

## **STRATEGIC RISKS 2023-24**

REPORT OF: DIRECTOR OF RESOURCES AND ORGANISATIONAL DEVELOPMENT  
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Wards Affected: All  
Key Decision: No  
Report to: Audit Committee  
28 November 2023

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### **Purpose of Report**

1. The report aims to present the Corporate Strategic Risk Policy Document for review and agreement of any updates and to present the Council's key strategic risks for 2023-24 identified as part of the planning process. These risks have been assessed using that Risk Policy, and have a plan, as presented for mitigation of those risks to minimise the likelihood, and impact of, their occurrence.

### **Recommendations**

2. **Audit Committee are recommended to:**
  - (i) **Consider and endorse the Strategic Risks for 2023-24 and management plans set out at Appendix A; and,**
  - (ii) **Consider and endorse the Mid Sussex District Council Strategic Risk Management Policy, as set out at Appendix B**

**providing any feedback it deems appropriate to Cabinet.**

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### **Background**

3. Council approved the Corporate Plan and Budget for 2023-24 on 1 March 2023. This Plan is the outcome of a robust service and financial planning process. As with all plans it is, however, based on best known assumptions at the time. If these assumptions prove inaccurate because circumstances change during the year, there could be a potential impact on the Council's ability to fully deliver its plans during the year or to be able to do so within budget. It is therefore prudent that the Council identifies what significant factors or events might occur and ensure it has in place appropriate arrangements for mitigating these Strategic Risks.

### **Strategic Risk Management Policy**

4. The Council adopted a revised Strategic Risk Management Policy in 2022. This has, in line with usual practice been reviewed to ensure it remains fit for purpose. It is also considered that the successful management of the identified risks in the previous year provides added evidence that the policy and the associated actions remain relevant.

5. The Policy is set out at Appendix B has only been updated to reflect changes in the constitution early in 2023. Whereby, and as reported in the Annual Governance Statement, the role of the Audit Committee has been aligned with the CIPFA Code of Practice for Internal Audit. In particular, this references the Audit Committee’s role in monitoring operational risk management.
6. No changes are proposed to the principles currently. A broader review of the policy and risk management process will be carried out for 2024/25.

**Risk Identification**

7. Following consideration of the Council's strategic aims as outlined in the Corporate Plan, three strategic risks have been identified in 2023-24. The risks have been identified using the Council’s Strategic Risk Management Policy which considers the likelihood of occurrence, and the level of impact on the organisation and/or the district should they occur.

**Initial Risk Score**

8. Once risks have been identified, each one is assessed according to the impact on the service if it occurred, and the probability that it will happen.
9. Risks are prioritised using a coloured coded scoring system as set out in the risk assessment matrix shown at Table 1. Risks are assessed on both inherent risk level (no controls or mitigation in place) and residual risk level (after controls and mitigation are implemented). The assessment follows a standard hierarchy where Red risks are the highest, followed by Amber, Yellow, and then Green:

**Table 1 - Risk Matrix:**

<b>Likelihood</b>	Almost Certain (5)	5	10	15	20	25
	Likely (4)	4	8	12	16	20
	Possible (3)	3	6	9	12	15
	Unlikely (2)	2	4	6	8	10
	Almost Impossible (1)	1	2	3	4	5
		Insignificant (1)	Minor (2)	Moderate (3)	Major (4)	Catastrophic (5)
<b>Impact</b>						

10. The strategic risks and their mitigation plans are assigned to managers and appropriate reporting is built into individual work plans.

## **Policy Context**

11. The Council has a robust and effective approach to strategic risk management. Strategic Risk Management is an important aspect of every organisation's service and budget processes and the achievement of its corporate priorities. Its application cannot fully insulate the Council from the impact of unexpected external events, but it will ensure the Council is best placed to respond if such events occur.

## **Financial Implications**

12. There are no financial implications directly arising from this report.

## **Risk Management Implications**

13. There are no other strategic risk implications aside from those set out in the report and the actions proposed in this report will better enable the Council to identify, mitigate and manage risk. It should, also, be noted that operational risk matters, such as specific business continuity issues, are managed at Service level and escalated as necessary through the Council's Corporate Safety and Risk Management Group which meets quarterly.

## **Equalities and Customer Service Implications**

14. Where appropriate, Equality Impact Assessments are undertaken where service or policy changes are taking place.

## **Sustainability Implications**

15. None

## **Other Material Implications**

16. None

## **Appendices**

- Appendix A – Strategic Risks for 2023-24 and Management Plan
- Appendix B – Strategic Risk Management Policy

## **Background Papers**

None.

## Appendix A - Strategic Risks for 2023-24 and Management Plan

Risk 1: Excess inflation and the Cost-of-Living crisis cause budgets to overspend.

### Corporate Strategic Aims: Financial Independence

**Risk Owner: Assistant Director Corporate Resources (s151 officer)**

#### Risk Description

1. The current and ongoing excess inflation levels are causing financial instability. This has had a very serious effect on the UK economy and local authorities have been as affected as the private sector. Even as inflation slows costs will plateau as opposed to decrease.
2. The interaction of increased costs along with reduced income across a number of streams is testing the sector's resilience to the limit.
3. Mid Sussex is a strong financial performer yet is still affected by the loss of income in key income streams.
4. Inflation, particularly pay inflation, will increase expenditure over the medium term, without corresponding income.
5. Local retention of Business Rates is positive in normal times but can work against recipients when times are more uncertain.
6. The Funding Review and the reset of Business Rates have been factored into the financial outlook for 2023/24 but their timing is uncertain.
7. General uncertainty in the UK and World economy.

#### The Consequences

##### Financial

- That ultimately reserves are depleted beyond a reasonable and sustainable point.

##### Reputational

- Councils that suffer from chronic financial issues are often accused of mismanagement rather than clear funding challenges.
- Trust and confidence in the Council may be eroded.

##### Operational

- The continual need to reduce expenditure to match income would lead to reductions in service levels and/or a withdrawal of services.
- A S114 notice would see expenditure frozen.

Initial Risk Score: 16

#### Mitigations

- Active budget management supported by the preparation and distribution of budget management reports and supporting financial information.

- Robust forecasting, with external assistance as appropriate, over the medium term to show national and local financial trends.
- Targeting income maximisation wherever possible.
- Monitoring and advocating for the availability of central government support.
- Holding a robust and reasonable level of unallocated reserve to support the medium-term financial plan.
- To top up reserves when possible, continuing to direct all windfall funding to reserves in the first instance.

Revised Risk Score: 9

## Risk 2: The District Plan is not updated in line with government requirements.

### Corporate Strategic Aim: Sustainable Economic Growth

**Risk Owner: Deputy Chief Executive**

#### Risk Description

1. Council adopted its current District Plan in March 2018. The District Plan, legislation and national planning policy requires a review of the Plan to be carried out within five years (2023) and an updated District Plan prepared where it is concluded that policies need updating.
2. The process to review and update the District Plan is complex and lengthy and includes evidence gathering, specialist expert advice, assessment, and modelling, two rounds of public consultation and examination in public by an independent Planning Inspector ahead of adoption.
3. The District Plan sets out the Council's planning and spatial strategy; comprising policies to be used when determining planning applications, and sufficient site allocations to meet housing, employment and other identified needs. A planned approach to growth also ensures that the Council can secure the necessary infrastructure to support the development.
4. Whilst the Council has an adopted District Plan, some of elements of it particularly the Policies on housing need requirements will be 'out of date' by March 2023 and will therefore carry little to no weight in determining planning applications.
5. Should policies be 'out of date', and the Council is unable to demonstrate a five-year housing supply the presumption in favour of sustainable development (i.e., speculative, unplanned development) will apply.
6. Prior to adopting the current District Plan the Council did not have an up-to-date Plan for seven years and as a consequence of this and of being unable to demonstrate a five-year housing supply 3,000 new homes were built on Greenfields in the District. Despite using all legal remedies available to the Council and at a cost to the Council of £720k
7. In addition, the review of the Plan enables the Council to introduce new policies to support its aspirations regarding securing biodiversity net gain, enhancing green infrastructure and setting policies to address the causes of climate change and to increase the resilience to the effects of climate change. The Council will not be able to apply these policies in the absence of an updated Plan.
8. Central government has trailed a number of possible changes to the planning system that could have significant implications for plan-making, particularly on the number of homes which the Council must plan for. Work carried out to date may not be consistent with forthcoming legislation or national policy and would therefore need to be revisited.
9. Potential changes to legislation could impact on the amount of housing to be provided by neighbouring authorities and could therefore have consequential implications for Mid Sussex.
10. The issues around water neutrality in the area and its impact on the ability to deliver new homes, associated social infrastructure and employment in adjoining authorities continue to take time to resolve with associated impacts on Mid Sussex.

11. Developers/statutory providers/independent inspectors (appointed to examine the draft Plan) require further work and consequent further delay.

## **The consequences**

### **Political**

- The implications of not having an up-to-date plan would result in unpopular, unwanted, unplanned speculative development in the district.

### **Financial**

A specific reserve has been established to support the work on the District Plan

- Delays to the process may mean evidence base studies need to be re-commissioned to ensure they are robust and up to date.
- With no update District Plan in place, the Council will be at risk from speculative development; this may increase the number of appeals for the authority to defend, including the potential for costs to be awarded against the Council.

### **Reputational**

- The Council are at risk of reputational damage from residents and Town and Parish Council's if the District Plan is not up to date due to the risk of speculative unwanted unplanned development and development that does not meet the Council's policy aspirations.
- Potential conflict with economic development aspirations where the Council are seeking to partner with the development industry to provide high quality employment space which it may not be able to deliver without an updated local Plan.
- The Council's sustainability goals as set out in the emerging Sustainable Economy Strategy are dependent upon the successful preparation and adoption of the District Plan.

### **Operational**

- Without an up-to-date District Plan, the Council can only apply limited or no weight to any policies that are deemed 'out of date' (e.g., not in accordance with national policy or updated evidence). The Council will therefore not be able to retain control over future development, plan for necessary infrastructure, or impose stricter standards (for areas such as sustainability, climate change and biodiversity)

**Initial Risk Score: 12**

### **Current mitigations**

- Evidence base procured, working with neighbours, assessing sites, commissioning transport modelling, in order to understand the implications of different growth scenarios.
- External advisors appointed to 'check and challenge' work.
- Legal support from retained KC to ensure the process is legally compliant.
- The Council continues to make progress over the development of a revised District Plan with adoption anticipated in 2024.

**Revised Risk Score: 8**

## Risk 3: Operational Resilience: Cyber Security

### Corporate Strategic Aim: Effective and Efficient Services

#### Risk Owner: AD Digital and People Services

#### Risk Description

1. Threat actors targeting local government, locally hosted, or cloud hosted systems and data  
Threat actors targeting data and systems hosted by 3<sup>rd</sup> parties that MSDC works with
2. Malicious software deployed across MSDC / 3<sup>rd</sup> party systems indirectly through phishing, malicious links or similar.
3. Data breach from deviation of best practice or from a targeted social engineering/phishing-based attack.
4. Increased threat of cyber-attacks (viruses, malware, ransomware, etc.) Many sources report that targeted attacks on local authorities are on the rise, cyber-attacks globally are also increasing and are becoming more sophisticated.
5. Local authority systems becoming increasingly attractive target to attackers due to factors such as limited digital budgets, legacy systems, and large quantities of personal data.
6. More flexible access to data and systems can create complacency and mobile devices can be lost or stolen. As attacks become more sophisticated and convincing, even well-educated staff can fall victim to forms of social engineering.

#### The consequences

##### Financial

- Any loss of operational capability will have a corresponding financial impact either in relation to lost income, the cost of correcting the issue or rebuilding infrastructure.
- Loss of some critical data could produce an un-recoverable situation which would have significant financial implications on income, such as with revenues and benefits data.
- Estimated average cost of local authorities recovering from cyber-attack is £500k but has been seen as high as £10m.
- Any liability attributed to the council for the compromise of personal information could result in financial penalties and/or costs to compensate or remediate any damage caused to the data subject.

##### Reputational

- The loss of key systems relating to public facing services would likely gather negative publicity in the press and social media, especially if it resulted in poor outcomes for customers in significant need.
- Significant media coverage of cyber-attacks and an erosion of public trust in MSDC can be expected in the wake of any significant incident.

##### Operational

- Any lengthy downtime for key systems will likely create significant operational difficulties for extended periods of time. Previous incidents of downtime suggest that with some scenarios,



only a few weeks of downtime can translate to many months of remedial actions and their associated labour costs.

- Catastrophic effect on key operational capabilities if critical systems/data are destroyed and restoration capabilities are compromised or not present.

Initial Risk Score: 20

## Mitigations

- Working with security agencies and specialists to ensure we are employing best practice in all matters.
- Various cyber security protection techniques and technologies comprising software hardware and services.
- Staff education.
- Further mitigative actions are in operation but cannot be described in a document with wide or public circulation for security reasons.

Revised Risk Score: 6

# Strategic Risk Management Policy

## November 2023



# Strategic Risk Management Policy

## Purpose

1. This policy sets out the Council's approach to the identification and management of Strategic Risk.

## Definition

2. Strategic Risk Management is the way that the Council responds to uncertainty in the external environment. It allows the Council to:
  - Identify key strategic risks in the context of the Corporate Plan's objectives.
  - Assess risks to determine the potential likelihood and impact of each risk.
  - Determine the response that should be made to each risk.
  - Develop the necessary actions, controls, and processes to implement the chosen response to each risk.
  - Communicate its approach to risk management and the results of risk management activity.
  - Deal with each risk – either avoid, reduce, share, or accept it.
3. NB: In addition to its strategic risk management, the Council has a well-established approach to operational risk management and the principles and tools used to manage this are set out in a more detailed operational risk management strategy.

## Risk Culture

4. A strong business wide risk culture is an important aspect of strong corporate governance. Risk Culture is the shared values, attitudes and practices that characterise how the Council considers risk on a day to day basis. The Risk Culture has developed at the Council over recent years so that as an organisation it is less risk averse.
5. Our experience has been that this improved risk culture has been influenced by the following factors:
  - Awareness of risks faced by the Council
  - Understanding of the business and the relevance of risk
  - Clear ownership of risks
  - Clearly defined responsibilities for risk management activity
  - Effective monitoring and reporting of the effectiveness of risk. Whilst the Council is not risk averse, the principles contained within this policy ensure that the Council strikes the right balance in its approach to strategic risk management.

## Responsibility

6. Whilst Cabinet has overall responsibility for Risk, the Audit Committee has responsibility to provide independent assurance of the adequacy of the risk management framework

and the associated control environment. To monitor the effective development and operation of risk management and corporate governance in the Council.

## **Corporate Management and Reporting**

7. Management Team is responsible for ensuring the Council's strategic risks are actively managed throughout the year.
  
8. In addition, Management Team has the following responsibilities:
  - Implementing the strategic risk management policy.
  - Reviewing the management of strategic risk.
  - Monitoring the effectiveness of the controls developed to implement the chosen risk response.
  - Integrating risk management into the service and budget planning process.
  - Promoting a robust and proactive risk culture throughout the staff organisation.
  - Ensuring that appropriate training is put in place for appropriate officers and that it is reflected in the Member Development programme.
  
9. To gain third party assurance of the risk framework, Internal Audit will review the Strategic Risk Register and the management of those risks and will report to the Audit Committee. This then:
  
10.
  - maintains independence from the responsibilities of management.
  - communicates independent and objective assurance and advice to the Council on the adequacy and effectiveness of governance and risk management (including internal control) to support the achievement of organisational objectives, and,
  - reports impairments to independence and objectivity to the Council and will enable the implementation of safeguards as required.
  
11. There must be regular interaction between internal audit and management to ensure the work of internal audit is relevant and aligned with the strategic and operational needs of the organisation. This is achieved through the setting of the annual audit plan.

## **Review**

12. This Policy will be reviewed annually by Audit Committee and formally adopted by Cabinet.

## **Identification of Risks**

13. The Council approach to the identification of risk means:
  - Proactive risk identification, through identification of risks before they lead to harm. This includes regular Strengths, weaknesses, opportunities, and threats (SWOT) and PESTLE analysis and scenario planning.

- Reactive risk identification, through incident reporting processes. Once hazards and potential risks have been identified, they are formally assessed.

## Evaluation of Risks

14. Once risks have been identified, each one is assessed according to the potential impact on the service, and the wider Council, if it were to occur and on the probability that it will happen.
15. Risks are prioritised using a colour-coded scoring system as set out in the risk assessment matrix in Table 1. Risks are assessed on both inherent risk level (no controls or mitigation in place) and residual risk level (after controls and mitigation are implemented). Red risks are the highest, followed by Amber risks then Yellow, and then Green.
16. The Strategic Risk Register (SRR) typically but not always, includes those risks which are rated Red and Amber.

### Table 1: Impact Criteria

17. This table is used to assess the impact that a manifestation of a risk would entail. Whilst these matters are never completely discrete, the descriptions act as a guide.

Risk Level		Financial *	Service	Reputation **
5	Catastrophic	More than £1m	Total service failure	National publicity more than 3 days. Resignation of leading member or Officer
4	Major	£500k-£1m	Serious disruption to service	National public or press interest
3	Moderate	£50-£500k	Moderate disruption to service	Local public/press interest
2	Minor	£5k – 50k	Some minor impact on service	Contained within service
1	Insignificant	Less than £5k	Annoyance but does not disrupt service	Contained within business unit

\* Financial impact would include the costs of litigation, claims or fines

\*\* The Reputational impact would include consideration of fatality/injury to persons linked to the Council's activities.

18. For example, a possible fatality would merit a 5 score, with 4 meaning a major injury/permanent disablement, 3 a severe injury to an individual, 4 a minor injury to several people, and 2 being a minor injury to an individual.

## Table 2: Probability Criteria

19. This table sets out how probable is the manifestation of a risk event. A level of judgement is required and should be peer reviewed to assist with calibration.

Risk Level		Description
5	Almost certain	Expected to occur in most circumstances
4	Likely	Will likely occur in most circumstances
3	Possible	Fairly likely to occur
2	Unlikely	Could occur at some time
1	Almost Impossible	May occur only in exceptional circumstance

20. These two factors are then combined to give an overall risk score as per the matrix below.

## Table 3: Risk Matrix

Likelihood	Almost Certain (5)	5	10	15	20	25
	Likely (4)	4	8	12	16	20
	Possible (3)	3	6	9	12	15
	Unlikely (2)	2	4	6	8	10
	Almost Impossible (1)	1	2	3	4	5
		Insignificant (1)	Minor (2)	Moderate (3)	Major (4)	Catastrophic (5)
<b>Impact</b>						

21. Each risk is then managed via a Risk Management Plan, which could include the following Risk Responses:

### Avoid

22. As the name implies, stopping a particular action or opting to not start it at all is one option for responding to risk. When choosing the avoidance option, we are closing off

any possibility that the risk will pose a threat to the Council, but this is not always practical or possible.

23. Exercising the avoidance option too much can result in operation well below risk appetite. However, if there is absolutely zero tolerance for the risk in question, then avoidance is the proper risk response strategy.

### **Reduce**

24. Reduction or mitigation is to take action to reduce the likelihood or impact of a loss. If the risk in question currently sits slightly higher than the appetite, reduction is a reasonable strategy to employ to bring it within tolerance levels.
25. This is often the common approach, yet a very careful assessment is needed that reduction actions are working or will actually work in the future.

### **Transfer**

26. When doing so, we do not eliminate or reduce but rather delegate it to a third-party. The goal with risk transfer is to ultimately reduce the impact should something materialise. As an organisation, we are willing to take a gamble on the risk occurring.

### **Accept**

27. The last option is to simply accept the risk as-is and do nothing. This risk response strategy is often used for risks with a low probability of occurring or that would have a low impact if they did happen. It is commonplace to have budget reserves set aside to deal with situations like this. Emerging risks, or ones that may pose some sort of threat in the distant future, are also ones commonly placed in the “accept” category.