

Cabinet

Dorset County Council



Date of Meeting	19 July 2017
<p><u>Cabinet Member(s)</u> Rebecca Knox, Leader of Dorset County Council Tony Ferrari, Portfolio Holder for Community and Resources</p> <p><u>Lead Director(s)</u> Jonathan Mair, Monitoring Officer</p>	
Subject of Report	Risk Management and Governance
Executive Summary	<p>At the meeting of the Cabinet on 7 June, members considered a recommendation from the Audit and Governance Committee seeking approval of the Council's draft Annual Governance Statement. This is part informed by the Corporate Risk Register. The Cabinet took the opportunity to ask that an assurance report be presented to their July meeting so that the Cabinet could satisfy themselves as to the Council's risk management arrangements.</p> <p>A proactive and effective risk management process will ensure that the Council is well placed to demonstrate that objective and informed decisions are taken and that the Council is ultimately in a strong position to successfully face and address the challenges ahead. Risk management plays a key role in delivering the opportunities presented by the Forward Together programme, in anticipation of local government reform and more generally supporting an outcomes focussed Council.</p> <p>The Risk Management Strategy and processes have been reviewed by the Risk and Resilience Group and are seen as fit for purpose. Work is underway to strengthen application of the process across the Forward Together programme, to facilitate a clearer understanding of risk trends and enable early intervention.</p>
Impact Assessment:	<p>Equalities Impact Assessment:</p> <p>The Council's Risk Management Strategy was subject to an EQIA, and no adverse impacts were identified.</p>
	<p>Use of Evidence:</p>

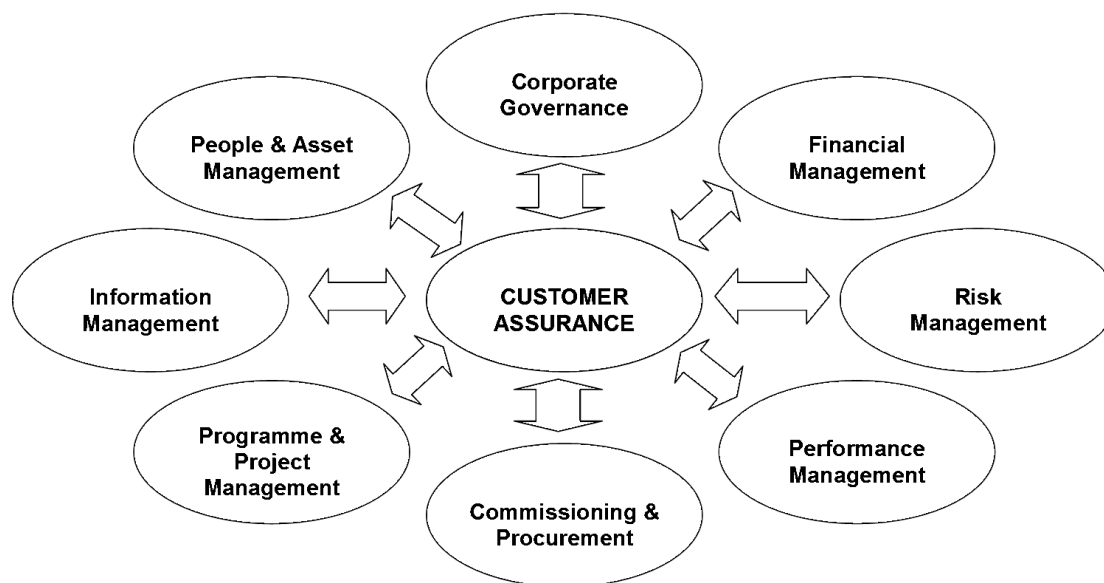
Risk Management and Governance

	<p>The Council's Risk Management processes and strategy have been subject to review by the Risk and Resilience Group, in addition to external challenge provided by South West Audit Partnership and the Council's insurers.</p>
	<p>Budget:</p> <p>No direct implications, although a failure to manage risk would have a negative impact on budget</p>
	<p>Risk Assessment:</p> <p>Having considered the risks associated with this decision using the County Council's approved risk management methodology, the level of risk has been identified as:</p> <p>Current Risk: LOW Residual Risk LOW <i>(i.e. reflecting the recommendations in this report and mitigating actions proposed)</i></p>
	<p>Other Implications:</p> <p>None</p>
Recommendation	<p>For Cabinet to:</p> <ul style="list-style-type: none"> • Receive a presentation on the most significant risks, and how they are reviewed, challenged and monitored in contributing to an outcomes focussed approach; • Consider the allocation of the member risk champion role; • Agree the appropriate reporting mechanism to keep Cabinet members apprised of new and worsening significant risks and the effectiveness of existing and proposed mitigation
Reason for Recommendation	<p>To ensure that decision making is made on a risk informed basis to support delivery of improved outcomes for the residents of Dorset, based on an approved risk appetite.</p>
Appendices	<p>Appendix A – Risk Champion roles (extract from Risk Management Strategy); Appendix B – Risk ranking matrix</p>
Background Papers	<p>Risk Management Strategy (Intranet link) Forward Together Programme Review (Cabinet Report 5 April 2017) Draft Annual Governance Statement (Cabinet Report 7 June 2017)</p>
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1. Background

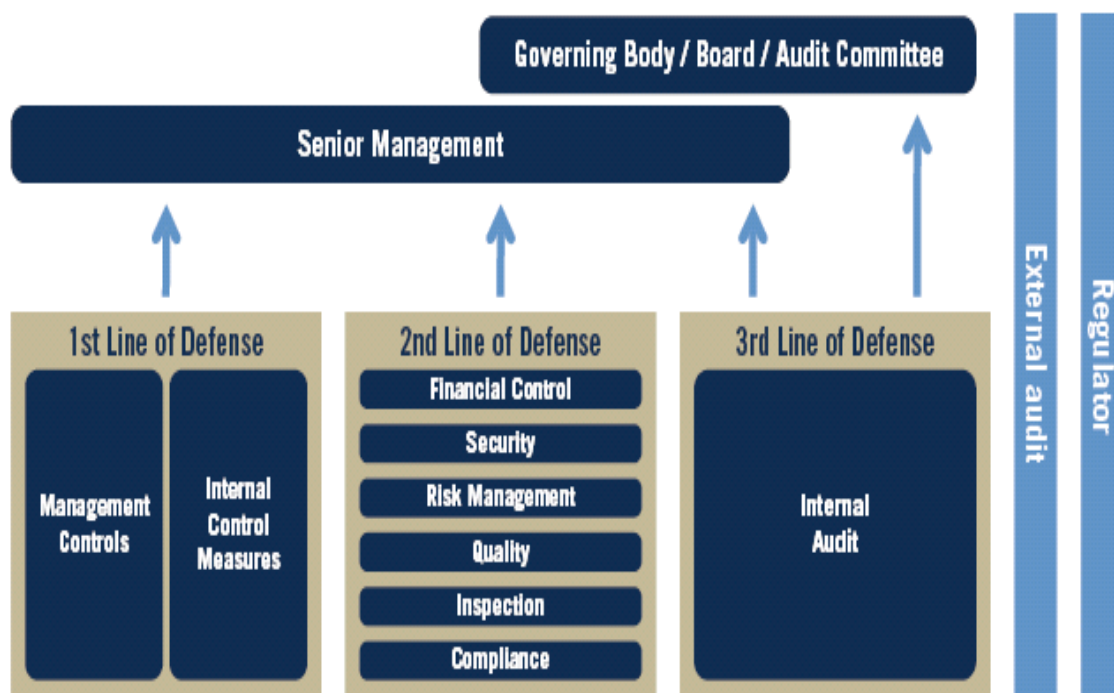
- 1.1 A proactive and effective risk management process will ensure that the Council is well placed to demonstrate that objective and informed decisions are taken and that the Council is ultimately in a strong position to successfully face and address the challenges ahead. As such, it forms a key component of the Healthy Organisation model, playing an important role in delivering the opportunities presented by the Forward Together programme, in anticipation of local government reform and more generally supporting an outcomes focussed Council.



- 1.2 The risk management process should be seen as an enabler to change, not a barrier, and this is recognised in the following operating principles adopted:
- We are risk informed not risk averse, our decisions reflect this and we communicate this well;
 - Consideration of risk does not stop us doing what we need to do.
- 1.3 Cabinet received a report on the Forward Together programme in April 2017 which recognised risk to be a key component of the programme, together with performance and finance. The report suggested the need for a healthcheck on the risk management processes, and this work was duly completed by the Council's Risk and Resilience Group on the 19th June 2017. The Group were assured that the process and practices were strong, whilst recognising that its application could be improved across some projects/programmes and services. Work is already underway to address this, which will help to facilitate a clearer understanding of risk trends and enable early intervention, rather than project risks being reviewed in isolation.
- 1.4 External challenge has also been provided on the risk management processes, with positive assurance from South West Audit Partnership, ALARM (the national body for public sector risk management) and insurers (quote: *"Dorset is at the cutting edge of innovative risk management principles"*).

2. Governance Structures

- 2.1 The Institute of Internal Audit issued a report entitled "the three lines of defence in effective risk management and control". This provides a helpful model for clarifying response at both an operational and strategic level:



- 2.2 Within this model, management control is seen as the first line of defence, the various risk control and compliance over-sight functions established by management act as the second line of defence (for instance, risk registers), whilst the third is provided by independent assurance (such as South West Audit Partnership, insurers, external audit etc). Senior management and elected members sit above the model, with a key role and accountability for setting organisational objectives and defining strategies, and at the same time providing active scrutiny and challenge to achieve assurance.
- 2.3 The officer corporate working group structure includes a Risk and Resilience Group, which has the role of satisfying itself that significant corporate risks are managed effectively and that the risk management framework is fit for purpose. This Group is chaired by the Head of Dorset Highways, with a lead officer role provided by the Senior Assurance Manager (Governance, Risk and Special Projects). Membership is made up of Directorate based risk champions (each with access to Directorate Leadership Teams) and other professional officers from risk related fields (governance, legal, emergency planning, audit, information governance). Key issues are escalated to Corporate Leadership Team and One Council Group.
- 2.4 Directors and Service Directors play a key role in challenge and moderation of risks, as accountable officers, with regular reviews at Directorate Leadership Teams, One Council Group and periodic oversight by Corporate Leadership Team.
- 2.5 The Audit and Governance Committee plays the primary elected member role in assuring the Council over the adequacy of its risk management arrangements. The Committee's terms of reference clearly sets out its role in providing independent assurance in relation to financial controls, data quality, risk management and other internal control systems. It also oversees the Council's statutory Annual Governance Statement, which is informed by both High risks on the Corporate Risk Register and the Local Code of Corporate Governance assessment. Its predecessor, the Audit and Scrutiny Committee, played an important part in further developing the risk management processes, in conjunction with officers, during 2015 resulting in a revised risk management strategy.
- 2.6 Cabinet also plays a key role in ensuring that decisions are reached based on an understanding of the most significant risks associated with the subject being considered. To assist with this, officers are required to identify whether there are any High risks on the front page of the report (in addition to the clearance process sheet reviewed by statutory officers),

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and elaborate on the risks and mitigation within the report detail.

- 2.7 Cabinet will also seek assurance that the most significant corporate risks have been identified and that appropriate mitigation either exists or is being established to bring the level of risk down to an acceptable level. In addition to the Annual Governance Statement, which provides a management response for all High risks, Cabinet may wish for a more regular reporting of risk, for instance as an addendum to the quarterly outcomes focussed reports, helping to solidify the relationship between risk and performance management.
- 2.8 In recognition of these officer and member roles, the Risk Management Strategy sets out three champions:
- **Officer Risk Champion** – Being the chair of the Risk and Resilience Group;
 - **Member Risk Champion** – Being a member of the Cabinet;
 - **Risk “Watchdog”** – Being a member of the Audit and Governance Committee (previously the chair)
- 2.9 The Member Risk Champion role has previously been held by the Leader. Consideration may need to be given as to whether this role should sit with the leader or another member of Cabinet. An extract from the strategy that sets out these roles is included at Appendix A. The full [strategy](#) is located on the Intranet.
- 2.10 Cabinet also plays a key role in setting the Council’s risk appetite, in conjunction with the Executive.

3. Risk Appetite

- 3.1 Risk appetite can be defined as “the level of risk that an organisation is prepared to accept to meet its strategic objectives”. An awareness of risk appetite is an essential part of the decision making process, in ensuring that appropriate risks are escalated, understood and ultimately managed to an acceptable level.
- 3.2 The Council’s risk ranking matrix in Appendix A attempts to present a gauge of what would ordinarily be deemed to be above this appetite level, by identifying “High risk” impacts. Ordinarily the Council would wish to assure itself that any risks identified as High have appropriate mitigation in place, or proposed, to reduce the level of risk down to an acceptable level, although on occasion it may choose to accept this risk (for instance, where mitigation options are limited or not cost effective, or the resulting positive outcomes of the decisions outweigh the threats). This is distinctly different from the Council’s “risk tolerance”, which would be the amount of risk that the organisation is physically able to tolerate in remaining viable (and would certainly look to protect itself in respect of exposures beyond this level, for instance via insurance cover).
- 3.3 The risk ranking matrix identifies the level of risk based on five key categories, and is consistent with the categorisation used within the emergency services nationally and agreed with each of the District and Borough Councils across Dorset. These criteria have also been agreed to guide the escalation criteria for significant Forward Together projects/programmes. The five categories are:
- **Financial risk** – This defines the financial implications of the risk;
 - **Strategic priorities and opportunities** – This notes the extent that the risk could impact on achieving positive outcomes;
 - **Health and safety** – This identifies the extent that the risk could cause serious injury/fatality/ill health;
 - **Reputational** – This highlights whether the risk would impact on the Council’s reputation, and whether this impact would be sustained or short-term;

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- Service delivery –This category within the matrix looks at the extent that the risk would impact on the ability to deliver the critical functions and those affected by any failure. This helps to ensure that appropriate business continuity planning is prioritised and ready to respond to limit impact on the delivery of critical services.
- 3.4 Cabinet recently decided to adjust the financial risk appetite to £500,000 (previously £1 million) to mirror the escalation point for Forward Together financial savings targets.

4. Risk Management Approach

4.1 To assist in achieving a more detailed understanding of the Council's approach to risk, a brief presentation will support this report, and focuses on the following key areas:

- A summary of the most significant corporate risks, demonstrating how risk management contributes to the outcomes focussed approach;
 - How significant risks are reviewed, challenged and monitored, including the interactive risk management portal on the [Intranet](#) which is transparent and open to all elected members and officers.
- 4.2 The tragic Grenfell Tower fire disaster brings in to swift focus the significant impact on communities, partners and authorities when risks do occur. The presentation will highlight how such risks are reflected within the corporate risk register, both in terms of preventative action and in response to an emergency.

5. Conclusion

- 5.1 The Cabinet's focus on risk following the review of the Forward Together programme is welcome. It has helped to raise its profile and confirm its importance in supporting the Council's outcomes focussed approach. Proactive risk management mechanisms and the consistent application of these provide a robust platform to support good and informed decision making.
- 5.2 Effective risk, performance and financial management and the importance of their interdependencies significantly contribute to good governance and assurance arrangements. These alongside internal audit, external audit and other independent assurance organisations (e.g. Ofsted; CQC) all provide an important contribution to a 'healthy organisation', informing the Annual Governance Statement, and leading to the identification of improvements as necessary.

Jonathan Mair
Monitoring Officer
July 2017

Risk Champion Roles
(as defined in the Risk Management Strategy)

The role of the Member Risk Champion is to:

- understand, support and promote the risk management process and its importance as part of the decision making process;
- keep informed about relevant key developments;
- sustain a high profile of risk management, both in the public domain and internally within the County Council;
- influence the allocation of appropriate priority status for risk management, in the context of the Council's overall objectives;
- ensure that Cabinet considers risk and satisfies itself that risks are appropriately being addressed when making key decisions.

The role of the Member "Risk" Watchdog is to:

- understand, support and promote the risk management process;
- have an overview and understanding of the Council's significant risks;
- ensure that the Audit & Governance Committee fulfils its obligations to challenge, review and scrutinise the Council's risk management processes and management of its significant risks

Risk Ranking Matrix

		Financial	Strategic Priorities and Opportunities	Health & Safety	Reputational	Service Delivery
HIGH	i.e. a greater than 20% chance of:	Financial impact > £500,000	Major impact (positive or negative) on a strategic priority	Fatality or major injury/illness (long term incapacity / disability)	Sustained/long term negative media attention	Unable to deliver critical services (levels one and two)
MEDIUM	i.e. a greater than 20% chance of:	Financial impact between £300,000 and £500,000	Moderate impact (positive or negative) on a strategic priority	Moderate injury or illness	Short to medium term negative impact on public memory (affecting more than one ward)	Unable to deliver critical services (level three)
LOW		Financial impact less than £300,000	Minor / negligible impact (positive or negative) on a strategic priority	Injury or illness requiring minimal intervention or treatment	Short to medium term negative impact on public memory (affecting one ward) / minor complaints or rumours	Minor disruption to service delivery

In using this matrix, the user should consider the extent of impact across each of the 5 categories. If any of the impacts in the top row apply for this delivery model, it should be identified as "High". High risk activity should be subject to a greater level of scrutiny, to ensure assurance can be given that potential exposures are controlled to an acceptable level.

However, for avoidance of doubt, the identification of a risk as High should not be seen as an automatic barrier to change but instead, through a considered assessment of control measures, help inform a decision as to the extent that such a risk is acceptable to tolerate.