

Committee: **AUDIT AND PERFORMANCE COMMITTEE**

Date: **13 MARCH 2007**

Title: **THE COUNCIL'S RISK MANAGEMENT ARRANGEMENTS**

REPORT OF THE PROGRAMME LEAD FOR COMPLIANCE

PURPOSE

1. This report provides the Committee with a further update of progress in the Council's management of risk. It also seeks the Committee's comments on some of the developing risk processes.

ACTION REQUIRED

- (a) To note the content of the report and to make recommendations as necessary to improve the Council's progress on managing risk.
- (b) To consider and comment on the developing processes for managing risk.

BACKGROUND

2. The Committee has a key role to play in assessing the Council's arrangements for managing risk which is reflected in its terms of reference. The Council's arrangements were criticised by last year's CPA inspectors when they described operational and strategic risk management as 'underdeveloped'.
3. The Committee last received an update of progress at its September meeting and Members decided that they would require regular and frequent reports on progress.
4. Since September, there have been two significant developments which provide the context for the Council's developing arrangements:
 - (a) The development and agreement of the Council's CPA Improvement plan intended to address the weaknesses highlighted by last year's inspection; and
 - (b) The announcement of the Council's 'Use of Resources' assessment which includes a judgement about risk management.
5. Risk Management's importance is recognised within the CPA Improvement Plan by being one of its seven main themes. The plan for the risk theme states:

"We will implement a corporate programme for the management of the major risks that may prevent the delivery of 'One Island' and 'One Council'.

6. The Plan's detail is reproduced at Appendix A together with an assessment of progress that is being made.
7. The assessment of the Council's Use of Resources (covering the themes of Financial Reporting, Financial Management, Financial Standing, Internal Control and Value for Money) has rated the Council as a score of 2 on a scale of 1 to 4. Risk Management itself features in the theme of Internal Control and the detailed assessment is reproduced at Appendix B. The Audit Commission has identified the specific actions which the Council needs to take in order to improve its Use of Resources and these are also reproduced as Appendix C.
8. Progress at mid January of these actions can be summarised as follows:
 - Progress, although in the right direction, is slow.
 - The Council continues to struggle to identify its strategic risks with only limited progress on properly defining them. The engagement of the Director of Children's Services is now helping to bring greater clarity to the process.
 - Risks in high impact projects and in key partnerships are being identified and the programme to do that is on schedule, but focus and attention are needed to ensure that risks are properly assessed and that the process is satisfactorily completed.
 - Significant service risks (ie at directorate level) are being identified during the current round of service planning. This process needs to be managed to a satisfactory conclusion to ensure that all directorates undertake the process satisfactorily and that it is properly quality-assured.
 - It is widely acknowledged that greater emphasis is needed on developing (and then performance managing) risk mitigation strategies to control identified risk. This is, however, dependent on properly identifying and defining risks.
 - In the same way, the ability to monitor and performance manage risks through the Council's various performance management frameworks (Service Boards, Directors Team and this Committee for example) is also being compromised.
9. It is hoped that when the Committee meets in March, better progress can be reported.
10. On a more positive note, the following has been achieved or is in hand since the last update:
 - The Council's risk strategy and policy have been approved and re-launched.

- The responsibility for sponsoring risk management at director level has been transferred to the Director of Children's Services;
- The identification of risk has been built into the new service planning process which will address some of the issues above.
- All elected members have had the opportunity to take part in a risk management awareness seminar in October. 21 Members participated.
- Departmental risk champions (who are in place to support their colleagues) have been given training to use the 'web browser' version of the Council's risk database (called JCAD).

THE RISK PROCESS

11. Definition and clarity of the processes used by the Council to manage risk are crucial to our progress. This Committee's responsibility and direct interest in the subject means that it should have an opportunity to comment on proposed processes.

12. The Council needs to manage risk at a variety of levels, namely:

Strategic risks - those that have the potential to prevent the Council achieving its strategic objectives.

Significant directorate risks - those that are critical to a single function of the Council, but are not 'strategic'.

Operational risks - day to day issues which need to be managed on a routine basis but which, on their own, do not represent a significant threat to the individual service.

Partnership/Project risks - risks within either projects or partnerships which need to be managed to achieve the specific aims of each one.

13. These differently defined risks need to be reviewed and managed at different forums as follows:

Strategic risks - ownership assigned to a lead director who is expected to co-ordinate actions and initiatives to manage each risk (likely to require contributions from other directorates). Few in number, the performance management of strategic risk should be at Directors Team, with onward reporting to the Cabinet.

- Significant directorate risks - Initially identified during service planning, significant service boards will be managed by directorate management teams, and monitored by the service board process. The latter will mean that such risks will feature in performance reports to the Audit and Performance Committee and the Cabinet.
- Operational risks - the relevance of these to individual service departments means that their review and management can be performed at sub-departmental level. In the event of them becoming more critical, they can be considered at directorate level.
- Partnership/Project risks - Project risk for the high impact projects can be managed at the Projects Board. Risks within projects and partnerships need to be managed by project managers and their project teams. Evidence of the latter would require that each project or partnership has a risk register which is actively reviewed and risks managed.

MEASURING THE COUNCIL'S PROGRESS

14. The Council uses a standard developed by HM Treasury to measure how well the Council's risk management process is developing (or how risk management is 'embedded'). The standard sets out five levels of development ranging from Level 1 - "Awareness and understanding" to Level 5 "Excellent capability established". The standard also measures an organisation's maturity against seven different dimensions:
- Leadership
 - Strategies and Policies
 - People
 - Partnerships and Resources
 - Processes
 - Risk handling
 - Outcomes
15. The full standard in table form is set out at Appendix D. The Council's position on the standard is assessed on a regular basis and reported via the performance management framework. The average score has hovered around a score of 2 out of a possible 5. The table shows (by way of shading) where on each dimension, the Council currently assesses itself.

STRATEGIC CONTEXT

16. As stated above, risk management's importance is recognised by it being one of the themes of the CPA Improvement Plan, and is critical to the Council's positive direction of travel. Managing risk will play a crucial part in the Council achieving its aims and also in improving its reputation.

CONSULTATION

17. The need for widespread consultation is limited, but the Directors Team have been consulted on developing risk processes. This report seeks the Audit and Performance Committee's views.

FINANCIAL IMPLICATIONS

18. There are limited financial implications associated with this report. The implications of changing risk processes are more about how the Council replaces some of its existing practices. Although not stemming directly from this report, there will be resource implications arising from risk mitigation strategies, when they have been developed and costed.

LEGAL IMPLICATIONS

19. There is no statutory requirement to manage risks. The Accounts and Audit Regulations do require the responsible financial officer to 'determine accounting control systems' which include 'measures to ensure that risk is appropriately managed'.

RISK MANAGEMENT

20. The Council's risk database does include the risk of 'failure to embed risk management' and because of the issues highlighted in this report, the risk continues to be assessed as both high impact and 'likely' probability. Only when the action plans have been implemented can the Council expect a better risk score and an improved Use of Resources rating.

RECOMMENDATIONS

- (a) The Audit and Performance Committee is asked to note the report and to make recommendations as necessary concerning the Council's progress on managing risk;
- (b) The Audit and Performance Committee is invited to consider the risk management process outlined at paras 12 and 13, and to make recommendations on them.

BACKGROUND PAPERS

CPA Improvement Plan
Use of Resources Auditor Judgements
CPA Corporate Assessment

HM Treasury - Risk Management Assessment Framework

APPENDICES

Appendix A - CPA Improvement Theme 5 - Risk Management

Appendix B - Use of Resources Auditor Judgement 2006

Appendix C - Use of Resources - Action Plan

Appendix D - Risk Management Assessment Framework

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APPENDIX A

CPA IMPROVEMENT PLAN THEME 5 – RISK MANAGEMENT

Initiatives						Tasks		
Description	Start Date	End Date	Sponsor	Description	Project Lead	Start Date	Due Date	Comments and Impact
Theme 5 – Risk Management								
We will implement a corporate programme for the management of the major risks that may prevent the delivery of 'One Island' and 'One Council'	1-Mar-2007	30-Sep-2007	Steve Beynon, Director of Children's Services	Corporate Management Board Risk workshop (delivered during consultation process for Plan)	Bob Streets	1-Oct-2006	30-Sep-2007	Workshops delivered to CMB on 26 October. Information from it used to develop the Council's strategic risk themes.
				Identify risks for 12 High Impact projects plus key partnerships, and produce costed mitigation plans (Nov 06-Sep-07)	Bob Streets	1-Nov-2006	30-Sep-2007	A useful start has been made and the programme is on schedule. Project sponsors and those involved in Partnerships need to maintain progress by ensuring that risk registers are produced and risks actively managed.
				Risk owners appointed for all corporate risks (Jan 07) and for operational risks rated as 'High' (Mar 07)	Bob Streets	1-Dec-2006	31-Mar-2007	Risk owners for strategic risks have been identified. High scoring risks will be identified and their ownership assigned during the current round of service planning.
				Costed mitigation plans for each corporate risk produced (Mar 07)	Bob Streets	1-Dec-2006	31-Mar-2007	Mitigation plans will also be developed during service planning, after which the resource/cost implications can be quantified.
				Risk workshops for operational risks (Mar 07)	Bob Streets	1-Jan-2007	31-Mar-2007	Facilitated workshops are the method by which significant risks are being identified in service planning. They should be largely complete by the time the Committee meets if the service planning timetable is to be met.
				Costed risk mitigation plans for each high scoring operational risk produced and included in service plans (Mar 07)	Bob Streets	1-Jan-2007	31-Mar-2007	Again, will stem from service planning.
				Delivery of risk mitigation plans implemented (Apr 07)	Bob Streets	1-Jan-2007	30-Apr-2007	This is dependent upon the actions above being satisfactorily completed.
				Corporate and high scoring operational risks monitored through Cabinet, Service Boards, Director's Team and Corporate Management Board's performance management framework (Mar-07)	Bob Streets	1-Jan-2007	31-Mar-2007	Strategic risks have now been identified, and we are now in a position to monitor and manage them via the Council's performance framework. Significant or high scoring risks are to be identified in service planning.
				Complete identification of all corporate and operational risks (Mar 07)	Bob Streets	1-Nov-2006	31-Mar-2007	The successful completion of service planning will deliver this task. As at mid January only one or two directorates have begun the planning process.

APPENDIX B

USE OF RESOURCES JUDGEMENTS

Summary of scores at theme and KLOE level

Key lines of enquiry (KLOEs)	Score 2005	Score 2006
Financial Reporting	1	3
1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers	1	3
1.2 The Council promotes external accountability	2	3
Financial Management	1	2
2.1 The Council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities.	2	2
2.2 The Council manages performance against budgets.	1	2
2.3 The Council manages its asset base.	1	2
Financial Standing	2	3
3.1 The Council manages its spending within the available resources.	2	3
Internal Control	2	2
4.1 The Council manages its significant business risks.	2	2
4.2 The Council has arrangements in place to maintain a sound system of internal control	1	1
4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	2	2
Value for Money	2	2
5.1 The Council currently achieves good value for money.	2	2
5.2 The Council manages and improves value for money.	2	2

ISLE OF WIGHT COUNCIL CPA USE OF RESOURCES ACTION PLAN

Recommended Action	Priority	End Date	Accountability	Sponsor	Outputs (Project Milestones) and Commentary	Progress
Theme 4 Internal Control						
13 Members with responsibility for corporate risk management should receive reports on a regular basis, and take appropriate action to ensure that corporate business risks are being actively managed, including reporting to Full Council as appropriate	High		Bob Streets, Programme Lead for Compliance	Steve Beynon, Director Children's Services	<ul style="list-style-type: none"> Cabinet quarterly report will include risk information alongside financial and performance data (for Q3 circa early March 2007) Delivery of the above will follow decision on format for service boards (Dec 06) and agreement of strategic and corporate risks after CMB (Dec 06). Audit and Performance Committee to review risk information with performance data in mid March 2007 (Q3) 	The logistics of doing this in the short term are causing problems. This means that achieving the aim or providing risk information to this Committee may not be possible until Q4.
14 The risk management process should specifically consider risks in relation to significant partnerships and provide for assurances to be obtained about the management of risks	High		Bob Streets, Programme Lead for Compliance Chris Mathews, Democratic Services Manager	Sarah Mitchell, Director of Adult and Community Services	<ul style="list-style-type: none"> Two key documents to be reviewed to ensure process adequately covers the requirement to consider risks in particular partnerships: <ul style="list-style-type: none"> Draft Partnership Guide (Dec 06) The Risk Management Process (Dec 06) Completion of questionnaire assessment of partnership governance and results analysed by Partnership Governance Group (Jan 07) Programme of risk workshops for significant partnerships (end date Sept 07) including adoption of partnership risk registers. Documentation of the above process (Jan 07) Inclusion of the requirement to assess partnerships and their risks in the annual SIC process (Dec 06) in readiness for the 2006-07 statement. 	<p>A draft guide which advises managers etc on governance issues in partnerships is (at mid January) awaiting approval.</p> <p>Risk assessments by way of questionnaires and by some workshop activity is underway. This will be completed on time.</p> <p>The guidance on the SIC process for 2006/07 will be published before 31 January 2007.</p>

<p>15</p> <p>Demonstrate that the revised risk management arrangements are embedded and consistently applied across the Council</p>	<p>High</p>		<p>Bob Streets, Programme Lead for Compliance</p>	<p>Steve Beynon, Director of Children's Services</p>	<ul style="list-style-type: none"> • Director of Children's Services to determine key corporate processes including: <ul style="list-style-type: none"> ○ Service board format ○ Corporate risk register ○ Rationalising the Council's risk database ○ Risk is considered in key projects ○ Risk is considered in key partnerships (Dec 06) • Continued publicity about latest risk strategy and process, and monitoring or its adoption across the Council (Ongoing) • Measurement of 'embeddedness' by reference to the HM Treasury risk maturity model (KPI) (Ongoing) 	<p>Although progress is slower than expected, there is now greater clarity about what is required. Faster progress is now achievable.</p> <p>This also can be progressed now that there is better agreement about the process. The Council continues to use this method (see also Appendix A)</p>
<p>KLOE 4.1</p> <p>Appropriate staff are trained in risk management</p>			<p>Bob Streets, Programme Lead for Compliance</p>	<p>Steve Beynon, Director of Children's Services</p>	<ul style="list-style-type: none"> • Risk owners at all levels - on-line risk awareness interactive tool/CD (June 07) • Risk Champions - Specific training sessions on a one to one basis on appointment to role to include use of the risk database/intranet browser (Jan 07) • Risk Champions - Ad hoc update training sessions to take account of changes to database or method/business process (Ongoing) • Managers and significant risk owners - Half yearly risk management for managers training session delivered via the Learning Centre (June 07) • Directors and service lead officers - Annual awareness training session covering theory and practical application of IWC processes surrounding management of risk. Session offered as part of overall induction process on an as required basis (Oct 07) • Members - Risk awareness training for members (undertaken Oct 06 and available 	<p>Risk champions now trained in using the web browser version of JCAD risk database. Other training needs to be developed.</p> <p>Members awareness session delivered Oct</p>

					annually as a refresher. Specific to Council election timeframes as part of the induction process (Oct 07)	2006.
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Embedding an effective Risk Management Framework The Performance Ladder

	Capabilities				Results			
Level 5 Excellent capability established	Senior Managers re-enforce and sustain risk capability, organisational & business resilience and commitment to excellence. Leaders regarded as exemplars.	Risk management aspects of strategy and policymaking help to drive the risk agenda and are reviewed and improved. Role model status	All staff are empowered to be responsible for risk management and see it as an inherent part of the departments business. They have a good record of innovation and well managed risk taking.	Excellent arrangements in place to identify and manage risks with all partners and to monitor and improve performance. Organisation regarded as a role model	Management of risk & uncertainty is an integrated part of all business processes. Best practice approaches are used and developed. Selected as a benchmark site by other organisations.	Very clear evidence of excellent risk handling in all areas and that improvement is being pursued.	Excellent evidence of markedly improved delivery of outcomes which compares favourably with other organisations employing best practice.	Excellent
Level 4 Embedding & improving	Senior Management are proactive in driving and maintaining the embedding and integration of risk management; in setting criteria and arrangements for risk management and in providing top down commitment to well managed risk taking to support and encourage innovation and the seizing of opportunities.	An effective risk strategy and policies is an inherent feature of department policies and processes.	People are encouraged and supported to be innovative and are generally empowered to take well-managed risks. Most people have relevant skills & knowledge to manage risks effectively and regular training etc is available for people to enhance their risk skills and fill any 'gaps'	Sound risk management arrangements have been established. The most suitable: partnership arrangement (PFI, 'arms length' etc.) Partners; suppliers etc are selected in full knowledge of the risks, risk management capability & compatibility.	Risk management is an integral part of the organisations core processes (policy, planning, delivery etc.) and data are collected to monitor and improve risk management performance	Clear evidence that risks are being handled very effectively in all areas	Clear evidence of very significantly improved delivery of outcomes and showing positive and sustained improvement.	Very Good
Level 3 Implemented in all key areas	Senior Managers act as role models to apply risk management consistently and thoroughly across the organisation.	Risk strategy & policies are communicated effectively and made to work through a framework of processes	A core group of people have the skills & knowledge to manage risks effectively	Risk with partners is managed consistently for key areas and across organisational boundaries	Risk management processes implemented in key areas. Risk capability self assessment tools used in some areas.	Clear evidence that risk management is being effective in all relevant areas.	Clear evidence of significant improvements in outcome performance demonstrated by measures including, where relevant, stakeholders perceptions	Good
Level 2 Implementation planned	Senior Managers & Members take the lead to ensure that approaches for addressing risk are being developed and implemented.	A risk management strategy & policies have been drawn up and communicated and are being acted upon.	Suitable guidance is available and a training programme has been implemented to develop risk capability	Approaches for addressing risk with partners are being developed and implemented.	Recommended risk management processes are being developed	Limited evidence that risk management is being effective in at least most relevant areas	Limited evidence of improved outcome performance consistent with improved risk management	Satisfactory
Level 1 Awareness & understanding	Top management are aware of the need to manage uncertainty & risk and have made resources available to improve.	The need for a risk strategy and related policies has been identified and accepted.	Key people are aware of the need to assess and manage risks and they understand risk concepts and principles.	Key people are aware of areas of potential risk with partnerships and understand the need to agree approaches to manage these risks	Some stand-alone risk processes have been identified	No clear evidence that risk management is being effective	No clear evidence of improved outcomes	Unsatisfactory
	Risk Leadership	Risk Strategies & Policies	People	Partnerships & Resources	Risk Management Processes	Risk Handling	Outcomes	