

Shadow Dorset Council

Date of Meeting	12 th November 2018
Lead Member	Rebecca Knox
Officer	<p>David Bonner, Strategic Insight, Intelligence and Performance Manager, Dorset County Council</p> <p>Marc Eyre, Risk, Emergency Planning and Resilience Manager, Dorset County Council</p> <p>Written in consultation with the following Officers: Chris Evans (DCP), Daniel Povey (Christchurch & East), and Sue Joyce (Purbeck).</p>
Subject of Report	Risk Management for Dorset Council
Executive Summary	<p>The Dorset Council will require a clear approach and methodology for risk management, with appropriate governance and reporting arrangements in place to demonstrate informed, objective and well managed decision making, and to support delivery of the Council's services.</p> <p>The purpose of this report is to outline the proposed future arrangements. These have been developed through identifying and understanding the emerging strategic priorities and operating model, best practice, and a review of the Sovereign Councils current risk management arrangements</p> <p>The report also provides the first draft of the day 1 risk register for the new Council.</p> <p>This is the first of a series of reports and updates on development and implementation of the Dorset Council risk management arrangements. For avoidance of doubt, neither the workpackage or this report cover risks relating to delivery of the programme itself, which is subject to a separate regular reporting process via the Programme Office highlight reports. However, the work of the programme may identify phase 3 risks that need to be reflected within the consolidated risk register.</p>
Impact Assessment:	Equalities Impact Assessment: N/A
	Use of Evidence: This paper presents a suggested risk framework. Evidence relates to industry best practice in this area.
	Budget:

	<p>No direct budget implications. Resourcing for implementation will be contained within existing council and programme teams. However, a sound risk management practice will help to ensure that financial and other strategic exposures are managed in accordance with a defined appetite for risk taking.</p> <p>Risk Assessment:</p> <p>Having considered the risks associated with this decision using the LGR approved risk management methodology, the level of risk has been identified as:</p> <p>Current Risk: HIGH Residual Risk LOW</p> <p>This paper presents recommendations for an appropriate risk framework. This is the basis of all risk identification, assessment, tracking and reporting for the new council. Operating outside of a robust risk framework places the authority at a high risk.</p> <p>Other Implications: None</p>
<p>Recommendation</p>	<p>That the Shadow Executive Board:</p> <ul style="list-style-type: none"> • Consider and approve the proposed risk management framework; <p>Receive a brief presentation on the work underway to understand the existing risk landscape, based on sovereign council corporate risks.</p>
<p>Reason for Recommendation</p>	<p>To ensure the new council operates safely and within risk appetite, with a robust framework in place aligned to meeting Corporate objectives.</p>
<p>Appendices</p>	<p>Appendix A – Risk Scoring Methodology Appendix B – Consolidated Risk Register – “Top Level Risks”</p>
<p>Background Papers</p>	<p>Report to Joint Area Committee – August 2018</p>
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1.0 Background

1.1 The Shadow Executive is responsible for ensuring that an appropriate risk management framework and arrangements are in place for vesting day of the new Dorset Council.

1.2 The deliverables outlined below set-out to meet the Shadow Executive objectives:

- Development and implementation of a risk management framework that is aligned to and supports the Dorset Council’s overall governance, strategy and operating model
- Understanding the current risk landscape faced by the sovereign councils, prior to convergence into a Dorset Council
- Development of the “day one” risk register and controls that fits within the risk appetite of the Dorset Council

1.3 The three cornerstones for management and assurance for the Council are:

- Finance
- Performance
- Risk

1.4 As a key component, a robust and effective framework for managing and reporting risk needs to be established. This should align to the overall governance and management for the Dorset Council.

1.5 The Shadow Executive Committee (SEC) is in the process of developing and agreeing the corporate vision, priorities and principles which will form the core of the Dorset Council’s corporate strategy, plan and operating model. The strategy and design of the organisation will provide the basis for the risk management approach, model and priorities.

1.6 At the SEC meeting in August 2018, the committee agreed the overarching design principles for the Council’s operating model which are outlined in the table below:

Operating Model Design Principles
1. Commissioning (outcome led)
2. Innovative services (led by data, intelligence and analytics)
3. Shared Services
4. Organisationally Entrepreneurial
5. Optimise the use of innovative digital approaches
6. Partnership Working
7. Enabled and agile workforce
8. Minimal level of governance

1.7 Although these principles may be further refined, they provide the essence of the new Council’s ambitions and will form the core of the corporate strategy and the basis of the new organisation’s leadership, culture and behaviours for both councillors and officers.

1.8 The principles outlined for the new operating model will need to be reflected in the risk management approach, priorities and operating processes. Transition to Dorset Council provides us with a fresh opportunity to embed a risk aware culture from the outset, focussed on learning and driving improvement.

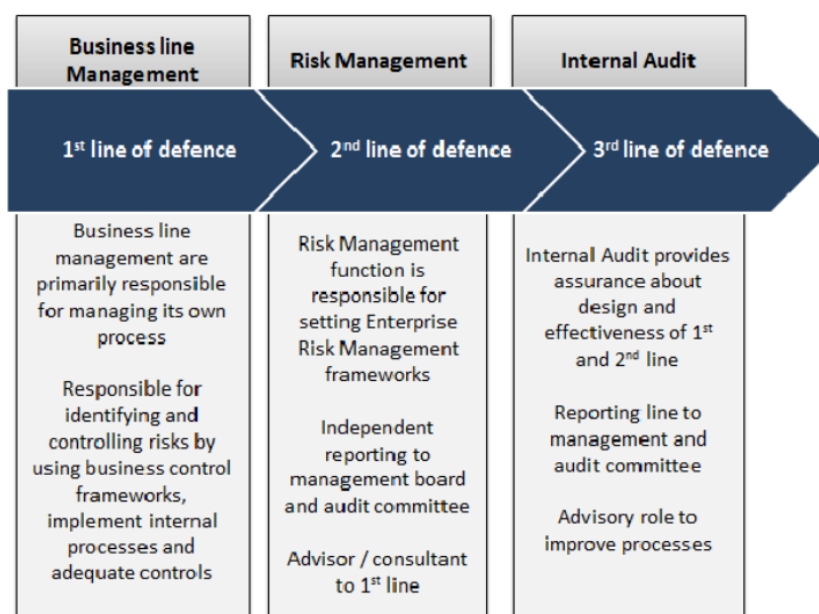
1.9 In addition to a clear focus on operational risk management for the organisation, the principles also reflect a stronger focus on use of data, intelligence and evidence and horizon scanning in relation to the external environment. As such, there is an emphasis on the identification of emergent risks which show a potential to impact on council priorities and services. Examples of key strategic risks relating to the external environment include:

- Public sector changes – collaboration, partnerships, integration
- Funding reductions and policy reform
- Different delivery models and doing things differently
- Increasing demands for high cost services
- Impact of BREXIT
- Current and changing local and national social and economic environments

2.0 Risk management framework and review of best practice

2.1 The Three Lines of Defence risk model below sets out an effective risk management framework for organisations. The model is recognised a best practice across the public and private sectors, including by professional bodies such as CIPFA, and leading external audit practices such as KPMG, E&Y, PWC etc.

2.2 The Three Lines of Defence approach places the primary responsibility for management of risk with the services themselves, supported by internal and independent assurance processes.



Taken from: "Quality Management in terms of strengthening the "Three Lines of Defence" in Risk Management - Process Approach", International Journal for Quality Research, June 2015, Luburic, Sekulovic & Perovic

- **The first line of defence** – represents the functions that own and manage the risk. *Operational management has ownership, responsibility and accountability for directly assessing, controlling and mitigating risks.*
- **The second line of defence** – represents the risk/compliance functions which set the framework and oversee or provide specialist support and guidance to the first line of defence. *This line of defence monitors and facilitates the implementation of effective risk management practices by the operational management and will include assurance on the effectiveness of the first and second lines of defence.*
- **The third line of defence** – provides independent assurance and audit that the first and second lines of defence are adequately managing the organisation's risks. *This line of defence provides the global assurance to the audit committee and senior management on the effectiveness of internal governance and risk processes.*

2.3 There are positive benefits of the three lines of defence approach:

- Emphasises the importance of the role of the front line operational managers- who own and are accountable for activities and the associated operational risks;
- An effective first and second line of defence reduces the dependency on and level of commissioning of independent assurance;
- The independence of the third line of defence, via challenge, audit and assurance work, provides robust comfort to Cabinet and other stakeholders that council risks are being controlled effectively and safely.

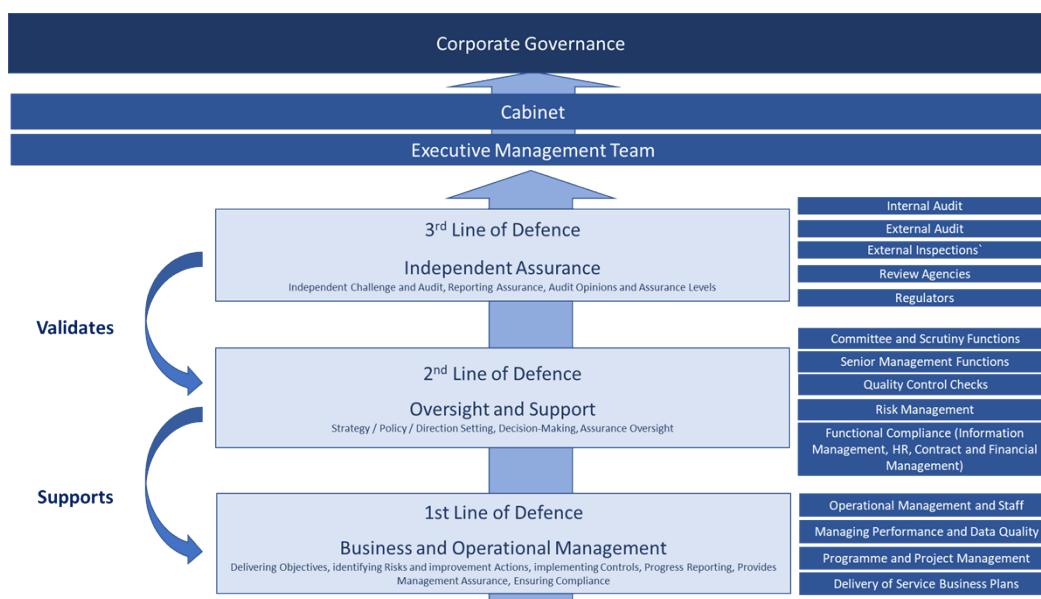
2.4 Ernst and Young outlined that organisations which do not have an established or well-coordinated Three Lines of Defence model may experience the following:

- Complex and inconsistent reporting making it difficult to provide effective risk oversight. The board and executive management receive multiple unaligned reports containing redundant and often conflicting information. They struggle to find a comprehensive view of the key risks and how these risks are being managed.
- Gaps in risk coverage, including experiencing control failures and unexpected risk events.
- A siloed risk function, which reduces value and increases cost - a lack of harmonization between risk and assurance providers where these functions are connected via informal channels and work with different risk categorizations, terminologies, approaches, rating scales and technologies.
- Business fatigue: Multiple uncoordinated interactions between risk and assurance functions lead to confusion and questions about the value and effectiveness of these functions.
- Potential Confusion, where management has one view of an organization's risk profile, while risk functions have a different view.
- Not having a holistic understanding of controls in place to manage risks, and a lack of clarification of responsibilities, may lead to duplication in control activities and increased cost of control.

(Adapted from Ernst & Young: Maximizing value from your lines of defence, Insights on governance, risk and compliance, December 2013)

3.0 How this model will operate in practice for Dorset Council

3.1 For this model to operate effectively, there needs to be strong governance, relationships and interfaces between each of the three lines of defence.



3.2 Reporting requirements will be a core component of the overall risk management, governance and assurance arrangements, and form part of the framework for the Council’s regular business reporting cycle for finance, risk and performance.

3.3 A work package for the design, planning and implementation of risk management forms part of the service continuity workstream, reporting through the Shaping Dorset Programme governance arrangements. There is stakeholder representation from all six councils and from the South West Audit Partnership to progress this work.

3.4 Key considerations in developing and overseeing the risk management framework include:

- Taking account of the effectiveness and management of the First and Second line of defence when determining the required assurance needs
- Ensuring ownership and accountability for the management of risks within services (e.g. the use of service level “risk champions”)
- Embedding the use of data, intelligence and evidence in defining and mitigating risks via the control framework
- Developing an effective risk reporting framework, which includes replacing the current direction of travel assessment with a more thorough approach focusing on the effectiveness of controls
- Logging and reporting of risk events, with appropriate visibility, escalation and learning at operational levels and above
- Informing the Council’s annual statutory Governance Statement
- Assessing the maturity of the Council’s risk management culture

3.5 The Shadow Executive Committee confirmed the appointment of the South West Audit Partnership (SWAP) at their meeting in August 2018. SWAP will provide independent

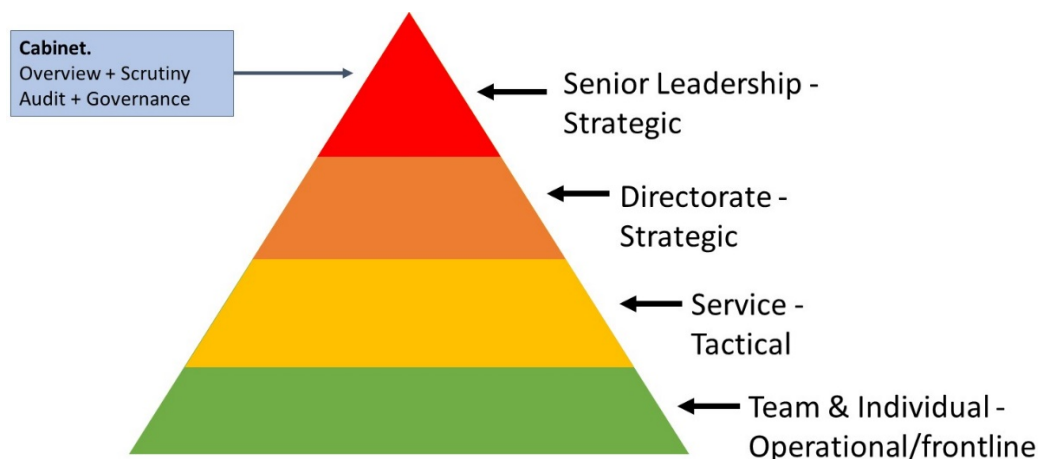
challenge and testing of control effectiveness, informed by a risk-based audit plan. The recommendations from resultant reports will inform the risk management process and identify areas of underperformance, including associated action plans to remediate. SWAP are working closely with the risk management work-package to provide assurance on the suggested approach.

4.0 The risk landscape for Dorset Council: Methodology

- 4.1 Each of the sovereign councils have long-established approaches to risk management, including maintaining registers of the most significant strategic and operational risks. A risk workshop was held with the Dorset Joint Committee in February 2018 to give some thought to the committee's attitude towards risk taking. Based on this work, the committee approved a risk management scoring methodology which is set out in Appendix A.
- 4.2 Work has commenced to understand the current risk landscape for the new Dorset Council and application of the approved scoring methodology to risk registers from across the sovereign councils. The process of consolidation into one Dorset Council risk register is made additionally complex by the mix of methodologies currently in use across the sovereign councils. At the point of convergence, the variance in approach and scoring across the current sovereign councils' registers will result in some movement when consolidated as part of the new wider Dorset Council register. For example, in terms of likelihood and impact, scores will vary in terms of weighting and attitude to risk across the various councils. Therefore, what may have been considered a high risk in a current sovereign council register, may be scored much lower once consolidated within the overall Dorset Council matrix. Duplicated risks will also be consolidated and re-assessed in the context of the new Dorset Council.
- 4.3 To provide an initial basis for the consolidation process, and in consultation with the various risk leads from across the sovereign councils, 18 key/strategic risks have been identified by drawing on common themes from across the registers. The several hundred lower level risks captured in existing risk registers are then group under these key risk categories. Appendix B, provides a snapshot of the 18 key risks identified for Dorset Council.
- 4.4 The next stage in the process of consolidation will require the lead officers responsible for the underlying risks to re-assess these, using the new scoring matrix. It is proposed that the infrastructure around the Programme be used to assess the validity of the current risks for the new council. The relevant theme board could be used to assess the strategic tier 1 risks, whilst the various workstreams can be used to re-assess the tier 2/operational level risks which feed upwards in the 18 strategic risks. SWAP have been consulted in establishing the methodology and will also provide assurance of the final consolidated register. In addition the revised methodology, with a greater focus on controls and testing, will enable SWAT to more easily target audits and enhance a risk-based testing plan.
- 4.5 Post vesting day, Directorate/Service-level risk registers should continue to be maintained, these will be aligned to and inform the key/strategic risks.
- 4.6 Further work will be necessary with the Programme Board to consider the changing external environment and/or relating to achievement of the council's vision to identify any new strategic risks. Conversely, some risks associated with current challenges and existing sovereign council corporate plans will not need to be carried forward into the

new council's risk profile.

- 4.7 Ownership of the key/strategic risks should sit with the senior leadership team. It is therefore proposed that the 18 top-level strategic risks are allocated an Accountable Officer at Tier 1 and 2 level. Directorate and Service level risks will be led by the officer in the best position to actively influence the performance of the risk, together with a nominated risk owner at Tier 3.



- 4.8 To date, there has been limited testing of the effectiveness of internal controls, other than where such testing has been undertaken by the sovereign councils. Further work is underway to provide some cross-authority challenge, supported by SWAP. Moving forward, it is proposed that testing of the effectiveness of controls (i.e. limited, partial, substantial or full and tested) is completed by the first line of defence, within the service areas, with further challenge and support from the second and third lines of defence.
- 4.9 Whilst the responsibility for managing sovereign authority risks will rest with that authority until vesting day, the Shadow Executive Board need to remain sighted on the most significant risk exposures, to both inform decision making and ensure that it is comfortable that services will be both safe and legal on day one. Sovereign council representatives within the risk management work-package will need to ensure that any changes to their own strategic risks are reflected in this consolidated view.
- 4.10 It is proposed that performance of key/strategic risks, including details of any significant underlying drivers of those risks, are presented to Shadow Executive on a quarterly basis, and from 1st April to both the Leadership Team and elected members (at portfolio holder and committee level). As the governance structure for Dorset Council evolves, the required reporting mechanisms will need to respond. The focus will be on ensuring a holistic view of finance, performance and risk, and dashboard solutions to deliver this will be explored.

Appendix A

IMPACT - THREATS						
Score	Financial	Legal / Compliance	Strategic	Safety, Wellbeing & Safeguarding	Reputation	Service Delivery
5	Over £1 million	Non-compliance with legislation or regulatory breach	Complete failure of a strategic priority	Fatality or life-changing injury / illness; Significant safeguarding breach	Complete failure in confidence (local or national)	Complete failure to deliver critical services (safeguarding; urgent statutory responsibilities etc)
4	£500k to £1 million	Significant regulatory impact	Major impact on a strategic priority	Major injury / illness; moderate safeguarding breach	Long term media attention (local or national)	Major impact on delivering critical services (safeguarding; urgent statutory responsibilities etc)
3	£300k to £500k	Moderate regulatory impact	Moderate impact on a strategic priority	Moderate injury / illness	Medium term negative impact on public memory	Serious disruption to less critical services
2	£100k to £300k	Minimal regulatory impact	Minor impact on a strategic priority	Injury or illness requiring minimal intervention / treatment	Short term negative impact on public memory	Minor disruption to services
1	£100k or less	No legal or regulatory impacts	Negligible impact on a strategic priority	No health and safety impact	Minor complaints or rumours	Negligible disruption to service delivery

LIKELIHOOD	
5 Almost Certain	Over 80% chance
4 Likely	61 – 80% chance
3 Possible	41 – 60% chance
2 Unlikely	21 – 40% chance
1 Rare	0 – 20% chance

		LIKELIHOOD				
		(1) Rare	(2) Unlikely	(3) Possible	(4) Likely	(5) Almost Certain
IMPACT	5	5	10	15	20	25
	4	4	8	12	16	20
	3	3	6	9	12	15
	2	2	4	6	8	10
	1	1	2	3	4	5

Appendix B

Consolidated Strategic Risk Register

No	Key/Strategic Risk
1	Legal Risk - Failure of process, policy or procedure leads to a breach of statutory duty or results in litigation
2	Political Risk - Failure to maintain an effective political and managerial interface leads to a breakdown in effectiveness
3	Financial Risk – Failure to adequately manage the Financial position leads to an overspend which is untenable in the medium term.
4	Workforce Risk - Failure to recruit, develop and retain the required workforce skills leads to an inability to deliver the Council's vision
5	Health, Safety and Wellbeing Risk - Failure to protect the health, safety and wellbeing of staff, contractors or the public leads to significant financial and/or reputational damage
6	Infrastructure Risk – Failure to provide adequate provision of infrastructure leads to inability to deliver the Council's vision
7	Technology Risk – Failure of ICT resiliency results in an inadequate ICT provision to deliver council services or vision
8	Commissioning Risk – Failure to effectively commission services results in poor value for money, service failure or legal challenge
9	Information Management Risk – Failure to safeguard personal information or the misuse of information leads to a breach of the General Data Protection Regulations
10	Performance Risk – Failure to maintain adequate operational performance leads to poor service delivery
11	Economic Risk - Failure to provide positive leadership in the development of the local economy
12	Social Welfare Risk - Failure to influence the social, health and wellbeing of the residents of Dorset
13	Partnership Risk - Failure to sustain an effective relationship with key partners results in a service delivery failure
14	Environmental Risk - Failure to protect our environment and adapt services and communities to the impacts of a changing climate
15	Educational Provision Risk - Failure to provide a positive education to young people in Dorset
16	Safeguarding Risk - A safeguarding failure results in the harm or neglect of a vulnerable person
17	Resilience Risk - Failure to respond to an emergency incident
18	Decision Risk – Failure to use sufficient and meaningful evidence leads to incorrect decisions