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down to earth business support

# **CIPFA Northern Section**

## **Risk or Opportunity:**

### **The public sector challenge**

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Speaker: Pam Duke – Bannisdale Consulting Ltd

# Pam Duke

- Over 20 years experience of working in or for the public sector
- CIPFA qualified (with Cumbria CC)
- Technical manager (accounting) with CIPFA
- PFI/PPP support
- Five years with Zurich working with public sector bodies to embed risk management

More recently involved with

- Business facilitation of risk and opportunity management
- IFRS transition – technical support
- Financial management and governance training including audit committees.
- Supporting programme and project management including business case development

# Risk or Opportunity



# The public sector challenge

- 6 Reform of the public sector on a scale never experienced before
- 6 Huge reduction programme following the CSR
- 6 Localism and the Big Society still being developed
- 6 Reviews of pensions, pay, structure, financing .....
- 6 Increasing demand in many areas and higher expectations



# Risk or Opportunity

**Risk** is the potential that a chosen action or activity (including the choice of inaction) will lead to a loss (an undesirable outcome)

*Risk is often a combination of factors coincidentally occurring together to result in a negative impact*

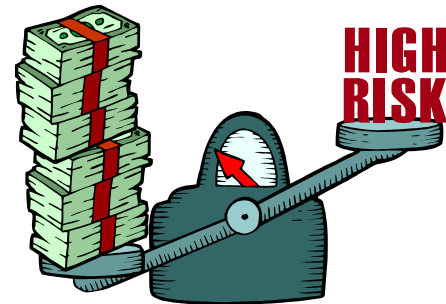
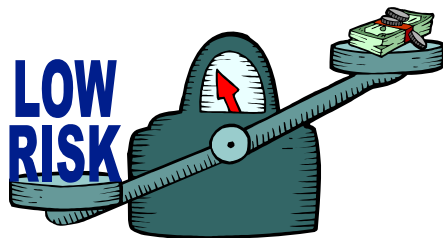
**Opportunity** is an event which, if it occurs, will have a positive impact

*“opportunities (constructive events) which if exploited could offer an improved way of achieving objectives but which are surrounded by threats” HM Treasury – Management of Risk*

## Risk or Opportunity

There is the taking risks to grow the organisation and there is the managing of risks to protect the business - a balance is needed.

Both can exist at the same time ...



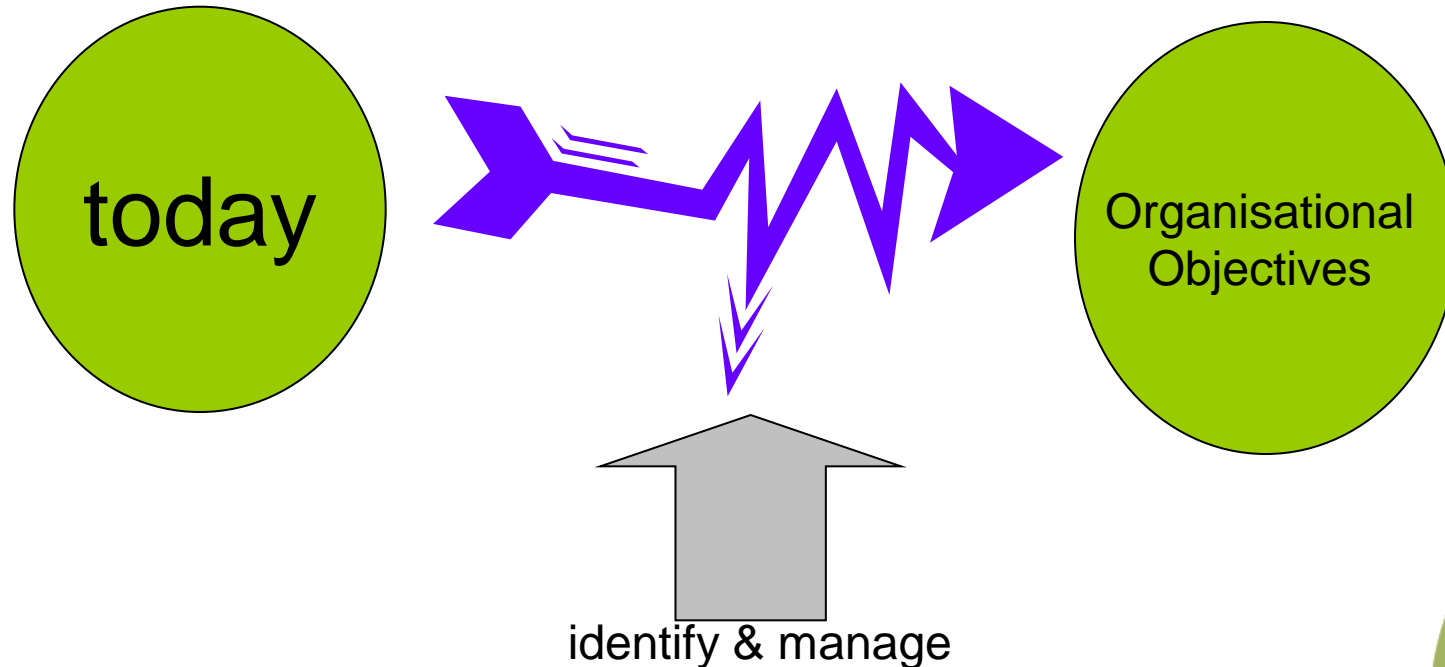
# How can risk management help ?

Life in the public sector is increasingly challenging and in order to successfully deliver on priorities over the next few years risk management will need to be used to full effect. It can:

- ⑥ Support innovation
- ⑥ Prioritise those areas of concern that need to be actively managed
- ⑥ Identify areas of weakness/problems and rectify them in a timely fashion
- ⑥ Move you away from fire fighting to pro active management
- ⑥ Deliver improved performance

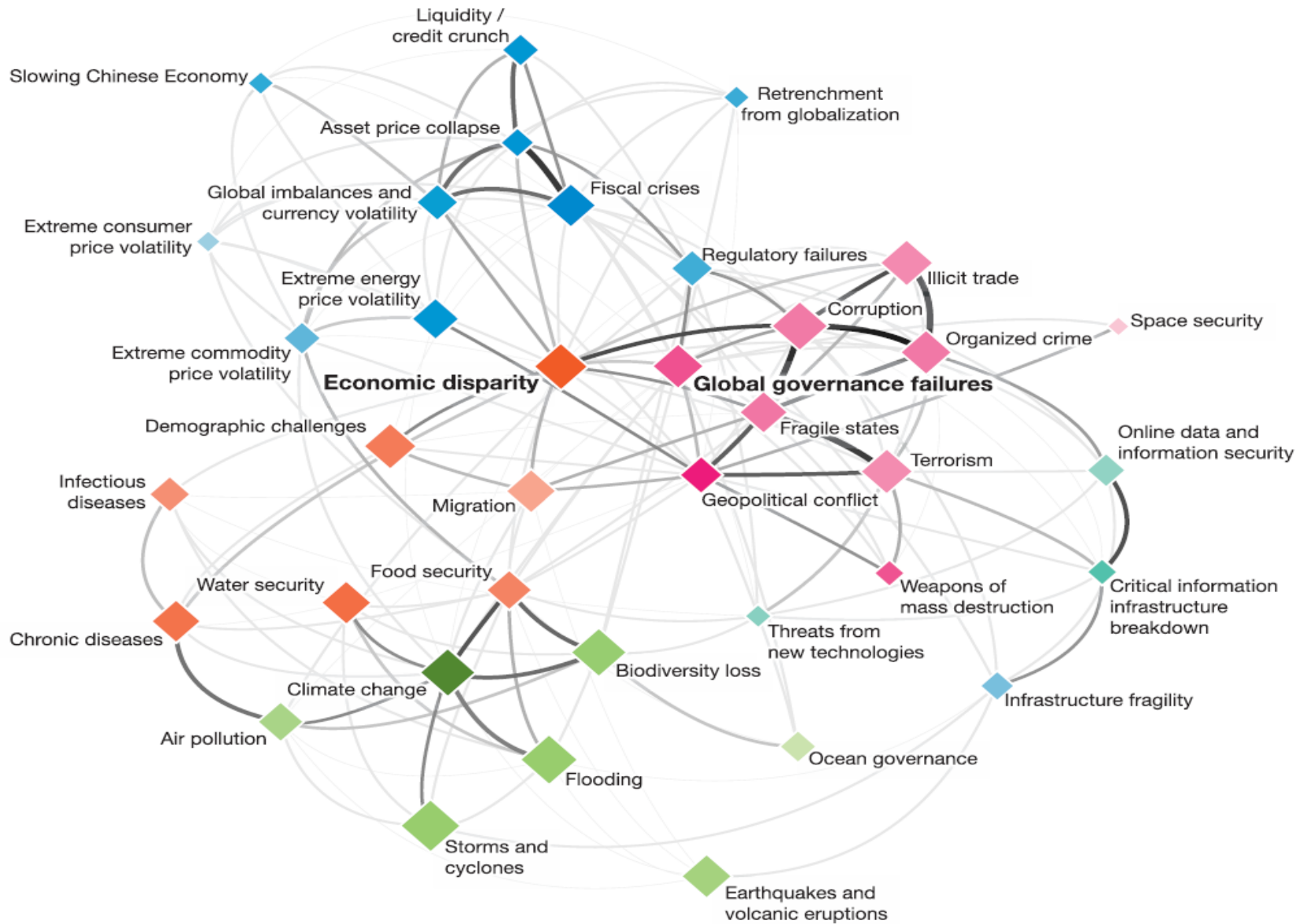
# Linking strategic risk management to your objectives

- All organisations exist to achieve their objectives.
- The purpose of risk management is to **manage the barriers** to achieving these objectives.



# The global risk landscape

- ⑥ The World Economic Forum identified 37 global risks including:
  - ⑥ Economic disparity
  - ⑥ Fiscal crises
  - ⑥ Demographic challenges
  - ⑥ Political corruption
  - ⑥ Global governance failures
  - ⑥ Terrorism
  - ⑥ Climate change
  - ⑥ Extreme energy price volatility
  - ⑥ Space security!
  
- ⑥ They stated “The world is now so complex and interdependent that it is impossible to avoid risk completely. Instead, companies have to brace themselves for the impact”



**Economic Risks**

**Geopolitical Risks**

**Environmental Risks**

**Societal Risks**

**Technological Risks**



# The UK public sector risk landscape

- Zurich Municipal has recently published a report '*Tough Choices. Four perspectives: One complete picture*' which looks at the risk landscape for the public sector in the UK
- It describes the three emerging challenges:
  - Impact of budget cuts
  - Increasing demand for services
  - Uncertainty about implementing the 'Big Society' agenda and the localism agenda

# The risk landscape

The report identifies six core areas of risk that organisations across the public sector will face :

- ⑥ Long term implications of short term decision making
  - Negative impact on preventative measures
- ⑥ Reduction in service breadth and quality
  - Increased expectation and engagement v hard decisions
- ⑥ Emerging gaps in the 'big society'
  - Governance and change management failure
- ⑥ Maintaining a productive and skilled workforce
  - Morale concerns and workforce productivity gap
- ⑥ Greater risk taking v potential increase in claims
  - Strategic ability to manage these risks
- ⑥ Reputational damage

## Specific sector risks

- 6 For Police the move to the new governance structures and the abolition of the authorities to be replaced by the Police and Crime Commissioners (PCC). This person will be a directly elected individual, who will have a mandate and will likely want to change things. These might conflict with Chief Constable's views of the world!
- 6 For Health the GP Commissioning role handing over decisions on care, treatments and spending to GPs. Health and well being boards will have powers ( still to be determined) to ensure the needs of local people are met. But there are concerns of returning to a postcode lottery system and reducing local access to more costly services
- 6 For the Third sector / social enterprises the biggest risk is loss of funding both from public sector partners and the general public resulting in financial instability – reducing the number of providers in the market
- 6 For HE/FE changing expectations with increased use of online classrooms, potential students disenfranchised by the recession and reduced places for those wanting to attend and financial support increasingly limited
- 6 Across organisations there is the risk of retrenchment and moving away from partnership working which may challenge effective partnerships and limit the impact of interventions and reduce funding for community posts such as PCSOs.

<b>Vulnerability</b>	<b>Trigger</b>	<b>Consequence</b>
<p>The 2010 Comprehensive spending review set out the Government's spending plans for the next four years. It was announced that departmental spending would reduce by 19% over the next 4 years in order to save £81 billion. Although Health, overseas aid and schools have been 'protected' many areas have seen significant reductions in funding. Matching this against increased demand for services in terms of activity levels and breadth of service it is inevitable that there are concerns about maintaining the quality and breadth of services to the public</p>	<p>Quality and breadth of services delivered to the public diminishes</p>	<ul style="list-style-type: none"> <li>• Quality of service delivery reduces ( particularly during significant change )</li> <li>• Non statutory services reduced to a minimum or withdrawn</li> <li>• Less police officers affecting perception of 'feeling safe'</li> <li>• Reduced choice in terms of access to services for the community</li> <li>• Increased means led services</li> <li>• Perception that the most vulnerable will be hit the hardest</li> <li>• Community dissatisfaction</li> <li>• Local and national demonstrations and opposition to changes</li> <li>• Staff morale negatively impacted</li> <li>• Reputation damaged</li> </ul>

<b>Vulnerability</b>	<b>Trigger</b>	<b>Consequence</b>
<p>The Big Society aims to create a climate that empowers local people and communities, building a big society that will “take power away from politicians and give it to people”. It’s about shifting the culture from government action to local action. Key programmes include the Big Society Bank, training community organisers and reducing red tape and regulation for charities, social enterprises and voluntary organisations. Criticism about how real the levels of community volunteering will be and the political drive to shift service delivery towards alternative providers at all costs are questioning the success of the Big Society concept</p>	<p>Big Society culture shift is not successfully delivered</p>	<ul style="list-style-type: none"> <li>• Focus becomes on provider of last resort by communities rather than real empowerment</li> <li>• Funding restraints limit possible impact</li> <li>• Existing charitable and voluntary sector services are fragmented</li> <li>• Appetite for involvement in local initiatives does not emerge</li> <li>• Feels like a shift in the shape and size of the public sector rather than empowerment to communities</li> <li>• Confusion about Big Society and the Localism agenda and how they support / connect with each other</li> <li>• Governance concerns around partner involvement</li> <li>• Major change in relationship between citizens and the service they receive is not achieved</li> </ul>

## Risk C

Vulnerability	Trigger	Consequence
<p>The Coalition Government has been in power for just under a year and has been very active in terms of changing / reviewing policy and introducing new legislation and approaches. Both Andrew Lansley (Secretary of State for Health) and Eric Pickles (Secretary of State for Communities and Local Government) have been accused of 'shooting from the hip' in respect of some changes and it has been challenged whether their decisions have been fully thought through.</p>	<p>Policy changes are introduced without thorough analysis of their impact or practicalities of delivery</p>	<ul style="list-style-type: none"> <li>• Criticism from professional bodies about approach</li> <li>• Increased costs incurred during times of austerity</li> <li>• Legal challenges over decisions made</li> <li>• Falls on public sector organisations to successfully implement changes with limited guidance/ funding</li> <li>• Short term solutions to longer term problems</li> <li>• Interventions become less effective</li> <li>• Credibility of 'initiatives' falters</li> <li>• Staff and member frustrations</li> <li>• Adverse publicity</li> </ul>

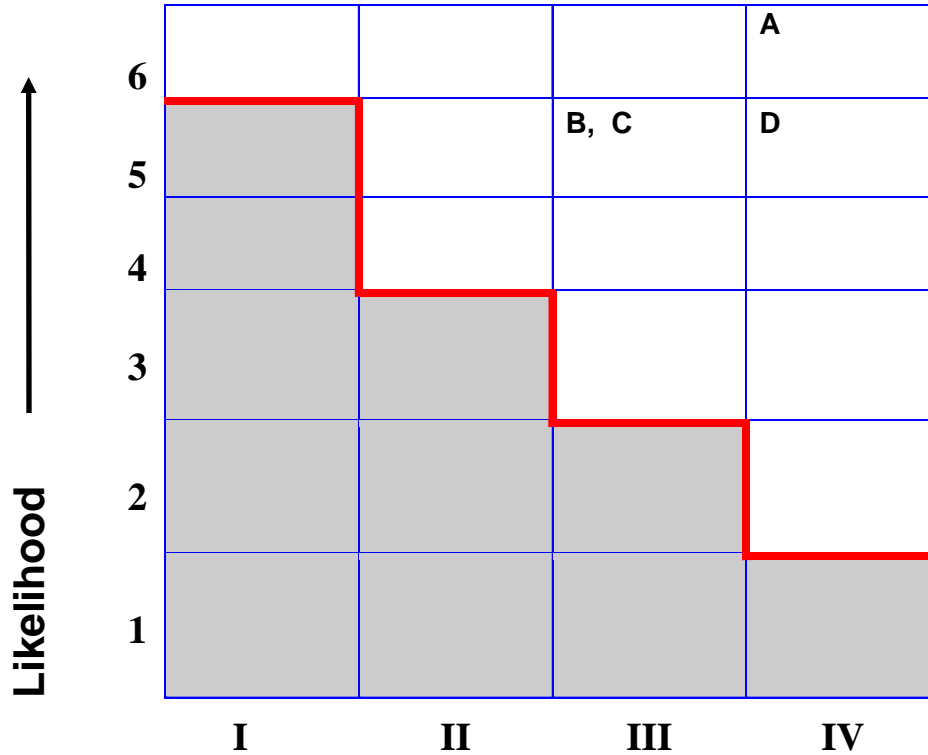
<b>Vulnerability</b>	<b>Trigger</b>	<b>Consequence</b>
<p>Civil servant bashing has become a national pastime. Combine that with imminent changes to the pension scheme arrangements and significant levels of change across public sector organisations it is not surprising that many voluntary redundancy schemes are being well subscribed to. Although this is the more palatable way of reducing staff numbers to achieve savings it can lead to significant gaps in knowledge and experience. Maintaining a productive, motivated and skilled workforce will be challenging and require effective workforce planning</p>	<p>Inability to maintain a productive, motivated and skilled workforce</p>	<ul style="list-style-type: none"> <li>• Gaps in skills across organisations</li> <li>• Increased pressure on remaining staff to deliver more with less</li> <li>• Limited training and skill development available due to reduced budgets</li> <li>• Capacity and capability of organisation to react to change is restricted</li> <li>• Organisations become less flexible</li> <li>• Reduces ability and motivation to innovate</li> <li>• Staff morale significantly reduced</li> <li>• Goodwill is lost</li> <li>• Inability to attract key staff / high fliers into key public sector roles</li> </ul>

ANY OTHER RISKS  
YOU WOULD ADD ??





# Risk Prioritisation



**Likelihood:**

- A Very high
- B High
- C Significant
- D Low
- E Very low
- F Almost impossible

**Impact:**

- I Catastrophic
- II Critical
- III Marginal
- IV Negligible

**Impact**

# Risk management

For those risks above the appetite the decision needs to be taken on how the risk can be managed. The options are:

- ⑥ Transfer = insurance / outsource/ partnerships
- ⑥ Accept = living with the risk
- ⑥ Control = mitigating the risk by managing down
  - the likelihood
  - the impact
  - or both
- ⑥ Terminate = stop delivering the service / activity/ event

# The opportunity landscape

- General power of competence
- Less ring fenced funding – local decision making
- Control of business rates in the future
- HRA changes
- Joint service delivery
- Potential for GPs to create genuinely integrated care
- Radical thinking is now the norm ....
- Being an estate agent !

# Risk v Opportunity

This might be the best opportunity we have ever had to genuinely innovate in the way we deliver public services

Mike Suarez, Lambeth

Little point in getting mad or trying to get even-best approach is to get ahead. Instead of just managing risks the best will find ways to exploit them.

Alan Leaman – Chief Exec MCA

This is the time for leaders to be optimistic

David Brindle Lancashire Constabulary

Leaders need to bring risk back to the board room in all its dimensions

Zurich Municipal

## Final thoughts.....

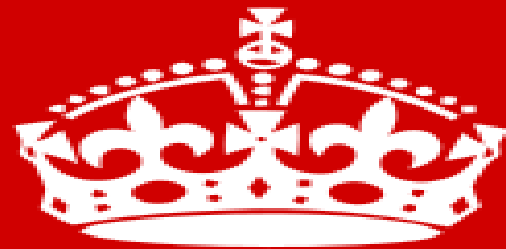
- Its not risk **or** opportunity its **and**
- Innovation should be encouraged yet well managed
- Risk should be honestly and openly discussed and dealt with effectively
- Lets take on the challenge .....



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CALM  
AND  
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ON**