



AUDIT AND GOVERNANCE COMMITTEE:

31st January 2023

Report of: Head of Finance, Procurement & Commercial Services

Relevant Portfolio Holder: Councillor A Yates

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SUBJECT: RISK MANAGEMENT FRAMEWORK UPDATE & ANNUAL REPORT

Wards affected: Borough wide

1.0 PURPOSE OF THE REPORT

- 1.1 To set out details of the operation of the risk management framework over the last twelve months as detailed in the Risk Management Annual Report 2022.
- 1.2 To recommend changes to the current Risk Management Policy & Strategy, and Toolkit.
- 1.3 To share the findings of an external risk review.

2.0 RECOMMENDATIONS

- 2.1 The continuing effective operation of the risk management framework as detailed in the Risk Management Annual Report 2022 (Appendix A) be noted.
- 2.2 The proposed amendments to the Risk Management Policy & Strategy (Appendix B) and Toolkit (Appendix C) be endorsed for approval by Cabinet in March 2022.
- 2.3 The findings of the Risk Management Health Check conducted by Zurich, as set out in paragraph 8 of the report, be noted.

3.0 BACKGROUND

- 3.1 West Lancashire Borough Council continues to recognise the importance of identifying, evaluating, and managing all key and service risks that could affect the achievement of its vision, priorities, and activities. Risk management is fundamental to the Council's governance and contributes greatly to the successful delivery of services.

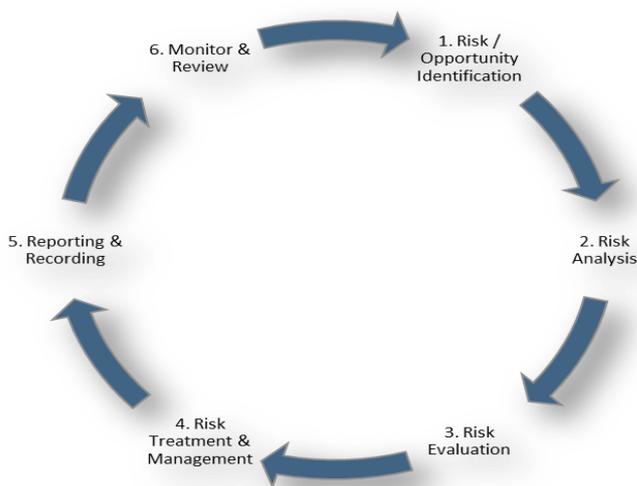
- 3.2 Risk Management is not about being 'risk averse', it is about being 'risk aware'. Risk is ever present and some amount of risk taking is inevitable if the Council is to achieve its objectives, priorities, and vision. Risk management is about effectively managing risks that could affect the Council. It is also about making the most of opportunities. By being 'risk aware' the Council is in a better position to avoid threats, and take advantage of opportunities
- 3.3 The purpose of this report is to provide assurance to this committee that the Council has in place effective risk management arrangements, and that risks identified through this process are managed, and monitored appropriately. This enables the Audit and Governance Committee to fulfil the responsibilities as set out in the Terms of Reference.

To monitor the effectiveness of risk management and corporate governance processes in the Council

- 3.4 This committee should seek assurance that the Council is operating an effective risk management framework. As such this report assesses the operation of the framework over the last twelve months, highlights the main developments that have occurred during that time, and considers proposed amendments to the Risk Management Policy & Strategy, and Toolkit. It also details the findings of an external risk management review that was commissioned.

4.0 RISK MANAGEMENT PROCESS

- 4.1 The risk management framework sets out how the Council identifies, manages, and monitors risks. In summary, the risk management process for the Council can be broken down into the following key components:



- 4.2 All risks are recorded on Pentana, the Council's risk management information system, and risk registers are used to generate risk information across the Council.

4.3 We identify risks at two levels, at service level and at corporate level. Corporate level risks (key risks) are those risks which if they occur would have the greatest impact on the Council, the achievement of its vision, priorities, and activities. They are strategic high-level risks. The management of these risks is co-ordinated and overseen by CMT quarterly, and by Cabinet, and Executive Overview & Scrutiny Committee twice a year.

4.4 Service risks are operational risks which are faced in the day-to-day delivery of services. They are risks that could have an effect on the successful achievement of service priorities, objectives, and activities. They are principally identified as part of the service action planning cycle each year. Throughout the year these risks are reviewed, updated, and scrutinised quarterly.

5.0 RISK MANAGEMENT PROFILE

5.1 At the end of December 2022 there were 261 identified active risks and 416 active controls on the Council's risk register. There are 15 risks on the key risk register.

6.0 RISK MANAGEMENT ANNUAL REPORT

6.1 The 2022 Risk Management Annual Report (Appendix A) highlights the positive improvements to risk management that have been made over the last 12 months. These include an updated policy & strategy, and toolkit, a suite of training webinars, the increase of scored internal controls, the setting of key performance indicators, setting of the Council's risk maturity level, and an increase in external risk networking.

6.2 The report highlights the aims and objectives for 2023/24 which include developing the Council's risk management approach to support project delivery and in our dealings with third parties, and to concentrate on embedding operational risk management practices to support the strategic risk management approach. We will focus on building the links between strategic and operational risks and engaging all staff, particularly managers, in the importance of risk management and the effectiveness that good risk management can have on achieving operational objectives.

6.3 The findings of the external risk management review are detailed within the Risk Management Annual Report 2022 and are discussed further at section 8 of this report.

7.0 CHANGES TO THE RISK MANAGEMENT POLICY & STRATEGY, AND TOOLKIT

7.1 The Risk Management Policy & Strategy (Appendix B) and Toolkit (Appendix C) continue to be reviewed to ensure that they reflect best practice, new developments, and organisational change.

7.2 Both documents have been reviewed and improvements have been made to ensure that they remain fit for purpose and "user friendly."

- 7.3 The Council's Risk Management Strategy is updated annually and contains our priorities for the following year. It outlines our aims for risk management and is supported by a detailed action plan of work.
- 7.4 The updated Policy & Strategy contains new sections on risk escalation, and risk maturity. Following Zurich's review, the Council's maturity level has been set.
- 7.5 Feedback from officers suggested that the toolkit was too large of a document to read through, so it has been updated and split into easy-to-read sections. It now contains risk identification techniques as officers communicated that they found it difficult to know where to start with the risk identification process. New sections include how to integrate risk with projects, programmes and third parties, and how we can look to further develop the risk culture of the Council.

8.0 FINDINGS OF EXTERNAL RISK REVIEW

- 8.1 Matthew Hardwick of Zurich Municipal was instructed to perform a "health check" of the Council's risk management arrangements. The findings are based on interviews with the Risk & Insurance Officer, CMT, and other key members of staff. The consultant carried out a review of current policies, procedures, and the way in which staff use Pentana.
- 8.2 The findings of the report are positive with the Council obtaining an overall risk maturity rating level of 3, Managed. Zurich comment that given the complexity of services provided and the resources often available to support risk management within the public sector, a good score is considered at level 3, Managed, whilst most local authorities would be judged to be level 2, In Development.
- 8.3 Against the 6 assessed categories we scored 3 level 3's – Managed, 1 level 4 – Integrated, and one level 2 – In Development. In summary the scores are detailed below:

Risk Culture & Leadership – Exploring the attitude that Senior Officers and Members take towards the role and priority of risk management. **Level 3, Managed:** Senior management & Members take the lead to apply risk management across the organisation and a register of key strategic risks is maintained.

Risk Appetite & Strategy – Reviewing the extent to which the policies for risk management support the organisation and how the appetite for risk is considered and utilised. **Level 4, Integrated:** The organisation has formalised its risk appetite, and statements exist for each principal risk category for practical use at key decision points.

Governance – Establishing how assurance is provided to stakeholders, the effectiveness of reporting arrangements and how risk is managed within departmental areas. **Level 3, Managed:** Formal reporting and assurance arrangements for risk management exist which are delivering value to the organisation and are consistently applied.

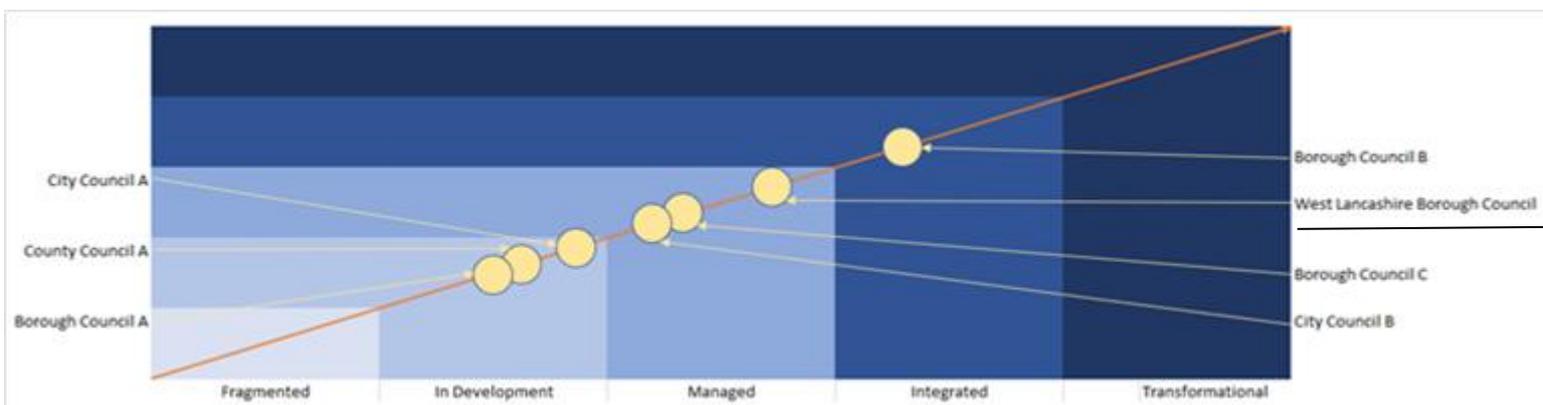
Methodology – Assessing whether effective risk processes and tools are in place to support the organisation. **Level 3, Managed:** Risk management

processes are established and effective but are not being applied consistently across the organisation.

People & Training – Evaluating the level of risk management skills, knowledge, and capacity across the organisation. Level 3, Managed: A core group of people have the skills, knowledge, and capacity to manage risk effectively and implement the risk framework across the organisation.

Projects, Partnership & Supply Chain – Determining whether there are effective arrangements for managing risks within projects and with partners and suppliers. Level 2, In Development: Approaches for managing risk in these areas exist but are currently being implemented or require development.

8.4 With regards to how we benchmark against other Councils, the diagram below which is included within Zurich's final report illustrates that we have made good progress. This figure gives an indication as to where Zurich consider West Lancashire Borough Council to be amongst a small group of its peers who have undertaken a similar health check exercise with Zurich in the last 12 months. The middle line represents the maturity curve.



8.5 The report positively concludes that there is evidence to demonstrate that the Council takes its risk management seriously, largely driven by senior officers and strategic risks.

8.6 Several positives were highlighted in the report, these being;

- Strong, clear, and consistent messaging from leadership around risk management.
- Embedded processes for corporate risks around review, escalation and monitoring from both officers and Members at the Council.
- Use of Risk Appetite to support review and decision making.
- A comprehensive suite of training material for staff including newsletters, webinars, and third party delivery of training.

8.7 A number of development opportunities were highlighted, these being;

- Operational risk management is behind the corporate risk management; it requires further work to embed a process and ensure risks are reviewed and reported at Head of Service level.
- Key person dependency on the Risk and Insurance Officer post holder, consider utilising a Risk Champions network within departments to support the Risk & Insurance Officer in managing the risk management process.

- Incorporate risk management into other areas of reporting and consideration, such as performance.

These development opportunities are fully acknowledged, and an action plan has been put in place to strengthen our approach in these areas.

9.0 REVIEW OF EFFECTIVENESS

- 9.1 The risk management framework has once again operated effectively over the last year. The arrangements in place include key and service risk registers, a Risk Management Policy & Strategy, Toolkit, and a work programme incorporating a training programme. Risk registers continue to be maintained on the Pentana risk system and are subject to regular review and updating. The risk function will aim to further embed risk management and develop the Council's risk maturity over the next 12 months.

10.0 SUSTAINABILITY IMPLICATIONS

- 10.1 There are no significant sustainability impacts associated with this report and, in particular, no significant impact on crime and disorder.

11.0 FINANCIAL AND RESOURCE IMPLICATIONS

- 11.1 The successful management of the key risks facing the Council will ensure that resources are used effectively and efficiently.

12.0 RISK ASSESSMENT

- 12.1 The continued review of the risk management framework is essential to ensure the successful achievement of the Council's objectives, demonstrate effective provision of its services and the maximisation of opportunities. If we are unable to maintain an effective risk management framework, we could endanger the achievement of our vision and priorities. By continually monitoring and reviewing the framework it should continue to improve, develop, and meet best practice requirements.

13.0 HEALTH AND WELLBEING IMPLICATIONS

- 13.1 There are no health and wellbeing implications arising from this report.

Background Documents

There are no background documents (as defined in section 100D(5) of the Local Government Act 1972) to this report.

Equality Impact Assessment

The decision does not have a direct impact on members of the public, employees, elected members and / or stakeholders. Therefore, no Equality Impact Assessment is required.

Appendices

Appendix A – Risk Management Annual Report 2022

Appendix B – Updated Risk Management Policy & Strategy 2023

Appendix C – Updated Risk Management Toolkit 2023