

North East Derbyshire District Council

Audit and Corporate Governance Scrutiny Committee

28 May 2015

Risk Management Update, Partnership Working and Strategic Risk Register

Report No: EDO/3/15/16/BM of the Executive Director Operations

This report is public

Purpose of the Report

- To enable the Audit and Corporate Governance Scrutiny Committee to consider the attached report concerning the Strategic Risk Register prior to the report being taken to Cabinet.

1 Report Details

- 1.1 To update Members of the Audit and Corporate Governance Scrutiny Committee concerning Risk Management, Partnership Working and the Strategic Risk Register. Any comments expressed by the Audit and Corporate Governance Scrutiny Committee will be taken into account in the report – attached as **Appendix 1** - which will be taken to Cabinet on 10 June 2015.

2 Conclusions and Reasons for Recommendation

- 2.1 These are detailed in the attached report.

Reasons for Recommendation

- 2.2 To ensure that the Audit and Corporate Governance Scrutiny Committee are kept informed concerning the Council's latest position regarding Risk Management and Partnership working and are able to exercise effective influence on the Council's Risk Management arrangements.

3 Consultation and Equality Impact

Consultation

- 3.1 There are no issues arising from this report which necessitate a detailed consultation process.

Equalities

- 3.2 There are no direct implications arising from this report.

4 Alternative Options and Reasons for Rejection

4.1 These are detailed in the attached report.

5 Implications

5.1 Finance and Risk Implications

Financial

These are detailed in the attached report.

Risk

These are detailed in the attached report.

5.2 Legal Implications including Data Protection

These are detailed in the attached report.

5.3 Human Resources Implications

These are detailed in the attached report.

6 Recommendations

6.1 That the Audit and Corporate Governance Scrutiny Committee note the report and make any comments that they believe to be appropriate with regards to the attached report which will be taken to Cabinet on 10 June 2015.

7 Decision Information

Is the decision a Key Decision? (A Key Decision is one which results in income or expenditure to the Council of £50,000 or more or which has a significant impact on two or more District wards)	No
District Wards Affected	All.
Links to Corporate Plan priorities or Policy Framework	Robust Governance (including Risk Management) arrangements underpin the effective operation of the Council and its ability to secure all of the Corporate Plan priorities.

8 Document Information

Appendix No	Title
1	Cabinet Report 10 June 2015 – Risk Management Update, Partnership Working and Strategic Risk Register
Background Papers (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	
Service Plan Risk Registers Strategic Risk Register	
Report Author	Contact Number
Executive Director - Operations	7154

AGIN5(c)(A&CGC0205)Risk Management

Appendix 1

North East Derbyshire District Council

Cabinet

10 June 2015

Risk Management Update, Partnership Working and Strategic Risk Register

Report No: PRK/BM of Councillor P R Kerry Portfolio Holder with Responsibility for Economy, Finance and Regeneration

This report is public

Purpose of the Report

- To update Members concerning the current position regarding Risk Management and to seek approval for the revised Strategic Risk Register as at 31 March 2015, as part of the suite of Finance, Performance and Risk reports.
- To update Members regarding the arrangements which are currently in place to manage partnership arrangements including the associated risk.

1 Report Details

Background

- 1.1 The Council has a well established framework and approach to Risk Management which features a Risk Management Strategy supported by a Risk Management Toolkit both of which are available on the Council's website.
- 1.2 In its approach to Risk Management the Council is seeking to secure a number of objectives and to operate in line with recognised best practice. In order to appreciate the importance of Risk Management it is useful to reiterate these objectives:
 - To improve the way in which the Council manages its key risks so as to reduce the likelihood of them happening, and to mitigate their impact or magnitude in those cases where they do materialise. This is a key element in protecting service delivery arrangements, the financial position and the reputation of the Council.
 - To strengthen the overall managerial approach of the Council. From a Governance perspective the effective operation of Risk Management is regarded as being a key element of the managerial framework operating within an authority.

- Effective Risk Management is a key component in ensuring that organisations are able to achieve their objectives, and that key projects proceed in line with plan.
- The identification of the risks attached to existing service delivery, or to a project or new initiative is important both to allow a fully informed decision to be made, and ensure that all appropriate measures to mitigate (or reduce) the risk are in place from the outset.
- Finally, an appreciation of the risk environment within which the Council operates assists in determining an appropriate level of financial reserves for sound financial management, and ensures that the organisation has a better awareness of its overall risk exposure.

The Strategic Risk Register

1.3 The revised Strategic Risk Register as at 31st March 2015 is set out in **Appendix 1** for consideration and approval by Cabinet. The intention is that this quarterly review of the Register will secure the following objectives:

- Identify any newly emerging risks which need to be added to the Register and removing any risks that have been resolved to maintain a focus on current risks.
- Revising the Risk Register ensures that existing risks are reviewed, that appropriate mitigation remains in place, and where necessary the assessment is revisited.

1.4 The standard quarterly review of the Strategic Risk Register consists of three main pieces of work. Firstly, all Service Plans incorporate a Risk Register concerning that service. Consideration is then given to the issue of whether issues identified in Service Risk Registers should be incorporated into the Council's Strategic Risk Register. Secondly, Risk Management is integral to the work that is undertaken on a quarterly basis at Directorate level to bring together Performance Finance and Risk. Both Strategic and Directorate risks are explicitly considered at these meetings. Finally, the revised Strategic Risk Register has been subject to comment and the agreement of service managers, Portfolio Members, the Audit and Governance Committee and the Strategic Alliance Management Team.

1.5 The Strategic Risk Register as set out in Appendix 1 is structured so that those risks with the highest gross score (before mitigating action is put in place) are detailed first. The main issues which are continuing to impact upon the development of the Strategic Risk Register may be summarised as follows:

- The Council continues to face a significant level of risk in respect of the impact of adverse external financial circumstances. Given the wider national economic situation and in particular the position in respect of the public finances this is a risk which continues to evolve. In addition Members should note that one of the mitigating strategies which has been adopted in order to address this risk is to increase the level of locally generated funding through an income strategy and the growth agenda. While the Council has been

successful to date in this approach it does need to be recognised that local income streams can prove volatile and there are risks associated with this strategy. Although the wider economic position and the impact of the Comprehensive Spending Review continues to place pressure on the Council's financial position the Council is managing within its approved budgets, and has secured gradual increases in the level of financial reserves.

- A key risk that continues to feature on the Strategic Risk Register relates to the requirement to achieve a balanced budget, and to protect the level of the Council's financial reserves which in the view of the Chief Financial Officer are at a reasonable rather than a robust level in the light of the risks facing the Council. To date the measures implemented to manage the Council's financial position have proved to be relatively successful. In particular budgets have been effectively managed which has secured an increased level of balances for all of the Council's main financial accounts. Approved Budgets in respect 2014/15 and 2015/16 were further reduced leading to a position where the Council has less scope to cover in year budget pressures that may arise. Over the three year period of the current MTFP the Council has a target to identify over £2m of financial savings. The localised financial regimes of Non Domestic Rates, New Homes Bonus and Localisation of Council Tax Benefits have also shifted financial risk from central to local government.
- In addition to the direct impact upon the Council's financial position of public expenditure reductions it needs to be recognised that the Council has a clear role as a community leader, which may stretch both its operational and its financial capacity as the needs of our local communities evolve. Alongside the direct impact of the reductions in Government grant the Council may well be impacted upon by welfare reform, housing reforms, devolution and other Government initiatives. The pace of legislative initiatives, change in government policy is likely to quicken significantly following the General Election to be held in May 2015. This issue was picked up as part of the quarterly Directorate meetings held in April and is viewed as an increasing risk which the Council is facing. It is important that the Council is in a position to respond effectively to the changes and reforms which are likely to be introduced.
- A related risk to the requirement to secure efficiencies is that the drive to secure financial efficiencies has necessitated reductions in the number of staff employed by the Council. This clearly has a potential impact both upon the ability to deliver services and upon the robustness of internal control arrangements. In developing proposals for efficiency savings SAMT has consciously addressed this risk, and has sought to minimise it. There is a clear potential for an increased level of demand being placed upon the remaining workforce may result in adverse outcomes such as increasing levels of sickness, or staff leaving for positions outside the authority. Recently certain areas of the Council have seen the loss of significant numbers of key staff to other employers which possibly reflects improvements in the national economy together with pay levels on certain posts not being sufficiently attractive. There remains a concern that while services have minimised the impact on service delivery of the efficiency measures introduced over the last 3 years, that significant capacity has been removed from the Council which would make it difficult to maintain services should key

individual members of staff not be available. This is a risk that will continue to require appropriate management through the Council's performance management framework.

- 1.6 In overall terms a key element which emerges from the Strategic Risk Register is one of an ongoing requirement to maintain our current performance in respect of service delivery, performance and governance. The current position, however, needs to be maintained at a time when it will be necessary to continue to manage the Council's finances in a pro active way in order to ensure that our expenditure remains in line with the level of our resources and that the level of our financial balances are maintained. While, the Council has delivered a comprehensive programme of change over recent years, there remain a number of significant issues where continued progress is necessary if the Council is to better secure the outcomes sought by our local residents. The initiatives necessary to secure continued improvement all bring with them risks which need to be effectively managed, and the Council's Risk Management framework should assist in ensuring that these risks continue to be addressed.
- 1.7 At the quarterly Performance meetings two issues were raised in respect of the Council's position over the coming six months. The first of these concerned the requirement to ensure that the Council's role in administering the Election process in respect of May 2015 was appropriately handled with robust arrangements in place. On the basis of information to date that risk appears to have been appropriately handled with the election process not giving rise to any significant issues. A risk identified in the Strategic Risk Register as at 31st December 2014 concerning the move to Mill Lane again appears to have been effectively handled. As outlined in section 1.5 above an increased risk was perceived to arise from the General Election in the May of 2015 which was viewed as invariably involving some significant legislative change which would directly impact upon local government. Officers will continue to monitor any changes proposed by the incoming Government to ensure that the Council is in a position to respond effectively.

Issues for Consideration - Partnership Arrangements

- 1.8 While increased reliance is now placed upon partnership arrangements by local authorities these arrangements have a range of associated risks including potentially financial (unbudgeted costs), operational (failure of the partnership to provide an agreed service), and reputational where the failings of one of our partners reflects badly on the perception of the Council and its overall competence. In particular we have made efforts to put in place processes which ensure that the risks identified by our key partners are fully considered against the Council's own Strategic Risk Register. While there are clear risks associated with our involvement in partnership working it is clear from the previous sections of this report that the Council is increasingly reliant upon Partnership working in order to achieve its agreed priorities for local residents.
- 1.9 Previously the Council has agreed that it would designate Rykneld Homes, Sheffield City Region, and our Joint Service arrangements with Bolsover, Chesterfield and Derbyshire Dales as being our significant partnerships. The current position in respect of these significant partnership relationships is outlined in the following paragraphs.

- 1.10 The relationship with Rykneld Homes is governed by a robust set of Partnership arrangements including the Management Agreement which was drawn up by external solicitors in line with the arrangements which are used nationally between local authorities and their ALMO's. This is supported by formal reporting procedures back to this Cabinet in respect of both performance and financial issues which will enable the Council to effectively monitor both progress and risk. The working relationship which has been established with Rykneld Homes is a positive one, and Government funding remained in place throughout 2014/15. Given that Rykneld Homes is operating what is the Council's largest service, and was responsible for delivering a Programme of some £60m to refurbish the Council's Housing stock, the success of Rykneld Homes is crucial to the Council to local residents and the economic prosperity of the District. Given this position the Council continues to work closely with Rykneld Homes in order to achieve the shared goals of both organisations. Over the coming months the Council will need to work closely with Rykneld Homes in order to ensure that the ending of the Decent Homes Programme is effectively managed.
- 1.11 Council Officers have considered the Risk Management arrangements in place with Rykneld Homes in the light of good practice. Given that Rykneld Homes operates a Risk Management Framework which is in line with that of best practice including formal quarterly reporting to its Board, that Risk Management is a standing item on the Operational Management Group Agenda, and that the Company's Risk Management framework is subject to internal audit officers are of the view that reliance can be placed upon these arrangements.
- 1.12 In February 2011 the Council formally entered into a Strategic Alliance with Bolsover District Council a neighbouring local authority. This arrangement is a key partnership for the Council. One of the key objectives of this Alliance is to preserve and enhance the quality of services to local residents against the background of progressively tighter financial settlements. While the Strategic Alliance is in part a mechanism for cost savings it is also intended to help secure greater resilience for our services by operating services on a joint basis with another local authority. In this sense given the extent of the financial savings and service reductions which will continue to be required the entering into the Strategic Alliance is a key element of risk mitigation, which should serve to assist in managing the risks which both Council's face.
- 1.13 Although the Strategic Alliance is a key element of the Council's Strategic Risk mitigation it needs to be recognised that it has and may continue to require fundamental changes in the Council's management structures and working arrangements which will inevitably significantly impact upon existing internal control arrangements. While it is clear that given the extent of the savings that are required by the CSR similar changes would have been necessary irrespective of the Strategic Alliance it is nonetheless important that the Strategic Alliance is recognised as a Strategic Risk for the Council. While the Strategic Alliance continues to be viewed as a key risk it needs to be recognised that it has secured its initial targeted level of savings. Members at both Councils have now approved that the Strategic Alliance having secured its original savings target should now be utilised as a vehicle for securing a further savings through the introduction of a Transformation Agenda across both Councils. Work on securing the

Transformation Agenda is already in progress with a further senior management restructure completed and some key transformational projects underway.

- 1.14 The second key partnership concerns those with the two Local Economic Partnerships namely the Sheffield City Region and Derbyshire Nottinghamshire Partnership. While the Council's direct financial exposure to any risks is limited to those specifically approved by Members the performance of the two Local Economic Partnerships is likely to be a key factor in determining the overall economic prosperity of both the District and the sub region. A failure of the LEP's – which are now a key element of Government Policy – to facilitate economic prosperity would have a significant detrimental impact on the local area. Over the past few months significant progress has been made in developing a combined authority for Derbyshire and this should help ensure that the LEP's are successful in pursuing the economic and growth agendas. At a meeting of Council on 12th February 2015 the Council agreed to be a constituent member of the proposed Derby and Derbyshire (D2) Combined authority. Once the Combined Authority becomes established this may raise a range of further risks for the authority which will need to be appropriately managed.
- 1.15 There are a number of arrangements around the Community Safety Team, and around the promotion of health. While these activities involve Partnership working it would perhaps not be appropriate to consider them as being operational partnerships at this stage given that the Council's own governance arrangements cover these activities. In certain respects external organisations are merely funding activity which is co-ordinated and managed by the Council.
- 1.16 Finally, in respect of the joint work undertaken outside of the Strategic Alliance there are 5 core services namely the Crematorium, Building Control, ICT, Internal Audit, and Procurement then any failure of these services would have a significant service and financial impact. Officers are of the view that appropriate Governance arrangements are in place. Underpinning these Governance arrangements is the fact that all the parties concerned have appropriate Risk Management arrangements in place, and such arrangements can be relied upon to manage risk effectively.
- 1.17 While the Council has identified its significant Partnerships there are clearly a number of smaller 'partnerships arrangements' which fall outside this categorisation. These continue to be managed through the Council's existing managerial framework and in particular by the work of the Partnership Team. Given that these Partnerships are viewed as being of relatively limited risk, officers have adopted a 'light touch' approach towards their management. A comprehensive list of smaller partnerships will, however, continue to be maintained and reported to Council on an annual basis.

2 Conclusions and Reasons for Recommendation

- 2.1 The Strategic Risk Register is intended to highlight those areas where the Council needs to manage its risks effectively. One of the key purposes of this report is to set out the risks that have been identified (see Appendix 1) and to encourage both Members and Officers to actively consider whether the Strategic Risk Register and supporting Service Risk Registers actively cover all of the issues facing the Council.

Reasons for Recommendation

- 2.2 To enable the Cabinet to consider the risks identified within the Strategic Risk Register in order to assist in maintaining effective governance arrangements, service and financial performance.

3 Consultation and Equality Impact

Consultation

- 3.1 There are no issues arising from this report which necessitate a detailed consultation process.

Equalities

- 3.2 There are no equalities issues arising directly out of this report.

4 Alternative Options and Reasons for Rejection

- 4.1 Under the relevant good practice and to facilitate the development of robust managerial arrangements the Council is required to prepare a Strategic Risk Register as part of its risk management framework and to manage its Partnership arrangements effectively. This report is in part intended for Members and Officers to consider whether the Council has adopted an appropriate approach to its management of risk and partnerships. It is part of a well established framework of debate within the Council and with external partners with options in respect of both the risks identified and the management processes considered as part of that ongoing debate.

5 Implications

5.1 Finance and Risk Implications

Financial

- 5.1.1 There are no additional financial implications arising out of this report at this stage. While where appropriate additional mitigation measures have been identified and implemented during the course of preparing the Strategic and Operational Risk Registers, the cost of implementing this mitigation will be met from within previously agreed budgets.

Risk

Risk Management Issues are covered throughout the body of the main report.

5.2 Legal Implications including Data Protection

- 5.2.1 There are no legal or data protection issues arising directly out of this report.

5.3 Human Resources Implications

- 5.3.1 There are no human resource issues arising directly out of this report.

6 **Recommendations**

- 6.1 That Cabinet considers the report and approve the Council's Strategic Risk Register as set out in Appendix 1.
- 6.2 That Cabinet request that an update of the Strategic Risk Register as at 30th June 2015 be brought back to a future meeting of Cabinet for approval.

7 **Decision Information**

Is the decision a Key Decision? (A Key Decision is one which results in income or expenditure to the Council of £50,000 or more or which has a significant impact on two or more District wards)	No
District Wards Affected	All.
Links to Corporate Plan priorities or Policy Framework	Robust Governance (including Risk Management) arrangements underpin the effective operation of the Council and its ability to secure all of the Corporate Plan priorities.

8 **Document Information**

Appendix No	Title
1	Strategic Risk Register Summary
Background Papers (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	
Service Plan Risk Registers Strategic Risk Register	
Report Author	Contact Number
Bryan Mason, Executive Director – Operations	(01246) 217154

APPENDIX 1

TABLE 1

STRATEGIC RISK REGISTER SUMMARY

STRATEGIC RISK REGISTER SUMMARY AS AT: 31st MARCH 2015

	Risk	Consequences	Gross Risk (Probability x Severity)	Net Risk (Probability x Severity) Taking into Account Current Controls	Risk Owner / Lead Officer
1	Failure to deliver a balanced budget in line with the MTFP, at a time when the Council's reserves are at an acceptable rather than a robust level.	<ul style="list-style-type: none"> • Impact upon ability to deliver current level of services • Unable to resource acceptable levels of service. • Significant adverse reputational Impact. 	4,4 16	3,4 12	SAMT / Chief Financial Officer
2	External financial / policy developments have an adverse impact on Council (poor financial settlement), or upon the local economy (employment losses / welfare reform), to which Council is unable to adopt an appropriate change of Strategic direction. It would be reasonable to anticipate an increase in the number of policy announcements / legislative changes following on from the May	<ul style="list-style-type: none"> • Unable to deliver the package of services to meet changing local needs and aspirations. • Unable to effectively support local communities. • Increased demands on Council services at a time when the Council resource base is reducing. 	4,4, 16	4,3 12	SAMT / Political Leadership

	Risk	Consequences	Gross Risk (Probability x Severity)	Net Risk (Probability x Severity) Taking into Account Current Controls	Risk Owner / Lead Officer
	2015 General Election.				
3	Delivery of the Council's Agenda is dependent upon effective delivery of both a number of major initiatives in the Growth Strategy, the Transformation Agenda, Welfare Reform, the localised HRA Regeneration Initiatives (including Mill Lane), the Election, securing major financial savings and implementing a range of new government reforms whilst maintaining service quality, which may overstretch our reduced organisational capacity.	<ul style="list-style-type: none"> • New initiatives are not delivered in a cost-effective manner. • Failure to maintain / improve services in line with local aspirations • Failure to generate the savings required to balance the budget • Financial efficiencies weaken Governance / Internal Control arrangements. • Service deterioration / failure arising from capacity issues. 	4,4 16	4,3 12	SAMT / Chief Executive / Political Leadership.
4	Increasing difficult in recruiting to key posts or to replace key staff who leave. Recent evidence has indicated that this may be an emerging trend with some concerns that in certain areas of work our pay and grading may be in appropriate.	<ul style="list-style-type: none"> • Deterioration in services to the public and loss of productivity • Weakening of Internal Control arrangements. • Ability to deliver Corporate Service Plan, service delivery / improvement falters. 	4,4 16	4,3 12	SAMT / Asst Director HR
5	A major operational (including data protection) risk materialises resulting in a significant impact upon the Council's ability to secure its corporate objectives. Given the	<ul style="list-style-type: none"> • Deterioration in services to the public, potentially a major initial impact upon a local resident or a group of local residents. • Severe reputational damage to the Council. 	4,4 16	4,3 12	SAMT / Assistant Directors

	Risk	Consequences	Gross Risk (Probability x Severity)	Net Risk (Probability x Severity) Taking into Account Current Controls	Risk Owner / Lead Officer
	efficiency measures that have been introduced to date this is considered to be an increasing issue for the Council.	<ul style="list-style-type: none"> Significant staff and financial resources required to resolve position, impacting on other services. A major service has its operating capacity significantly affected and is required to introduce major reform in its approach to service delivery. 			
6	Failure to resource and deliver acceptable service performance improvement/ reconfiguration to maintain good external reputation.	<ul style="list-style-type: none"> Pace of external change results in underperforming services with adverse impact on local residents. Financial viability of the Council potentially undermined. Significant reputational damage to the Council. 	4,4 16	3,3 9	SAMT / Chief Executive
7	Need to effectively engage with local communities and a range of local partners (through the Strategic Alliance and other Joint services) to deliver cost effective joined up services.	<ul style="list-style-type: none"> Failure to provide effective community leadership. Inability to deliver good quality cost effective services targeted at local needs Failure to achieve the required MTFP savings targets. Poor outcomes for local residents, due to failure to engage other agencies. 	4,4 16	3,3 9	Political Leadership Team / SAMT

	Risk	Consequences	Gross Risk (Probability x Severity)	Net Risk (Probability x Severity) Taking into Account Current Controls	Risk Owner / Lead Officer
8	Emergency Planning and Business Continuity arrangements fail to meet required standards when tested by flu pandemic, natural disaster (flood), etc	<ul style="list-style-type: none"> • Inability of Council to provide services as a consequence of a severe catastrophic external event (eg flooding, major terrorist incident, flu pandemic, fire at Salter gate). • Failure of IT infrastructure, leading to inability to effectively operate services and to safeguard income streams. • Business Continuity Plans prove ineffective in practice. 	3,5 15	2,5 10	SAMT / Director of Health and Well Being
9	Governance Arrangements including Performance, Finance and Risk Management need to be maintained in order to continue to operate effectively in a rapidly changing environment.	<ul style="list-style-type: none"> • Adverse Impact upon Service Quality. • Failure to deliver high quality services which address national and local priorities. • Significant adverse reputational impact. 	3,4 12	3,3 9	Chief Financial Officer / Monitoring Officer
10	Staff morale / Sickness Levels adversely affected as a result of pace of change, tightening financial circumstances or external circumstances.	<ul style="list-style-type: none"> • Deterioration in services to the public and loss of productivity • Loss of key staff increased sickness levels • Increased pressure on other members of staff • Loss of 'goodwill'. 	3,4 12	3,3 9	SAMT / Assistant Director HR