Audit & Corporate Governance Committee

Report of Head of Business and Information Systems

Author: Geoff Bushell

Tel: 01491 823036

E-mail: geoff.bushell@southoxon.gov.uk

Cabinet Member responsible: Rodney Mann

Tel: 01844 281426

E-mail: rodney@wheatassoc.demon.co.uk

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AGENDA ITEM NO 11

Management of strategic risks

PURPOSE OF REPORT

1. The purpose of this report is to provide the Audit and Corporate Governance Committee with information on how the council is managing its strategic risks.

CONTEXT

2. The risk management update report presented to the Audit and Corporate Governance Committee on 5 March 2008 showed that the council is actively and successfully managing operational risk at project, service team and corporate levels. At this meeting, officers agreed to prepare a further report on the council's management of strategic risks.

THE COUNCIL'S FIVE STAGE RISK MANAGEMENT PROCESS

3. In 2003, the council adopted a widely-used public sector risk management methodology developed by our current insurers Zurich called Strategic and Operation Risk Management (STORM). This consists of a five stage annual process, as described in the following sections. We asked the consultant who had led the implementation of our approach in 2003 to return to facilitate a management team workshop in May 2008 to help us review our strategic risks.

4. The workshop was timed to follow the agreement of the corporate plan 2008-2012 to help identify and analyse the corporate risks that might have an impact on the ability of the council to achieve the new corporate priorities, plus any risks associated with the new sustainable community strategy (SCS) and local area agreement (LAA).

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STAGE 1 – RISK IDENTIFICATION

5. The first of five stages of the risk management cycle requires risk identification. In doing this, management team considered the following 13 categories of risk.

• Political	• Customer / citizen
• Economic	• Managerial / professional
• Social	• Financial
• Technological	• Legal
• Legislative / regulatory	• Partnership / contractual
• Environmental	• Physical
• Competitive	

6. This process led to the development of a set of ten revised strategic risks, which are listed in appendix one of this report.

STAGE 2 – RISK ANALYSIS

7. During the workshop, the identified risks were discussed and framed into a risk scenario format, containing risk cause and consequence elements, with a 'trigger' also identified. This format ensured that the full nature of the risk was considered and also helped with the prioritisation of the risks. Below is an example of the risk format used.

Vulnerability	*Trigger*	*Consequences*
Statement of fact or perception about the organisation, service or project that exposes it to a risk	An event that could or has occurred that results in a negative impact on the organisation, service or project	The negative impact: • How big? • How bad? • How much? • Consider worst likely
Likelihood		Impact

STAGE 3 – RISK PRIORITISATION

8. Management team discussed each of the ten risks and assessed them for likelihood and impact, and plotted them onto a risk matrix (appendix 2). The likelihood of the risks was measured as being 'A very high', 'B high', 'C significant', 'D low', 'E very low' or 'F almost impossible'. The impact, was assessed as being '1 catastrophic', '2 critical', '3 marginal' or '4 negligible'. This rating is also shown in the second column of the risk register (appendix 1) e.g. 'A2'.

9. To determine management team's appetite to risk, they considered each of the squares on the matrix and decided if they were prepared to live with a risk in that box or if they wanted to actively manage it. This set a theoretical tolerance line, shown as a heavy line on the matrix. The eight risks above the line (white squares) were judged to require further scrutiny, while management team felt comfortable that the two risks below the line (grey squares) required no specific action. Members of management team have agreed ownership of each risk, and this is shown in appendix 1.

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STAGE 4 – RISK MANAGEMENT

10. For those strategic risks which are above the tolerance line, members of management team are now in the process of developing actions to mitigate each risk.

STAGE 5 – RISK MONITORING

11. Management team has undertaken to review strategic risks every three months, to:

- review whether the list of risks is up to date, reflecting any changes to the 13 types of risk

- reconsider the current risk rating (likelihood and impact), and

- evaluate the progress of risk mitigation actions.

12. More widely, the council has a fail-safe way of managing risk, through a variety of mechanisms:

- appointment of risk champions in each service, who are provided with refresher training and guidance during the annual risk register refresh

- this annual risk register refresh is linked to the cycle of service planning so that it cannot be overlooked

- significant risk mitigation actions are included in service plans so that they are subject to the rigour of our performance management approach which monitors progress quarterly

- Business & Information Systems leads on the risk management process, making sure that every service is doing the right thing, and completes the process

- occasional audits by internal audit, to check processes are complied with and also to recommend best practice (internal audit is presenting just such an audit separately to this meeting)

- annual reports to Audit and Corporate Governance Committee on the progress of both operational and strategic risks.

THE WAY FORWARD

13. The current risk management strategy expires in July 2008. Internal audit, the business improvement team and service risk champions will work together to review the process and update the strategy as necessary. These recommendations will be presented to a future meeting of this committee.

CONCLUSION AND RECOMMENDATION

14. As can be seen the council is following a best practice model of strategic risk management. The committee is invited to comment on this report and to note that updates will be provided annually or more frequently if deemed necessary.

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APPENDIX 1 – STRATEGIC RISK REGISTER

Risks marked * in column 3 are above tolerance and require managing (stage 4 in the report).

Risk no	Rat -ing	T o l	Short name	Vulnerability	Trigger	Consequences	Risk 0wner	Risk mitigation action
3	A2	*	Housing provision	A significant element of the corporate plan involves delivering a planned level of housing in areas of the district, particularly Didcot. The plan is for approximately 9,000 houses by 2026. There are concerns currently that a downturn in the housing market could affect this.	Required level of housing doesn't proceed, particularly within Didcot	• Insufficient level of housing provided, including social housing • Unable to deliver planned economic inputs to Didcot • Impact on local economy • Increased pressure on services • Increased homelessness • Defaults to B&B • Social consequences	Anna Robinso n	Work ongoing to expedite land delivery. Action plan in place to optimise number of affordable homes but we have no tools that can require house builders to develop. We are monitoring impact of low build rates and will increase resources to homelessness prevention if necessary

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Risk no	Rat -ing	T o l	Short name	Vulnerability	Trigger	Consequences	Risk 0wner	Risk mitigation action
10	C2	*	Fit for the Future	The 'Fit for the Future' programme is looking at process improvement in a number of key service areas, removing waste and delivering value to customers. The programme will produce financial savings and may require investment in CRM / IT / Telecoms and Information Management.	Unable to deliver target savings and enhanced customer experience	• Savings needed from elsewhere • Disenchantment from staff • Unable to find savings from other areas • Impact on other services • Satisfaction impacted • Complaints • Reputation damaged	Anna Robinso n	Maintain high level of communication. Programme board considers delivery against all plans and will take remedial action if needed
2	D2	*	Funding gap	There is a funding gap in the financial plan which needs to be bridged. There are challenges with this, however, around the current financial climate, which could affect investment income, income from services and government funding. Key decisions have been made around bridging this gap and future service provision and there is a confidence these will be maintained.	Bridging funding gap has a detrimental impact on services / reputation	• Poor customer satisfaction • Increased cost of services • Staff disenchantment • Impact on performance • Accelerator effect • Gap becomes bigger • Impact on CAA / Use of Resources • Impact on reputation	Matt Prosser	Continue to monitor key performance. MT to monitor targets and champion efficiency and effectiveness of decisions made.

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Risk no	Rat-ing	T o l	Short name	Vulnerability	Trigger	Consequences	Risk 0wner	Risk mitigation action
7	D2	*	Contract management	The existing waste and leisure contract ends in 9 months, and it is unlikely that the existing partner will retain the contract moving forward beyond this time. There are issues around managing both the remainder of the existing contract and also around the potential new waste contract being innovative way of delivering the service. This will need to be managed and communicated effectively to ensure service levels and customer satisfaction are maintained / enhanced.	Dissatisfaction with or reduction in service through both parts of this procurement	• Customer and staff Complaints • Dissatisfaction • Impact on Customer satisfaction • Benefits of contract not realised • Constant negotiation around the contract • Specification not adhered to • Political impact • Reputation affected	Matt Prosser	Continue to have an on-going dialogue with existing contractors if they are not short listed. Ensure that all contract clauses are adhered to where relevant ensuring that we support the contractors in the final stages of the contract to get the best from them and their staff. Consider incentives for performance above target to the end of the contract term.

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Risk no	Rat -ing	T o l	Short name	Vulnerability	Trigger	Consequences	Risk 0wner	Risk mitigation action
8	D2	*	Succession / workforce planning	The Council is going through a period of rapid change, which will require staff to be change orientated, and who will respond as desired to the changes. There is a confidence in the ability of senior management here but there are potential challenges elsewhere in the organisation, with concerns that a number of staff may not respond as desired. This is crucial however in ensuring the success of the ongoing changes. There is an existing workforce / succession plan but this is not complete and there are a number of 'sole traders', with a concern around losing key skills in some areas.	Succession / workforce planning not fully effective	• Lose people from the organisation (the wrong people) • Unnecessarily lose key skills • Increased cost of recruitment • Don't make the best use of skills /ability • Don't have 'the right people in place with the skills to do the job' • Unable to drive through change at required pace • Disaffected staff • Loss of information • Reputation as employer damaged	David Buckle	Continue to communicate. Cabinet, management team and heads of service to show leadership. Greater engagement with managers to get them to step up to the plate

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Risk no	Rat-ing	T o l	Short name	Vulnerability	Trigger	Consequences	Risk 0wner	Risk mitigation action
1	C3	*	Partnershi ps	SODC is involved in a number of area wide external partnership arrangements, which are intended to improve service delivery and performance. There is a significant amount of work required to support these, however they are currently having a positive effect on performance. Moving forward, the Council needs to ensure it receives sufficient return from these arrangements.	Partnershi p work doesn't help to improve value for money and customer satisfactio n	• Unable to make best use of partnership arrangements • Council gains less from partnership arrangements than it should • Achieve less than if operating individually • Diverts from day job • Raised expectations • Waste of resources • Missed opportunities	Sue Reid	Continue to monitor key performance. Internal partnership group to be reinvigorated and new post of cross district partnership officer to be fully utilised
4	C3	*	Climate change/ environm ent	SODC has a community leadership role around climate change and environment, which is linked to existing partnerships and the future proofing delivery of services. This is not prominent within the existing Corporate Plan	Council unable to take on long term leadership / planning role	• Affects ability to deal with significant environmental incidents • Unnecessary cost incurred • Impacts on money for services and functions • Reputation affected	Sue Reid	Management team to be seen to be leading from the top, programme board with elected member put in place and benefits of activities show cased throughout the organisation and where appropriate with partners and the public.

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Risk no	Rat-ing	T o l	Short name	Vulnerability	Trigger	Consequences	Risk 0wner	Risk mitigation action
9	C3	*	Didcot	A key strategic objective of the corporate plan is around 'Transforming Didcot'. This is an ambitious plan and vision, however delivery of it could be impacted on by a number of factors, including a downturn in the economy and housing market, if the infrastructure delivery does not match growth or if other partners don't invest sufficiently.	Unable to deliver ambitious plans and vision for Didcot as planned and communicated	• Unable to meet key objective • Some • Cannot make most of opportunity • Reputation damaged • Political fallout	Anna Robinson	Cabinet will be informed if Didcot delivery falls behind due to factors within the council's control. Actions will be agreed with government if house builders do not proceed as planned. Mitigation measures will be put in place where possible
5	D3		Population demographics	Local population demographics are changing, with an increasingly ageing population and an increase in inward migration from eastern Europe. There are also increased expectations and pressure on areas of service delivery and on housing to meet needs. Planning and information management is ongoing on this, to ensure resources are linked to demands and statutory responsibilities.	Unable to have resources to meet demands and statutory responsibilities	• Increased costs on adaptations and concessionary fares • Pressure on budgets • Impact on other services • Satisfaction impacted • Fail to maximise income opportunities	Sue Reid	Risk is below tolerance line so no risk mitigation action is required at present

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Risk no	Rat-ing	Tol	Short name	Vulnerability	Trigger	Consequences	Risk Owner	Risk mitigation action
6	D3		Joint working arrangements with Vale of White Horse	Joint working arrangements are in place with Vale of White Horse District Council around finance currently, with mergers also possible in future around waste management, and other areas potentially.

There are different cultures in each organisation, and joint arrangements will need to be well managed. These arrangements are to achieve value for money and savings and have a positive impact on service delivery. | Joint working arrangements have a detrimental impact on service delivery | • Lack of harmonisation
• Staff leave
• Political fallout
• Unable to make cost savings
• Council reputation damaged | David Buckle | Risk is below tolerance line so no risk mitigation action is required at present |

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APPENDIX 2 – RISK PROFILE

Numbers below refer to the risks listed in appendix 1.

Management team rated eight of these risks as above their tolerance line, with two below. The results are shown on the following risk profile.

LIKELI-HOOD		4 Negligible	3 Marginal	2 Critical	1 Catastrophic
A Very high				3 housing	
B High					
C Significant			1 partnerships, 4 climate change, 9 Didcot	10 Fit For the Future	
D Low			5 demographics, 6 joint working	2 funding gap, 7 contracts, 8 workforce	
E Very low					
F Almost impossible					

IMPACT

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