Audit Committee

Item No. 7

Report title:	**Risk Management Report**
Date of meeting:	**19 April 2018**
Responsible Chief Officer:	**Executive Director, Finance and Commercial Services**
Strategic impact One of the Audit Committee's roles is to consider the Council's risk management. Assurance on the effectiveness of risk management and the corporate risk register helps the Committee undertake some of its key responsibilities. Risk Management contributes to achieving corporate objectives, and is a key part of the performance management framework.	

Executive summary

This report provides the Committee with the corporate risk register as it stands in April 2018, along with an update on the Risk Management Strategy 2016-19, and other related matters, following the latest review conducted during March 2018.

Risk Management is reported in its own right but the reporting is aligned with, and complements, the performance and financial reporting to relevant Committees.

The corporate risk register was last reported to the Audit Committee (for risk management assurance) in January 2018, prior to being refreshed mid-March 2018 to show the latest developments. Officers have worked through the suggestions from that Committee. The latest significant changes since the last Risk Management report to Audit Committee are shown in **Appendix A** (the risk reconciliation report). The latest progress against mitigations for corporate risks since the last Audit Committee is shown at **Appendix B** (the risk register report).

Recommendations:

Committee Members are asked to consider:

a. The changes to the corporate risk register **(Appendices A and B)**, the progress with mitigating the risks; and
b. The scrutiny options for managing corporate risks, (**Appendix C)**;
c. The movement of corporate risks since the last meeting **(Appendix D)**;
d. If any further action is required.

1. Proposal

1.1 The County Leadership Team has been consulted in the preparation of the corporate risk register.

2. Evidence

2.1. <u>Direction</u>

2.1.1. The Council's Medium Term Strategy and Financial Plan, adopted in February 2018, provides council-wide priorities, and these have been developed into some clear outcomes and measures by officers and members. With regards to the development of Norfolk Futures, which considers seven priorities that the Council is working towards achieving, the Council is leading on, and delivering, changes, and is becoming more strategic with the right attitudes and skills, able to change at pace while shedding cost. The Council is continuing to strengthen governance and performance management, which include effective risk management arrangements. The overall direction should move towards a reduction in corporate risk scores, wherever possible.

2.1.2. A Medium Term Risk Management Strategy 2016-19 has been initiated, and is currently being developed by the Risk Management Officer.

2.2 <u>Progress</u>

2.2.1 Overall, corporate risk scores continue to be generally stable. Since the last report to the Audit Committee, further work has been carried out developing risk mitigations and progress reports that are more specific, measurable, achievable, realistic and timed, and aligning the plans and progress reporting more closely with each other. The corporate risk register is joined up with the Council's 2017-18 Internal Audit Plan, with separate risk scrutiny applied by the Risk Management Officer to corporate risks where audits have not been identified. Progress against mitigations set can be better identified, moving towards a reduction in risk scores, wherever possible. The goal is to better reflect the significant corporate risks to Norfolk County Council, and the actions required to mitigate them, managed by the County Leadership Team, and owned by the Policy and Resources Committee.

2.2.2. Work continues to take place to further develop risk management which continues to be reviewed and strengthened. The revised Risk Management Policy and accompanying procedures are in place and have recently been promoted in the Norfolk Manager bulletin to County Council managers.

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The latest corporate risk register details 18 risks, presented at **Appendix B**. Corporate risks are where the occurrence of an event may have an impact on the County Council achieving its objectives or missing opportunities. Each risk has been allocated to the appropriate Executive Director along with a risk owner and reviewer who are able to influence the mitigation and regularly report on progress so that all reports contain the most current information relating to the risk. It is the nature of corporate risks that every Executive Director has a responsibility to contribute, support and progress the tasks to mitigate the risks, through the County Leadership Team and their Departmental Management Teams.

2.2.3. **Appendix B** contains a full description of each corporate risk with the tasks to mitigate it and the progress of that mitigation. There are three risk scores (original, current, and target), with each score expressed as a multiple of the impact and the likelihood of the event occurring.

2.2.4. There is one risk with a red rated current risk score:

1. **RM023 - Failure to understand and act upon changes to demography, funding, and government policy, with particular regard to Adults Services.**

2.2.5. Risk owners have considered whether the risks will meet the target score by the target date, shown as a prospects score. Thirteen risks are assessed as “Amber– some concerns” that targets may not be met, and three are assessed as “Green - on schedule” to meet their target by the target date. Two risk scores have been assessed as meeting their target scores by the target date, but are continuous in their nature, and remain on the corporate risk register. There are currently no risks with a ‘prospects’ target red risk score (see note 2 for the definition):

2.2.6. A reconciliation to the January 2018 Audit Committee report is presented at **Appendix A,** detailing the significant changes to corporate risks since the January 2018 report.

2.2.7. As part of the overall development of the performance and risk management framework for the Council, a new approach to corporate and departmental risk management is being adopted. This new approach involves the development of corporate and departmental level risks that are: outcome focussed; linked to strategic priorities; business critical, identifying areas where failure places the organisation in jeopardy; linked to financial and performance metrics. It is dependent upon a shared understanding of the risk appetite of the council.

2.2.8. A key element of this work is cultural change and absolute clarity of roles, responsibilities and process. Specifically, clarity of what these risks are, who is responsible for them, what they are doing to actively manage the risks and what measures are in place to hold people to account.

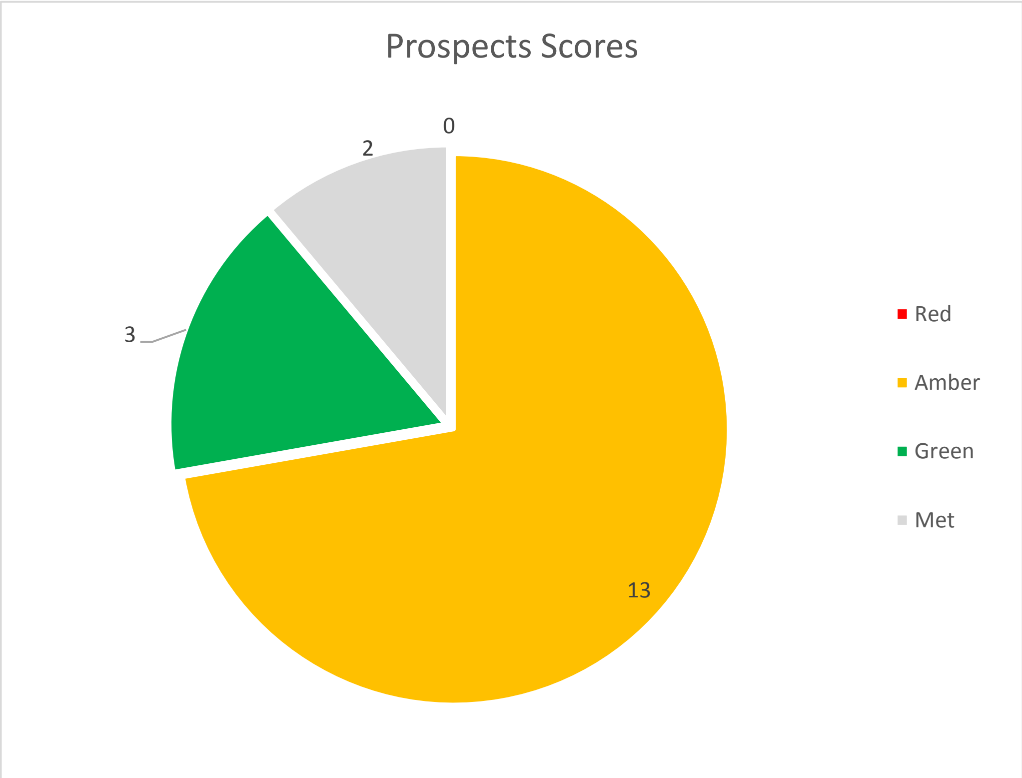
2.2.9. To assist Members with considering whether the recommended actions identified in this report are appropriate, or whether another course of action is required, a new list of such possible actions, suggested prompts and challenges are presented for information and convenience in **Appendix C.**

2.2.10. Explanations for the various scores and terminology can be found in the new Risk Management Procedures.

2.2.11. For ease of reference the risks have been plotted on a heat map, in **Appendix D**, to illustrate each risk's relative position measured by likelihood and impact for their current risk score.

2.2.12. The criteria for Corporate and Departmental risks are described at Note 1. A description of target scores is shown at Note 2.

2.2.13. Fig. 1. below reflects the percentages of risks in each prospects category.



2.2.15 Overall, progress is considered satisfactory, and mitigations are proportionate to their ratings.

2.3 <u>Development</u>

As part of continuing development, four themes will be developed as business as usual for Risk Management. These are as follows;

- Strategy into Action / Accountability
- Commerciality / Business like
- Data Analytics / Evidence Based
- Collaboration / Influencing

The following strands are identified for taking forward;

2.4. Strategy into Action / Accountability

- Formalising a strategy to deliver the new RM Policy
- Developing a more Enterprise Risk Management (ERM) approach for NCC
- Being a 'Centre of excellence' for Risk Management

2.5. Commerciality – Business Like

- Developing a traded Risk Management Service to other public sector bodies
- A Service Level Agreement approach for the function.

2.6. Data Analytics – Evidence based

- Develop Risk Management data measures and sources
- Quality Assure the risk register content

2.7. Influencing – Collaborative

- Training plan for NCC managers on Risk Management
- Establish a role for NCC in the Eastern Region ALARM group

3. Risk Management reporting to Committees

3.1. Risk management is reported separately to financial and performance management at Committees, although there continue to be close links between financial, performance, and risk reporting. The Audit Committee Chairman has proposed that departmental level risks are reported, in detail, to Committees at least once per year. The remaining departmental reporting throughout the year continues to be by exception, including full information for risks with a current risk score of 12 and above where the prospects of meeting the target score by the target date is reported as amber or red. A risk report is presented to each Committee on a quarterly basis, at the same time as the Finance and Performance Reports.

4. Financial Implications

4.1 There are financial implications relating to risk RM017 - *Failure to construct and deliver the Norwich Northern Distributor Route (NDR) within agreed budget (£205m)*. In November 2017, the budget allocated to the delivery of the NDR was increased to £205m. Whilst the likelihood of not delivering the NDR to this revised budget has significantly reduced, there remain project risks of not delivering the NDR to budget. A proposed long term capital funding arrangement to replenish the funding to be drawn from cash reserves was presented to the January 2018 Policy and Resources Committee. This risk will be continue to be reported until the delivery of the NDR project is fully concluded.

5. Issues, risks and innovation

5.1 A new departmental level risk relating to the delivery of the Third River Crossing project to time and budget was presented to the January 2018 EDT Committee following the January 2018 Audit Committee. The Third River Crossing project is still at an early stage of development, with no current issues, with this risk being noted here for Members awareness.

5.2 Following the identification of an opportunity for revenue generation, a new Traded Risk Management service has been set up, with the objective of generating income for the Risk Management Function of Norfolk County Council from other local councils and local public facing organisations. The Risk Management Officer is available to consult on risk management, helping such organisations to develop their risk management functions in exchange for a half/full day consultation rate charged for each session delivered, and thereby generating revenue.

5.3 The Risk Management Strategy 2016-19 will include best practice. The intention is to promote the benchmarking of the function from ‘Highly rated against peers’ to ‘world class’.

6. Background

6.1 The review of existing risks has been completed with responsible officers.

Officer Contact

If you have any questions about matters contained in this paper or want to see copies of any assessments, i.e. equality impact assessment, please get in touch with:

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Note 1:

A Corporate Risk is one that:

- requires strong management at a corporate level thus the Council Leadership Team should direct any action to be taken

- requires input or responsibility from more than one Executive Director for mitigating tasks; and

- If not managed appropriately, it could potentially result in the County Council failing to achieve one or more of its key corporate objectives and/or suffer a significant financial loss or reputational damage.

The criteria for a Departmental Risk Register is that:

- It requires strong management at a departmental level thus the Departmental Management Team should direct any action to be taken.

- If not managed appropriately, it could potentially result in the County Council failing to achieve one or more of its key departmental objectives and/or suffer a significant financial loss or reputational damage.

Note 2:

The prospects of meeting target tolerance scores by the target dates are a reflection of how well mitigation tasks are controlling the risk. The contents of this cell act as an early warning indicator that there may be concerns when the prospect is shown as amber or red. In these cases, further investigation may be required to determine the factors that have caused the risk owner to consider that the target may not be met. It is also an early indication that additional resources and tasks or escalation may be required to ensure that the risk can meet the target tolerance score by the target date. The position is visually displayed for ease in the “Prospects of meeting the target score by the target date” cell as follows:

- Green – the mitigation tasks are on schedule and the risk owner considers that the target score is achievable by the target date
- Amber – one or more of the mitigation tasks are falling behind and there are some concerns that the target score may not be achievable by the target date unless the shortcomings are addressed
- Red – significant mitigation tasks are falling behind and there are serious concerns that the target score will not be achieved by the target date and the shortcomings must be addressed and/or new tasks introduced.