

---

**REPORT FOR DISCUSSION**

**COMMITTEE**            Audit Committee

**DATE:**                24 September 2009

**SUBJECT:**            Sovereign Risk

**REPORT OF:**        City Treasurer / Head of Internal Audit and Risk  
Management

---

**PURPOSE OF REPORT**

This report outlines ways in which sovereign risks may be considered within the context of the corporate approach to risk management and the Corporate Risk Register (CRR).

**RECOMMENDATIONS**

Members are requested to consider and comment on the report.

**FINANCIAL CONSEQUENCES FOR THE CAPITAL AND REVENUE BUDGETS:**

None

<b><u>CONTACT OFFICERS</u></b>	<b><u>Tel Number</u></b>	<b><u>E~Mail Address</u></b>
Richard Paver	234 3564	r.paver@manchester.gov.uk
Tom Powell	234 1433	t.powell@manchester.gov.uk

**BACKGROUND DOCUMENTS**

None

**WARDS AFFECTED**    N/A

**IMPLICATIONS FOR KEY COUNCIL POLICIES**

<b><u>Anti-poverty</u></b>	<b><u>Equal Opportunities</u></b>	<b><u>Environment</u></b>	<b><u>Employment</u></b>
None	None	None	None

## **1 Defining Sovereign Risk**

- 1.1 The term of sovereign risk is not broadly recognised within the risk management literature and an internet search found only limited references, relating to the assessment of the risk to private enterprise caused by governments reneging on incurred debt.
- 1.2 However, Members and officers have taken the concept to be those risks at a national or international level that affect the Country as a whole but nevertheless bring localised consequences for Manchester in general and the council and its partners in particular.
- 1.3 On the basis of previous discussion at Audit Committee, the main areas of concern that may constitute sovereign risk are risks emanating from:
- a) The actions or inaction of national or other international governments (for example, the EU or USA);
  - b) Acts of God;
  - c) Terrorism; and
  - d) Civil unrest.
- 1.4 It may be hypothesised that potential risks in these categories are beyond the control of local government as they are unforeseen or arise from the actions of bodies outside the control of a City Council and therefore, cannot be mitigated. This is not a satisfying hypothesis and is not reflected in the approach taken to constructing the Council's Corporate Risk Register (CRR).

## **2 Corporate Approach to Managing Strategic Risks**

- 2.1 The CRR was originally constructed and continues to be amended by a process that analyses potential risks to the delivery of the Corporate Objectives as articulated within the Community Strategy, Local Area Agreement and the Corporate Plan. Consideration of the Corporate Objectives also forms the basis of the setting of objectives within Operational Service Business Plans; these in turn are risk assessed.
- 2.2 The factors that may affect the delivery of the Strategic Objectives are multi-factorial; one of the key considerations that are taken into account is the external environment in which the Council has to deliver its strategic work programmes, recognising that, both nationally and internationally, this may be unpredictable and volatile.

## **3 Corporate Risks and Sovereign Risks**

- 3.1 The current CRR demonstrates the degree to which external and sovereign risks are considered within the thinking of Strategic Management Team, Strategic Directors and their senior management teams. Many of the risks identified on the register have their root causes in issues that may be determined to be sovereign, as they are symptomatic of conditions in the broader external environment and attempt to develop mitigating action plans

that provide the City with the best control possible from the impacts of conditions beyond the Council's immediate control; for example:

- Risk 6: *"Clarity fails to emerge sub regionally and nationally in relation to transfer of responsibilities for 14-19 year old learning"* This risk is identified on the basis that there may be either a lack of clarity in strategic thinking nationally or changes in policy direction that may affect the ability of the Council to deliver work programmes that meet central government criteria and the needs of Manchester's children.
  - Risk 8: *"Current housing market downturn results in limited new housing and/or an imbalanced housing offer..."*. This risk is generated directly as a result of the financial volatility both nationally and internationally; in essence, it attempts to identify the impacts on the Council of external instability and to generate mitigating plans that minimise the effects on the City.
  - Risk 18: *"The affects of serious economic downturn on service delivery, expenditure and income and the delivery of City Council initiatives and those of the PSB and our partners are not anticipated or mitigated"*. This risk directly embraces the complexities of working in a volatile international environment, accepts their unprecedented nature and identifies the need of the Council to respond swiftly and directly to a series of potential events over which it has no immediate control.
  - Risk 22: *"Demographic and social pressures result in a breakdown of community cohesion... jeopardising the development of individual and collective self esteem and mutual respect"*. This risk identifies the potential impact of external events on city neighbourhoods and relates them directly to the delivery of the four spines that underpin the Community Strategy.
  - Risk 23: *Business Continuity Plans have not been adequately completed to ensure that they cover all contingencies and integrated working arrangements between services"*. This risk is predicated on an acceptance that the Council is potentially vulnerable to external factors that may be viewed as sovereign, including acts of God, civil unrest and terrorism; it acknowledges the need for the Council to improve the degree to which it is positioned to deal with both external and internal volatility.
- Risk 38: *"Significant change in government policy jeopardises the delivery of key priorities, initiatives or services"*. This risk provides a direct articulation of the vulnerability of the delivery of the Council's strategic objectives as a result of either a change in government or policy.

- 3.2 This analysis is not exhaustive; rather it highlights examples of how the CRR identifies factors within the external, "sovereign" environment over which the Council may exert control.
- 3.3 In addition, the process of refreshing the CRR is done within the context of the volatility within the external environment both locally and nationally, for example, as part of the most recent review, all risks relating to regeneration and development of the city are being significantly modified to reflect the changing economic conditions emanating from the economic downturn, analysing the potential impacts on the city and its population (in particular, risks 8-14).

- 3.4 There are many potential approaches that could be taken to constructing a CRR. It is a basic risk management tenet that the concept of a comprehensive risk register is a misnomer as there are potentially an almost infinite number of risks that could be included depending on the degree to which a Council may wish to either focus on specific issues or to capture broader risks that embrace thematically the main areas of risk. There are dangers in terms of thorough and effective management of corporate risks in producing a CRR that is so extensive that individual risks fail to attract detailed, ongoing scrutiny and effective mitigation.
- 3.5 The approach taken within the Council has been to scan the horizon both externally and internally and to attempt to identify the key areas within which it is exposed to the highest levels of risk over which it can exert some degree of mitigating action. There has been an acceptance that the identification of risks where there is no effective control has limited use and that there is more value in identifying issues that emerge that are symptomatic of events within the external environment over which control may be exerted.
- 3.6 In summary, the Council has so far attempted to develop a dynamic approach to risk identification at a strategic level that informs the thinking of operational services in terms of objective setting and risk assessment within the context of the wider environment. Despite the fact that swift economic recession was not widely predicted either nationally or internationally, it is now heavily represented within the current CRR and the strategic thinking of both corporate and operational services based on strategic risk assessment.

#### **4 Conclusion**

- 4.1 Currently, the concept of sovereign risk has not been an identified driver for this process although there is evidence that it is captured, within reviews of the CRR. The approach taken by the Council is reflective of that taken within other councils and in particular, core cities.
- 4.2 Additional risk management training and debate has taken place with the Audit Committee and is being developed for Executive Members and the Strategic Management Team. Consideration of the issue of sovereign risk could be integrated into these training sessions to further develop thinking in this area. The Governance Sub Group of the Resources and Governance Overview and Scrutiny Committee will further consider the nature of risk management arrangements in the September, including scrutinising risk registers. It may be beneficial for these issues to also be reviewed as part of that scrutiny process.
- 4.3 Members comments and considerations are welcomed on the report.