtain grant funding. Mitigation by ensuring partnerships have robust governance arrangements and bidding for funds is well planned.</p> <p>Failure to meet government or regulatory standards. Mitigation by planning, training of staff to meet defined standards, effective monitoring of performance and appropriate corrective action including re-prioritisation of tasks, re-assignment of resources.</p> <p>Failure to meet service targets. Mitigation through setting of realistic targets, planning, training of staff to meet service needs, effective monitoring of performance and appropriate corrective action including re-prioritisation of tasks, re-assignment of resources.</p> <p>Failure of key project or task. Mitigation through application of effective project management including planning, monitoring of performance and appropriate corrective action.</p> <p>There are no risks scored as high for this risk type.</p>
Plant, Machinery Vehicles and Equipment	<p>Loss, damage and theft of vehicles. Mitigated by programmes of inspection, effective maintenance, arrangements for security and supervision and insurance protection.</p> <p>Collapse of vehicle maintenance arrangements. Mitigated by contracts with vehicle suppliers, planning of stocks and spares, and internal support arrangements. Temporary</p>

	<p>external arrangements if required.</p> <p>Breakdown of lifts, equipment and machinery. Mitigated by programmes of inspection and maintenance, and back up arrangements with suppliers.</p> <p>There are no risks scored as high for this risk type.</p>
Political/ Legislative	<p>Major change in government policies or legislation. Mitigation through staff training in requirements of new legislation.</p> <p>There are two risks scored as high for this risk type.</p> <p>1. Effect on Planning Service of areas of the District being transferred to the jurisdiction of the South Downs National Park Authority (SDNPA). This took place on 1 April 2011. Mitigation through a three year agency agreement, and accompanying financial protocol, being put in place with the SDNPA to delegate the majority of planning work back to the Council. This is monitored regularly.</p> <p>2. Major unforeseen change in legislation or policy affecting Environmental Health services. Mitigation by the monitoring of Government proposals for policy changes, and reporting to CMT/Cabinet as appropriate.</p>
Regulatory	<p>Failure to meet equalities duties and standards. Mitigated by effective training on equalities issues, equality impact assessments and proper representation on the Equalities Working Group by officers representing their departments.</p> <p>Failure to meet contaminated land regulations. Mitigation by the progress and implementation of the Contaminated Land Strategy.</p> <p>There are no risks scored as high for this risk type.</p>
Reputational	<p>Adverse comment from the Council's external auditors. Mitigation through effective planning, monitoring of performance and quality assurance systems.</p> <p>Actions by councillors/ officers which bring the Council into disrepute. Mitigation through promotion of codes of conduct for officers and councillors.</p> <p>Adverse publicity/ poor media coverage as a result of a high level incident in the District or a planning decision. Mitigation through effective communications/PR plan from the centre, effective contingency plans in place for major incidents and training provided for staff and councillors in relation to the planning decision making process.</p> <p>Adverse publicity arising from litigation by the Council. Mitigation through by Cabinet approval being sought in contentious issues and documentation of the reasons for the decision to litigate.</p> <p>There are no risks scored as high for this risk type.</p>
Staff	<p>Key staff lacking skills and knowledge to undertake their duties. Mitigated through assessment of training needs through staff appraisal process and provision of training.</p> <p>Permanent loss of key staff. Mitigated through a number of means including succession planning, prompt recruitment of new staff and where possible working alongside existing staff before they leave.</p> <p>Temporary loss of staff. Mitigated primarily through reactive action of reprioritising of work.</p> <p>Personal safety of staff whilst on site visits. Mitigated by risk assessments, training of staff to deal with difficult situations reporting in of staff lone working on site, mobile phones for staff.</p> <p>There are no risks scored as high for this risk type.</p>

**Appendix 3:
Progress on key tasks in the year to June 2011.**

Key Tasks	Status	Officer/s responsible
Ongoing monitoring of risk assessments in Cabinet reports. <i>Improvements required on a small number of reports.</i>	Green	Head of Audit and Performance
Reports on risk management to each meeting of the Audit Committee. <i>Reported to each meeting of the Audit Committee.</i>	Green	Head of Audit and Performance
Input risk data from old system onto Covalent and guidance for Service Managers to assess service plan risks for 2011/12 <i>Completed in April 2011.</i>	Green	Head of Audit and Performance/ Corporate Performance Officer (CPO)
Update risk management guidance on Council's intranet (Infolink) to take account of Covalent. <i>Completed in June 2011</i>	Green	Head of Audit and Performance
Review and update service plan risks on Covalent. <i>Completed in June 2011</i>	Green	All Service Managers
Annual review of the Risk Management Strategy. <i>Completed in June 2011.</i>	Green	CMT
Draft Annual Risk Management report to CMT for review. <i>Circulated to meeting of 15 June 2011.</i>	Green	CMT
Annual Risk Management report to Cabinet. <i>Report to be presented to 12 July 2011 Cabinet meeting.</i>	Green	Director of Finance

Action plan for the year ahead

Key Tasks	Timescale	Officer/s responsible
Ongoing monitoring of risk assessments in Cabinet reports.	Ongoing	Head of Audit and Performance
Reports on risk management to each meeting of the Audit Committee.	Ongoing	Head of Audit and Performance
Training programme for Service Managers on the use of Covalent to record, monitor and report risks.	September 2011	Head of Audit and Performance/CPO
Create partnership risk register on Covalent.	December 2011	Head of Audit and Performance/CPO
Development of Covalent risk register to show specific data quality/project risks	January 2012	Head of Audit and Performance/CPO
Guidance prepared for Service Managers to assess service plan risks for 2012/13	April 2012	Head of Audit and Performance/CPO
Annual review of the Risk Management Strategy.	June 2012	CMT
Draft Annual Risk Management report to CMT for review.	June 2012	CMT
Annual Risk Management report to Cabinet.	July 2012	Director of Finance