BRISTOL CITY COUNCIL

Audit Committee

8th November 2013

Report of: **Strategic Director Organisational Development - Lead Officer for Risk**

Report Title: **Annual Report – Strategic Risk Management**

Ward: **Citywide**

Officer presenting report: **Alison Mullis/Melanie Henchy-McCarthy, Chief Internal Auditor (job share)**

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RECOMMENDATION

The Audit Committee note the progress and endorse the action plan for future development regarding risk management arrangements in the City Council.

The Committee consider the role of the scrutiny commission and their own role in further developing a culture of constructive challenge.

SUMMARY

This report provides a summary of the key developments made to risk management during 2012/13 and this year to date. In particular it sets out the joint response of Internal Audit and the Head of the Executive Office to a review of strategic risk management arrangements following which a key recommendation is to strengthen the Strategic Planning, Monitoring and Reporting process.

The significant issues in the report are:

- Introduction in 2013 of 'target risk' for each of the risks managed through the Corporate Risk Register (CRR). (Para. 2.1)

- The Council's strategic risk management arrangements have been reviewed and recommendations made to strengthen their effectiveness and ensure they are embedded within the management of the organisation. (Para 2.2 & App 2)

- A culture of appropriate and controlled risk taking across the Council needs to be encouraged.(Para 3.1 – 2nd bullet)

- Fundamental to improving these arrangements is an integrated framework for business planning, performance monitoring and reporting that incorporates risk management and which is subject to effective scrutiny and challenge (Para 3.7). Work has begun to develop and deliver this framework. (Para 3.2 & App 3)

- To support the implementation of required improvement actions, the role of the

internal audit 'risk officer' needs to be enhanced to a more proactive and challenging 'Risk Manager' role. (Para 3.2 - 2nd bullet)

- An action plan (Appendix 1) to address improvements required has been drafted jointly by Internal Audit and the Corporate Performance Team.

Policy

The Audit Committee Terms of Reference includes the provision of independent assurance to the Council in relation to the effectiveness of the council's governance arrangements, risk management framework and internal control environment.

The Risk Management Strategy & Policy 2011 -2012 requires the Audit Committee to provide independent assurance and scrutiny of the risk management, internal control and corporate governance arrangements in place.

Consultation:

Internal: Strategic Leadership Team, Officers from the Corporate Performance Team, Organisational Development and the Portfolio Management Office.

External: None necessary

1.   Introduction

1.1   Historically, the roll out of risk management across the City Council has been a part of the Internal Audit Programme. During 2012/13 and to date, a number of developments have been ongoing to improve the risk management framework in place across the City Council. The Strategic Director Organisational Development, the Executive Member for Finance and Corporate Services and the Audit Committee have all expressed a view that strategic risk management needs to be strengthened and made more effective throughout the organisation. This view was formed following analysis of the Corporate Risk Register which identified that many of the risks recorded were those over which management have no control and no potential to further reduce. Additionally, of the controllable risks, evidence was limited that the actions taken were proactively mitigating the risks.

1.2   In the Annual report to those charged with governance, received at the September 2013 Audit Committee meeting, the external auditor 's summarised observations were that "the Council has an agreed risk management strategy and both Directorate and corporate risk registers are maintained and reviewed by the Audit Committee….we found that limited time is given to assessing and monitoring risks at a corporate level…the Council is not proactive in identifying and managing high level risks and that a thorough assessment of risks is not always undertaken and reported before decisions are taken." The external

auditor concluded also that "changes are needed (regarding) the performance and risk management arrangements in place to allow the Mayor, senior officers and Members to see whether or not the Council is achieving what it sets out to achieve".

1.3   These factors are reflective of the issues which any large authority must address in order to better overcome a variable approach to managing risk at Directorate level and a 'disconnect' in the consistent identification and escalation (and subsequent management) of risks which have significant corporate/ reputational implications for the Council.

1.4   The following paragraphs in this report set out the work undertaken this year to develop improvements and to establish a rationale going forward which is embodied in the Action Plan attached as Appendix 1.

2.   Progress during 2012/13 and to date

2.1   Earlier in the year the Audit Committee requested that the Corporate Risk Register should incorporate 'target risk' analysis and direction of travel indicators for Current Risk. This now forms part of the standard review process.

2.2   In order to inform improvement planning going forward, a review of the Council's strategic risk management arrangements has been completed including comparisons against other organisations' arrangements (in both the public and private sectors). A brief summary of the findings from this review is attached at Appendix 2**.**

3.   Vision – Effective Risk Management

3.1   It is considered that an effective risk management framework for the Council should result in the following:

- Active and early identification of strategic risk (top down and bottom up) that informs and drives business decision making including management team meeting agendas to determine and monitor appropriate risk strategies.

- A culture of appropriate risk taking by Members and Officers i.e. careful consideration of the likely impacts of proposed actions measured against an assessment of the resource investment required to deliver outcomes, balancing the need for innovative and cost effective solutions about which risk exposure is measured and understood.

- Integration of core governance processes such as business planning, risk management, change programme delivery, performance management and decision making – rather than treating all these interlinked aspects of governance as separately managed processes.

- Review and challenge to ensure that risk identification and mitigation strategies ensure the best outcome in achievement of the Council's objectives.

3.2 To achieve the above, an Action Plan for improvement has been drafted jointly by Internal Audit and the Corporate Performance Team to improve strategic risk management. It is attached at Appendix 1 but in summary, key actions to achieving the required improvements are:

- Strengthening corporate planning and performance management processes to provide an holistic view of progress towards the achievement of agreed outcomes for the Council (Ref paragraph 3 below) which is subject to robust scrutiny and effective challenge.

- Strengthening the role of the Risk Officer in Internal Audit to provide a proactive and challenging 'Risk Manager' role to support and engage with Strategic Directors, Service Directors, Portfolio Management Office and other key officers. This will ensure risks are correctly identified and effectively challenged/escalated where mitigation strategies appear ineffective. This work will be done on behalf of the Lead Officer for Risk and will help to ensure the appropriate risk taking is encouraged and a culture shift from risk aversion is achieved.

- Joint working to ensure officers with expertise in risk, performance and strategic planning work together to ensure the correct strategies are selected and delivered to support achievement of the Council's objectives.

- Enhancing the role of scrutiny Members in building a culture of constructive challenge around risk management by tailoring reports on performance and risk to their respective remits.

- Ensuring that risk management within the Corporate Change Portfolio, the Capital Programme and other major project work is being managed consistently with the corporate process and that there is an appropriate escalation route for inclusion of Change Portfolio risks into Corporate/Directorate risk registers when appropriate.

3.3 A schematic diagram at Appendix 3 demonstrates how the integrated process will combine to facilitate effective risk and performance management.

3.4 It is recognised that the budgetary constraints upon the council require constant reflection and review of approaches to business planning, and as a consequence the Action Plan at Appendix 1 will be adapted as necessary to any changing circumstances.

3.5 Members of the Committee will note that the Action Plan does not suggest

development of a standard and corporate risk appetite. Rather, processes should be strengthened to ensure there is a thorough analysis of risk informed options to be evaluated in light of appetite factors relevant at the time of decision making, i.e. public safety issues, financial constraints or political considerations. Officers will be guided by the risk tolerance (impact/likelihood) parameters and more generally encouraged to take responsibility for their decisions within agreed tolerances or to highlight and escalate for a Strategic Director decision where an opportunity is available at greater risk.

3.6   The Audit Committee are requested to note and endorse the action plan and monitor its achievement through Internal Audit update reports and from others where necessary.

3.7   Furthermore, the Committee may wish to comment on proposals to enhance the role of the Scrutiny Commission by provision of performance reports and Directorate Risk Registers together for quarterly review and challenge. It is envisaged that the Audit Committee should continue to maintain an across the piece overview and provide scrutiny and challenge to the Corporate Risk Register each half year and the Directorate Risk Registers at annual intervals.

3.8   A survey of officers and Members will be undertaken in 2015 to measure its overall effectiveness.

4.   Corporate Planning and Performance Management – The Integrated Framework

4.1   The Corporate Performance Team have on behalf of the Head of the Executive Office been tasked to develop an integrated business planning, monitoring and reporting process. They are working with Internal Audit looking at performance reporting to Directorate Leadership Teams (DLTs), Strategic Leadership Team (SLT) and the Executive Board. The integrated framework, is to be guided by one over-arching policy, for business planning, monitoring and reporting. This framework development provides the opportunity to improve the effectiveness of strategic risk management and aims to ensure:

- Consideration of and clarity regarding risk to guide (i) Members as they set policy and approve strategies, and (ii) officers to successfully deliver the chosen strategies.
- The Council is clear regarding the outcomes it wishes to deliver and there is a well informed and effective challenge to decide the key strategies it will undertake to deliver those outcomes.
- A full consideration of risk to the achievement of strategic objectives is integral to the key decision process.
- Critical success factors, key milestones and performance data are identified for monitoring, reporting and challenge purposes. All aspects of relevant information are reviewed at the same time: i.e. customers, performance, staffing, finance and risk information). The monitoring of risk is integrated into regular performance and outcome monitoring.

- Early consideration is given to staffing resources/skills and financial resources to enact plans/decisions.
- Feedback from customers informs the development of services.
- Plans are reviewed and adjusted to ensure a timely response to emerging internal and external strategy/policy.

4.2 A report to the Strategic Leadership Team is currently being prepared by the Corporate Performance and Improvement Team which outlines the benefits of an integrated business planning model and the actions required to achieve this.

4.3 In conclusion, the current organisational changes and forward looking leadership at the Council offer the opportunity to re-visit and reinvigorate the strategic risk management process and culture. The action plan sets out a step by step route to improved business planning for the remainder of 2013/14 and into 2014/15.

5.   Risk Assessment

5.1 A robust and effective integrated framework for business planning, monitoring and reporting that incorporates risk management should improve the effectiveness of the Council's service delivery and minimise the risk of failures in the Council's service provision.

6.   Equalities Impact Assessment

6.1 None necessary for this report.

7.   Legal and Resource Implications

7.1 Legal – N/A

7.2 Resource – N/A

Appendices

- Appendix 1 – Action Plan
- Appendix 2 – Summary of findings from Strategic Risk Management Review
- Appendix 3 – Integrated Planning, Performance & Risk Management Framework

LOCAL GOVERNMENT ACCESS TO INFORMATION

Background Papers   Strategic Risk Management Review

Draft Action Plan to Strengthen Business Planning, Risk Management, Performance Monitoring and Reporting

CPT = Corporate Performance Team   RLIA = Risk Lead Internal Audit   PMO = Portfolio Management Office

Outcome	Action Planned	Responsible Officer and Due Date
Early and Effective Identification of Key Strategic Risk Issues for SLT and Member Attention		
1. Better informed Corporate Risk Register (CRR) for issues SLT need to be focussing on.	1.1 Review of the Corporate Risk Register to challenge content and ensure it is reflective of areas requiring SLT focus: Achieve by meeting and discussing with: • Risk Champions • Officer and Member Risk Leads. • Business Partners and Internal Audit Managers • Portfolio Management Office to identify significant change programme risks. • Executive Office/Corporate Performance Team • Risk owners to improve risk identification, monitoring and effectiveness of mitigations, and schedule quarterly meeting dates for the Risk Management Group to coincide with the CRR review cycle.	Risk Lead Internal Audit [RLIA] - (TBA) Oct/Nov 13 and continually.
	1.2 Risks and risk registers to to be discussed and updated regularly at Directorate Management Teams. Items that might have significant corporate implications to be identified for escalation into CRR.	Strategic Directors and Risk Champions Oct/Nov 13 and continually.
	1.3 Continue to develop the management analysis of risks through 'target risk' and 'direction of travel' indicators	RLIA Oct/Nov 13 and continually
	1.4 Through training (workshop and ad-hoc as required) and discussions ensure risk owners have the tools (such as Source guidance, Performance and Risk Management	RLIA Oct/Nov 13 and

		strategies/policies and the impact/probability matrix) and understanding needed for risk management.	continually
		1.5 Risk Mapping of Corporate Risk Register to agreed Corporate Priority Outcomes.	RLIA with OD Business Support Manager (CC) Dec 13
		1.6 Annual Governance Statement issues to be incorporated in the Corporate or Directorate Risk Register as required and monitored through SPAR.net	RLIA Oct/Nov 13
		1.7 Develop SPAR.net reporting capabilities around reporting of risk improvement target projections.	RLIA/Corporate Performance Review Officer (CPRO) (PF) Nov -Mar 14
		1.8 Align the Corporate Risk Register to key outcomes to the Council for 14/15.	Risk Owners for 2014/15 Ongoing
2.	Enhanced Internal Audit role to that of Risk Manager	Appointment of Officer to undertake the following enhanced risk management role:	TBA Oct/Nov 2013
		2.1 Quarterly business review meetings with Strategic and Service Directors talking about the risks they face and how much of an issue they are and review progress.	Starting Q3
		2.2 Quarterly meetings with change programme leads to fully understand what the programmes are trying to achieve and the risks to achievement of these.	Starting Nov 13
		2.3 Facilitate regular 'spotlights' on risk (identified from 2.1 & 2.2 meetings) with SLT to ensure they focus on the highest risks and how they are being managed (potential to combine with Executive Board performance challenge sessions).	Starting Jan 14
		2.4 Attend DLT's to discuss risk management and specific risks for those directorates.	Starting Nov 13
		2.5 Collate the risk information from all these sources and others (IA reports, H&S staff, BCP staff, IT, External Inspections, lead Member on Risk etc) and use that information	Ongoing

		to inform the CRR on behalf of the Strategic Director Organisational Development and agree the top risks to take to SLT and Audit Committee.	
		2.6 Attendance at SLT as required as Risk Advisor.	As required
Developing a culture of appropriate risk taking in achievement of the Council's agreed outcomes.			
3.	Clarity over agreed outcomes/ strategies and risk appetite/ tolerance within which it is acceptable to deliver.	3.1 Clarity of Corporate Priority Outcomes. (Outcomes agreed, formal committee approval likely Dec)	Head of Executive Office (PT) Dec 2013.
		3.2 SLT to consider the impact/probability parameters (High, Medium, Low 3x3 matrix) for setting appropriate risk tolerance for individual outcomes.	RLIA Dec 2013
		3.3 Identification of Corporate Priority Outcome leads with ownership and responsibility for delivery of each outcome.	Head of Executive Office (PT) Dec 2013.
		3.4 SLT to agree the responsibilities for outcomes, and ensure there is due consideration of risk.	SLT Oct – Dec, supported by RLIA
		3.5 Communication of agreed risk tolerances to enable managers to identify delivery strategies within these, so managers are clear on the extent of their authority and remit to take appropriate risks (ref action in section 5 below).	SLT Oct – Dec,
4.	Risk aversion perception reduces and managers become effective risk managers.	4.1 Enhance top level understanding of risk management and risk appetite via a workshop to be arranged for Scrutiny, Audit Committee and Cabinet Members and senior officers.	RLIA Dec 2013
		4.2 Review the role of the Scrutiny Commission and Audit Committee Members in building a culture of constructive challenge around risk management with reports to scrutiny commissions on performance and risk tailored to their respective remits to enable this challenge.	RLIA/CPIT Jan – Mar 2014
		4.3 Review the Corporate Performance Management Framework and risk policy and supporting toolkits/guidance to ensure the language promotes the exploration of 'opportunity risk' and the effective management of risk rather than being risk averse.	RLIA/Corporate Performance (NU) Jan 2014

	4.4 Enhance a shared understanding of risk amongst corporate advisors (Legal, Procurement, Finance) via a 'risk workshop' session at Extended DLT to ensure consistent and sound risk advice is given.	Extended DLT Jan – Mar 2014
	4.5 SLT to ensure that Risk Champions have a seat at DLT's to influence and advise on risk - particularly with regard to changing the behaviours towards a more open/proactive application and discussion around risk management, i.e. risk based agenda setting, learning from mistakes.	SLT Oct 2013
	4.6 Strategic Directors to mentor their Service Directors/Managers and empower them to explore risk, to differentiate opportunity risk and to take responsibility for their decisions based on well informed analysis of risk.	Strategic Directors Starting Nov 2013
	4.7 Identify from discussions with officers and the Performance Management Group the need for additional risk management training and awareness raising to improve the risk management culture. Provide any training required.	RLIA Apr-June 2014
	4.8 Identify and provide examples of effective risk taking to senior management and make available on the Source these examples.	RLIA Apr-June 2014
	4.9 Promote an enhanced and integrated performance and risk framework (as per toolkit referenced at 1.2) that supports management discussion at DLT's and other team meetings to identify areas where 'riskier' delivery options have been successfully implemented.	RLIA Apr-June 2014
Development and Implementation of an Integrated Framework for Business Planning, Monitoring and Reporting that Incorporates Risk Management		
5. Improve robustness of strategic planning process and ensure risk appetite is	5.1 Establish through meetings with key staff how risk consideration is informing the strategic commissioning process.	RLIA Oct 2013
	5.2 Engage SLT/Executive Board through a workshop to consider risk for Corporate Outcomes: identifying and evaluating risk and opportunities associated with potential different strategies for achieving required outcomes. Ensure effective challenge is	RLIA facilitated by CPT Nov/Dec 2013

considered when selecting appropriate strategies.	made in evaluating and selecting the delivery strategies. 5.3 Identification of the key activities/strategies for delivery of each Corporate Priority Outcome. These key activities should include those identified from statutory services, discretionary services and change programmes. (These will inform the Corporate Strategy Delivery plan). 5.4 For each identified key activity/strategy that contributes to delivery of an outcome identify: key milestones; critical success factors; financial requirements; costs v benefits; HR/staffing requirements; and risks, to be determined and monitored against. (This will be undertaken as a part of the business planning process). (See also actions under Section 8 re performance monitoring)	This will result from the budget setting process. Nov 2013 - Feb 2014 CPT with Corporate Priority Outcome Leads March 2014
6. Improve quality of decision making	6.1 Develop a mechanism to ensure for key decisions that : • alternative delivery options are genuinely evaluated and considered rather than a foregone conclusion and the risks considered • the impact on each priority outcome is considered 6.2 Update the guidance on decision making reports.	RLIA Mar 14
7. Fully integrated planning and performance Management System for 2014/15 onwards.	7.1 Identify an integrated and effective process for planning and performance monitoring, clarifying the planning process and how challenge will occur in the process. Document the 'vision' in a diagram for communication. 7.2 Develop one integrated policy, with a communications strategy, that combines planning, performance and risk supported by toolkits/guidance. 7.3 Integrate the Performance Management Group and the Risk Management Group as technical experts. 7.4 Portfolio Management Office to move the PMO risk registers onto SPAR.net.	CP (NU) and RLIA Oct 13 RLIA with CP (NU) Jan 14 CP (NU) and RLIA Ongoing RLIA, CPRO (PF)

		and PMO June 14
Effective Review and Challenge of Performance and Progress towards achievement of Objectives		
8. Improve performance monitoring.	8.1 Performance reporting by outcome that reports by exception: • any areas not achieving as expected • any areas requiring SLT/Member direction on risk/opportunity decisions	CPT with Intelligent Council Programme (pending project decision) Dec 13
	8.2 Challenge to performance reporting to be applied by experts eg for financial information/risks finance will advise, HR risks obtain HR advice.	CP/RLIA March 14
	8.3 Work to ensure that the information to be supplied to the Executive Board: • meets the needs of the Executive Board • Is comprehensive bringing together all the integrated performance information including risk management	CPT with Intelligent Council Programme (pending project decision) Dec 13
9. Consistency and completeness in performance monitoring information.	9.1 Portfolio Management Office (PMO) to establish appropriate escalation procedures to ensure that key risks are included in reporting to SLT and Executive Board and in Directorate/Corporate Risk Registers as required.	PMO with RLIA April 14
	9.2 Review risk management tools developed for change programmes within PMO to determine how best to make more widely available.	RLIA with PMO Dec 2013
	9.3 Standardise differing risk management methodologies to a single corporate standard.	RLIA with PMO Dec 2013
10. Review	10.1 Monitor the success of the Action Plan, i.e. conduct a survey of: • Officers - to measure whether they experience greater empowerment to manage their risks • Members - to measure whether they experience a more expedite and better informed decision making process	RLIA April 2015

Key Findings from the Strategic Risk Management Review:

- Strategic risk management needs to be built into, and not separate from strategic business planning;

- The Council's risk appetite needs to be defined and communicated as part of the strategic business planning process;

- Before detailed business planning begins, for each strategic objective a range of alternative strategies to achieve the same outcomes should be identified in order to provide challenge for the risk appetite and inform Members and Senior Officers consideration of strategy;

- Appropriate risk taking needs to be considered and officers need to be clear of the risk appetite / risk tolerance for their business area;

- Change needs to be made to the organisational risk culture by Service Directors and Managers having effective conversations about risk, encouraging movement from negative discussions about risk to discussions about achieving desired outcomes, and proactive circulation of stories about risks that demonstrate the right behaviours;

- The Corporate Risk Register should be realigned and recalibrated to the Corporate Plan;

- The management of Corporate risks and the Risk Champion role should owned at Service Director level;

- Risk monitoring information should be gathered through the performance management framework and maintain the strong link between the business plan and all risk management activity;

- Critical success factors need to be identified and monitored for achievement in risk reporting. Milestone dates should be identified for the achievement of target risk status which are then reported to Audit Committee and Senior Management;

- The Corporate risk management process and the Corporate Change Portfolio risk management process should be harmonised to ensure consistency of risk management.

INTEGRATED PLANNING, PERFORMANCE & RISK MANAGEMENT FRAMEWORK

Outcomes Agreed

Determined by Mayor/SLT and Clearly Articulated

Outcome Delivery Strategies Considered

Potential strategies risk assessed by SLT/Mayor (advised by exec board) effectively determining risk appetite for each outcome and the chosen delivery strategies.

SLT/Mayor determine risk tolerances for communication to Managers

Progress review.

Ongoing decision making

Selection of Delivery Strategies by SLT/Mayor

KEY DECISIONS ⟷ **CORPORATE RISK REGISTER**

Method of monitoring delivery of the chosen strategies determined by SLT/Mayor (used as basis for public performance reporting and for SLT/Mayor)

Budget setting process to provide for delivery of chosen strategies

Delivery Plans and Resource Plans formulated and communicated:

Service plans
Improvement plans
Change programmes

DIRECTORATE RISK REGISTER

All Plans to be supported by detailed risk assessment, or escalated

Managers to work within the risk tolerance levels identified in the policy to deliver plans – escalating if outside the agreed tolerance for risk decision by Strategic Director/SLT/Mayor

All plans to include clarity re performance monitoring in achievement of objectives

Update risk register as changes happen

Escalated risks

Performance Reported

Performance Reports effectively to act as the early warning mechanisms to identify at an early stage when delivery of outcomes/Strategy objective going off track - to include:

- Progress on delivery of outcomes (via the measures previously agreed)
- Status on risk for delivery of outcome (from CRR/DRR) and identification of new risks affecting achievement of outcome for direction/decision by SLT/Mayor – CRR items progress reviewed
- Highlight of key issues to achievement of the objectives and effect on outcome etc

To SLT/Mayor – to ensure chosen strategies are effectively delivering the outcomes as planned and determine why if not

To Exec Board, and to Scrutiny for challenge

Amendments to plans/strategies

following consideration by Mayor/SLT and challenge by Exec Board and Scrutiny