

REPORT TO: Audit Committee	DATE 06 January 2009	CLASSIFICATION	REPORT NO.	AGENDA NO.
REPORT OF: Corporate Director, Resources	Risk Management Arrangements			
ORIGINATING OFFICER(S): <i>Service Head Risk Management</i>	Ward(s) Affected: N/A			

1. Summary

- 1.1 This report gives an update on the Council's risk management arrangements. The purpose of the report is to provide the Audit Committee with an overview of how the authority's processes facilitate the identification and management of significant business risks.

2. Recommendation

- 2.1 The Audit Committee is asked to note the contents of this report.

3. Background

- 3.1 Risk management is an integral part of good corporate governance. There are many definitions of corporate governance but the one used by CIPFA is "..... the procedures associated with the decision making, performance and control of organisations, with providing structures to give overall direction to the organisation and to satisfy expectations of accountability to those outside it".
- 3.2 All organisations face risks in everything that they do but by the proper management of its risks, organisations can benefit reducing their significance; either by reducing the level of impact, or making the risk less likely to happen. Over the last few years, the use of risk management as a tool in the public sector has gained strength as the appreciation of how risk management can be used as a technique for delivering an efficient and effective service to all its stakeholders. This is demonstrated in guidance issued by CIPFA / SOLACE, "Delivering Good Governance in Local Government", which makes reference to the need for effective management of risks and suggest how authorities can use audit committees to support a framework for effective systems of internal control. The Use of Resources assessments have also focused on risk management as an integral part of sound systems of internal control.

3.3 At its inception, risk management came into being from failures in the private sector where seemingly sound organisations failed spectacularly. The focus was initially on the financial viability of such organisations and how financial risk was being managed. Increasingly however, the proactive approach to dealing with issues afforded by the risk management technique is acknowledged. Risk management is thus applied not just the financial consideration, but equally if not more so to non financial considerations including the management of all resources, reputational management, promoting innovation, supporting decision making and developing effective performance management.

4. Corporate Risk Register

4.1 The review of risk at an operational and strategic level continues on a quarterly basis at directorate and corporate levels. A timetable is in place to aid all directorates capture key risks and assess their significance. The methodology adopted by the authority to assess and prioritise key risks is used to focus attention on those risks that require attending to. Significant risks are examined at directorate level and any risk that remains significant after existing control are taken into account (residual risk) are reported to the Corporate Management Team (CMT) so that they can be considered further. This process allows all risks to be captured, including project and programme risks, contract, financial, reputational risks etc.

5. Risk Champions Meeting

5.1 Each directorate has nominated a key individual to be the risk champion for their directorate. Their role includes to:-

- Update directorate risks every quarter;
- Facilitate the embedding of risk management within the directorate;
- Challenge officers in their directorate in their assessment of risk and seek explanations over the proposed actions to manage the risk;
- Disseminate good risk management practices within their directorate;
- Provide advice and assistance as required;
- Maintain the directorate risk register; and
- Bring significant risks to the attention of the CMT.

5.2 The risk champions continue to meet every quarter and this forum provides a channel by which significant operational, project, contract or partnership risk can be included in the corporate risk process.

5.3 The CMT received an update on current risks on 16 October 2008. The main changes to risks and new and emerging risks identified in the report are summarised below.

CLC8 - Loss of funding to support successful initiatives. This risk was initially identified in June 2008 and given a “Red” status. The level of exposure has reduced over the three months as arrangements are being made to source other funding and review the likely spend.

RES 36 - Economic uncertainty and banking conditions lead to loss of income or investment capital. This risk recognises the impact the credit crunch is having on a variety of financial institutions and the consequence of dealing with financial markets. A number of public sector organisations have experienced difficulties recently and although Tower Hamlets was not affected, there is residual risk in this area.

RES 37 - Next government spending review is not favourable for the Council. The risk is that the formula grant distribution review for 2009/10 is lower than the grant floor announced as part of the Local Government Finance Settlement announced in November 2007. There is also a risk that Council tax increases are capped below current financial projections.

CO20 - Failure to meet government recycling target. This risk is around recycling targets. There has been recent improvement in the proportion of waste being recycled and management is more confident in meeting the overall target, based on recent recycling data. The exposure has thus been reduced slightly from “12” to “8”, although the RAG status remains “Red”.

RES34 - Failure to fulfil employer responsibility around H&S. Three directorates (D&R, Resources and Chief Executives) do not have robust arrangements for making sure the authority’s Health and Safety arrangements are fully fulfilled. This risk appreciates the need to ensure corrective action is taken promptly.

RES35 - Failure of major contractor. In the current financial climate, there is a risk that a significant contractor with whom the Council has a relationship is unable to deliver the contract requirements or that future contractual arrangements are more expensive. Although this risk is not regarded as very high, a score “6” indicates an amber status, which means the authority needs to be on its guard against this risk, as far as this is practical.

- 5.4 For all significant risks, action plans are in place to reduce the Council’s overall exposure from the risks.

6. Embedding Risk Management

6.1 Over the last year, a number activities have been initiated to further embed risk management, including:

- Half day training courses for risk management as part of the corporate Learning and Development programme;
- Introduction to risk management for new starters;
- The role of the Audit Committee in dealing with risk management;
- Training session for members to introduce risk management and anti fraud as part of good governance;
- An introduction to risk management for LAB;
- Risk management workshops for services to develop their risk management practices;
- On going assistance and advice to senior officers across the authority;
- A review and update of the risk management guidance used by staff and managers;
- Development of an e-learning tool capturing risk management, money laundering, and anti fraud;
- A simplification of the corporate and strategic risks and the accompanying procedures;
- A review of a number of electronic solutions to assist in the management and reporting of risks with a view to procuring a practical software; and
- Discussions around the development of a risk management framework with the Interim Director of Tower Hamlets Partnerships for Tower Hamlets Partnerships.

7. Use of Resources

7.1 Under the Use of Resources assessment, the Audit Commission assessed risk management as an element of Internal Control. For 2007/08, their assessment scored risk management 3 out of 4, which means that this area is performing well. To try and improve on this score under the Comprehensive Area Agreement, a number of actions are proposed, as detailed below.

8. Next step

8.1 The following key actions are in hand to further enhance the risk management process by:

- Procuring an automated tool to facilitate the effective collection and reporting of risks. This will include training officers across the authority and our strategic partners as appropriate;
- Capturing sustainability impact appraisals to support strategic policy decisions;
- Developing an effective e-learning tool further, which will facilitate a more flexible learning and provide a robust arrangement for training, particularly new starters;
- Continuing to provide training and support to the Council and its key partners, including third sector organisations where appropriate;
- Setting up a partnership risk champions group to discuss partnership risks; and
- Enhancing key performance indicators for monitoring the effectiveness of the risk management process.

8.2 The training provision is on-going but it is expected that the activities identified above will have been set up by March 2009.

9. National Risk Register

9.1 The National Risk Register was published by the Cabinet Office in November 2008 and is intended to capture the range of emergencies that might have a major impact on all, or significant parts of the UK. The register provides an assessment that the UK and its citizens could face over the next five years and is categories into three parts; accidents, natural events (collectively known as hazards) and malicious attacks (threats).

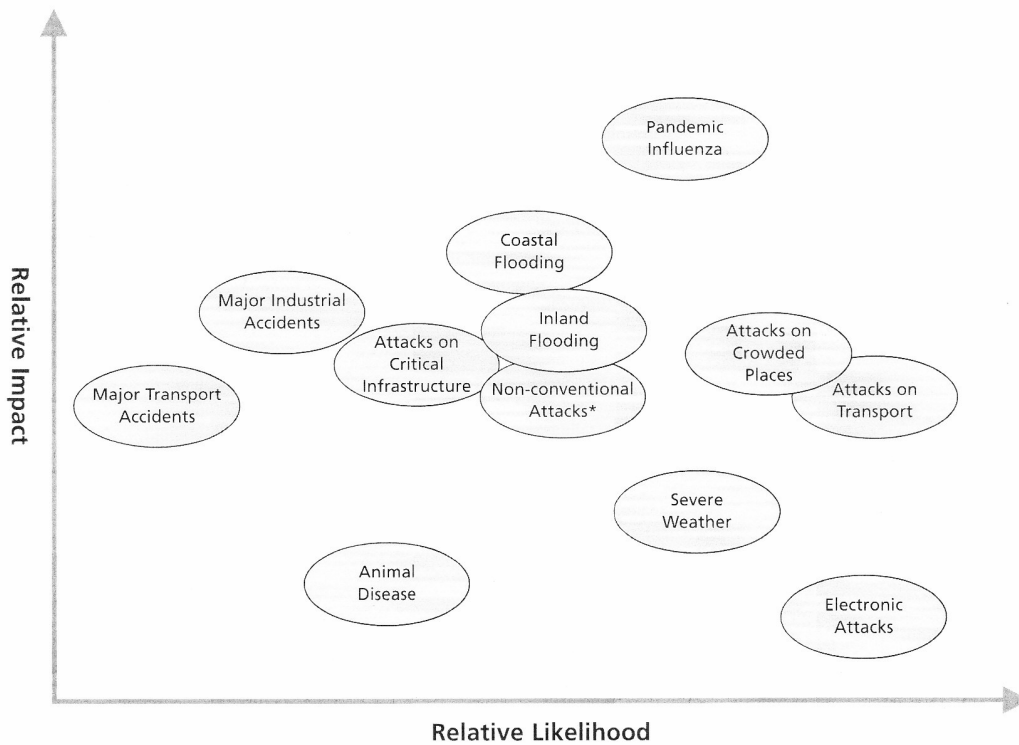
9.2 Much of the information in the risk registers is unsurprising but emergency planners have found them useful because:

- They bring together a great deal of information about potential risks that is relevant and consistent;
- The different risks can be compared broadly on a like for like basis; and
- They help in making decisions about which risk to plan for and what their consequences are likely to be.

9.3 The government does not expect individuals or communities to tackle any of the risks described on the register on their own. In all cases, the Government is working to reduce the risks to the UK from civil emergencies, ranging from flu pandemic and serious flooding, to international terrorism. It also expects to provide an effective response where emergencies cannot be prevented from happening. The national risk register is for those however, who want to improve their own preparedness.

9.4 The table below is a pictorial illustration of the high consequence risks facing the UK. Some of these are relevant to Tower Hamlets; the risk champions plan to review them at their next meeting.

Figure 1: An illustration of the high consequence risks facing the United Kingdom



* The use of some chemical, biological, radiological and nuclear (CBRN) materials has the potential to have very serious and widespread consequences. An example would be the use of a nuclear device. There is no historical precedent for this type of terrorist attack which is excluded from the non-conventional grouping on the diagram.

10. Comments of the Chief Financial Officer

10.1 These are contained within the body of this report.

11. Concurrent Report of the Assistant Chief Executive (Legal Services)

11.1 There are no immediate legal implications arising from this report.

12. One Tower Hamlets

12.1 There are no specific one Tower Hamlets considerations.

12.2 There are no specific Anti-Poverty issues arising from this report.

13. Risk Management Implications

13.1 The revised control environment should pick up the areas identified as of concern and reduce the residual risk.

14. Sustainable Action for a Greener Environment (SAGE)

14.1 There are no specific SAGE implications.

Local Government Act, 1972 SECTION 100D (AS AMENDED) List of "Background Papers" used in the preparation of this report

Brief description of "background papers"

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