RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

MUNICIPAL YEAR 2018/19

AUDIT COMMITTEE 17th December 2018	AGENDA ITEM NO. 7
REPORT OF THE GROUP DIRECTOR, CORPORATE & FRONTLINE SERVICES	RISK MANAGEMENT STRATEGY UP DATE

Author: Marc Crumbie (Head of Internal Audit & Procurement Delivery Programme)

1. PURPOSE OF THE REPORT

1.1 The purpose of this report is to provide Audit Committee with an overview of the Council's Risk Management Strategy, and to also propose housekeeping up-dates that are required to the document.

2. RECOMMENDATIONS

It is recommended that Members:

2.1 Form a view on the adequacy of the Council's Risk Management Strategy (Appendix A).

2.2 Endorse the updated Strategy and agree for the revised document to be made available on the Council's website.

3. REASONS FOR RECOMMENDATIONS

3.1 To assist Audit Committee in discharging its responsibilities in respect of overseeing the Council's risk management arrangements.

4. AUDIT COMMITTEE'S TERMS OF REFERENCE

4.1 The Audit Committee's Terms of Reference states its overall purpose, as follows:

The purpose of the Audit Committee is to <u>monitor the adequacy of the risk management framework</u> and the associated control environment; provide independent scrutiny of the authority's financial and non-financial performance

to the extent that it affects the Authority's exposure to risk and weakens the control environment; and to oversee the financial reporting process.

4.2 Section E of the Committee's Terms of Reference goes on to identify the following responsibility in respect of the Council's Risk Management arrangements:

Review, <u>scrutinise and issue reports and recommendations on the appropriateness of the Authority's risk management</u>, internal control and corporate governance arrangements, and providing the opportunity for direct discussion with the auditor(s) on these

4.3 To help discharge the Risk Management duty, information is reported to Audit Committee at specific points each year.

5.   THE COUNCIL'S RISK MANAGEMENT STRATEGY AND AN OVERVIEW OF ARRANGEMENTS

Risk Management Strategy

5.1 Following a review of the Council's Risk Management Strategy, a number of proposed revisions have been identified and incorporated into the Strategy document set out in Appendix 1. For Members information, the proposed amendments are more housekeeping related in nature and do not change the fundamental principles of the document approved by Cabinet in March 2014. The proposed revisions are:

- Section 4 – a new section to reference the requirements of the Well-Being of Future Generations (Wales) Act 2015;
- Section 5 – replacing references to the Single Integrated Plan with the Cwm Taf Well-being Plan;
- Section 6 – up dating accounting legislation references i.e. replacing 'Accounts and Audit (Wales) Regulations 2005 (regulation 4)' with 'Accounts and Audit (Wales) Regulations 2018 (regulation 4)';
- Section 7 – reflecting the role the Council's scrutiny function plays in monitoring Strategic Risk Register up dates as part of quarterly performance reporting arrangements;
- Section 9 – incorporating the potential benefits and risks of partnership working.

Overview of arrangements

5.2 In setting the overall framework, the Strategy provides the Council's definition of risk and also identifies two specific 'thresholds' put in place to make it clear how risk management should be applied at different levels of the Council's business:

Strategic Risks

Risks the Council faces when delivering its Corporate Plan priorities.

The Council's strategic risks are set out in the Strategic Risk Register. The Strategic Risk Register is updated on a quarterly basis and reported and scrutinised as part of the Council's quarterly Performance Report. A copy of the latest Strategic Risk Register, as included within the Council's 2018/19 Performance Report for Quarter 2 (as at 30th September 2018), is provided within the following link.

Operational Risks

Risks associated with the delivery of service objectives, as set out within Service Delivery Plans. These risks are monitored by Service Delivery Plan owners as part of the operational management of services.

5.3   In addition to the above, to assist Management in applying consistent risk management arrangements, a Risk Management Toolkit is in place.

6.   EQUALITY AND DIVERSITY IMPLICATIONS

6.1   There are no equality and diversity implications as a result of the recommendations set out in the report.

7.   CONSULTATION

7.1   There are no consultation implications as a result of the recommendations set out in the report.

8.   FINANCIAL IMPLICATION(S)

8.1   There are no financial implications as a result of the recommendations set out in the report.

9.   LEGAL IMPLICATIONS *OR* LEGISLATION CONSIDERED

9.1   The Council's risk management arrangements satisfies the requirements placed upon it as set out within:
- Accounts and Audit (Wales) Regulations 2018 (regulation 4);
- CIPFA/SOLACE Delivering Good Governance in Local Government – Core Principle F; and
- Well-being of Future Generations (Wales) Act 2015.

10.   LINKS TO CORPORATE AND NATIONAL PRIORITIES AND THE WELL-BEING OF FUTURE GENERATIONS ACT

THE COUNCIL'S CORPORATE PLAN PRIORITIES

10.1 The Council's risk management arrangements support the delivery of the Council's Corporate Plan priorities by helping to identify risks that may hinder delivery.

WELL-BEING OF FUTURE GENERATIONS ACT

10.2 The Well-being of Future Generations (Wales) Act 2015 identifies a core set of activities that are common to the corporate governance of public bodies where change needs to happen. Risk Management is one of the identified core activities. The Council's risk management arrangements and strategic risk register conform to the requirements placed upon it by the Act.

11. **CONCLUSION**

11.1 The Risk Management Strategy is designed to ensure that sound risk management practices are in place, including processes to identify, assess and manage risk on an ongoing basis. The Risk Management Toolkit is a more detailed document designed to help and support officers at all levels across the Council to undertake these processes in a consistent manner.

11.2 Understanding the risks the Council faces and managing them appropriately aides effective decision-making and will positively contribute to the achievement of Corporate Plan Priorities and Service Delivery Plan objectives.

11.3 It is the responsibility of Audit Committee to review and scrutinise the risk management arrangements in place across the Council and form a view of their adequacy.

Other Information:-*Relevant Scrutiny Committee*
None.
Contact Officer – Marc Crumbie

LOCAL GOVERNMENT ACT 1972

AS AMENDED BY

THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

AUDIT COMMITTEE

17th December 2018

RISK MANAGEMENT STRATEGY UP DATE

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Item: 7

Background Papers

None.

Officer to contact: Marc Crumbie

RHONDDA CYNON TAF

Appendix A – Updated Risk Management Strategy

RHONDDA CYNON TAF COUNTY BOROUGH COUNCIL

Risk Management Strategy

December 2018 (Updated)

1.   Introduction
1.1   Risk management is an integral part of management practice. Managing the risks that may impact on the Council's ability to deliver services as intended and in doing so help improve the quality of life for local people is at the forefront of the Council's forward planning arrangements.

1.2   The aim of this document is to set the overall purpose and framework of risk management within the Council.

1.3   Risk management is the business of everyone in the Council.

2.   Purpose of Risk Management in Rhondda Cynon Taf
2.1   In Rhondda Cynon Taf, at a strategic level, the purpose of risk management is to identify and manage the risks the Council faces when delivering its improvement priorities. At an operational level, risk management is about identifying and managing risks associated with service delivery and is undertaken via the Council's delivery (business) planning and monitoring arrangements.

2.2   This strategy is designed to ensure that sound risk management practices are in place, including processes to identify, assess and manage risk on an ongoing basis.

2.3   Understanding the risks the Council face and managing them appropriately aides effective decision-making and contributes to the achievement of its improvement priorities. Risk management is not about eliminating risk and should not be confused with being risk averse; the Council's risk management arrangements aim to encourage innovation within a clear framework.

3.   Definition
3.1   Risk is the uncertainty of outcome, whether a positive opportunity or a negative threat, of actions or events. The Council's definition of risk is '*something happening that, should it occur, would impact on the Council's ability to successfully achieve its improvement priorities'.*

4.   Well-being of Future Generations Act
4.1   The Well-being of Future Generations (Wales) Act 2015 identifies a core set of activities that are common to the corporate governance of public bodies where change needs to happen:
- Corporate Planning;
- Financial Planning;
- Workforce Planning;
- Procurement;
- Assets;
- **Risk Management**; and
- Performance Management

4.2   The accompanying guidance to the Act states that a public body will need to change the way it manages risk. Under section 3 of 'where change needs to happen' of the Welsh Government Guidance, it states that:

"There will be long term risks that will affect both the delivery of your services but also the communities you are enabling to improve. Use the well-being goals and five ways of working to frame what risks you may be subject to in the short, medium and long term and together with the steps you will take to ensure they are well managed".

4.3 The Council's Strategic Risk Register incorporates controls and actions that aim to manage the risks, and these incorporate the five ways of working:

- **Involving** a diversity of the population in the decisions that affect them.
- Working with others in a **Collaborative** way to find shared sustainable solutions.
- Looking to the **Long-term** so that we do not compromise the ability of future generations to meet their-own needs.
- Taking an **Integrated** approach so that public bodies look at all the well-being goals in deciding on their well-being objectives.
- Understanding the root causes of issues to **prevent** them from occurring.

5. The Performance Management Framework and Risk Management

5.1 The Council's performance management framework (incorporating strategic risk management) aligns the outcomes contained in the Cwm Taf Well-Being Plan for the County Borough with the Council's Improvement Priorities.

5.2 Risk management has a strong link to performance management: if risks are not managed effectively then it is unlikely the Council will deliver its improvement priorities as planned nor make the intended contribution to the long term vision for the County Borough as set out in the Cwm Taf Well-Being Plan.

5.3 The supporting 'internal' processes that the Council has in relation to delivering its improvement priorities are encompassed within its Service Delivery Planning arrangements.

5.4 Service Delivery Plans set out the key priorities for each service to be delivered over 12-18 months; they incorporate operational risks to the achievement of each priority along with actions and milestones against which progress is monitored. These arrangements help each Service Area to:

- Support delivery of the Council's Corporate Plan priorities;
- Demonstrate how the service is aligning with the requirements of the Well-being of Future Generations Act;
- Provide a framework to ensure the priorities arising from the Council's Corporate Assessment are addressed; and
- Enable the service to identify and manage operational risks.

5.5 Regular monitoring enables senior managers to understand risks within their services, the changes occurring within them and what mitigating actions need to be put in place.

6. Internal Control and Risk Management

6.1 The Council's system of internal control has a key role in the management of risks. Internal controls are a response to risk.

6.2 The links between internal control and risk management are identified within the Accounts and Audit (Wales) Regulations 2018 (regulation 4), which states:

'Responsibility for internal control and financial management:

(1)   The local government body shall be responsible for putting in place and ensuring that there is a sound system of internal control which facilitates the effective exercise of that body's functions and which includes:

a. arrangements for the management of risk; and
b. adequate and effective financial management.

(2)   The local government body shall conduct a review at least once in a year of the effectiveness of its system of internal control and shall include a statement on internal control, prepared in accordance with Proper Practices.'

6.3 Proper Practices are deemed to be the Code of Practice for Local Authority accounting which specifies:

'A local authority shall undertake a review of its system of internal control in accordance with best practice. Delivering Good Governance in Local Government, published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE), recommends that the review be reported in an Annual Governance Statement.'

6.4 In addition to the Accounts and Audit (Wales) Regulations 2018 (regulation 4), in a Local Government context, the importance of risk management as a key governance tool is incorporated within the CIPFA/SOLACE Delivering Good Governance in Local Government – Core Principle F:

'Managing risks and performance through robust internal control and strong public financial management

Local government needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a performance management system and are crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision making activities.'

6.5 The Council's Senior Leadership Team (SLT) has put in place a series of Policies and Procedures that aim to ensure that robust controls are in place to manage risk efficiently and effectively in order to deliver its services. SLT

receives regular assurance from internal and external sources around the strength of its internal control environment.

7.   The Council's Audit Committee & Scrutiny function

7.1   The Council's Audit Committee is charged with overseeing the Council's governance, risk management and internal control arrangements. The statement of purpose for audit committee and relevant sections of its terms of reference state:

The purpose of the Audit Committee is to monitor the adequacy of the risk management framework and the associated control environment; provide independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment; and to oversee the financial reporting process.

7.2   Section 'E' of the Committee's terms of reference goes on to state:

Review, scrutinise and issue reports and recommendations on the appropriateness of the Authority's risk management, internal control and corporate governance arrangements, and providing the opportunity for direct discussion with the auditor(s) on these

7.3   Monitoring of the Council's strategic risks is integrated into its Performance Reports and reviewed on a quarterly basis by the Council's scrutiny function. Risks are identified, assessed and scored using a matrix of impact and likelihood, and the outcome of the scoring process results in a score being attributed.

7.4   The Council's strategic risks are brought together into a Strategic Risk Register that is owned and monitored by the Council's Senior Leadership Team.

7.5   Operational risks are monitored and managed separately as part of the Council's Delivery Planning arrangements.

8.   Risk Management – Links to other disciplines

8.1   Controlling risk involves a process of reducing the impact and / or likelihood of the risk occurring.

8.2   A number of disciplines are applied across the Council to help achieve this:
- Procurement can be used to manage risks by appointing contractors to undertake services on behalf of the Council and contracts can be used to transfer identified risk(s);
- Insurance can be used to manage risks (for example, the potential financial impact of a risk could be mitigated using an insurance policy); and
- A business continuity plan is a control that can help to manage the impact of an event that may arise.

9. Partnerships

9.1 Partnership working is playing an increasingly important role in service delivery. In recent years, the focus for the Council has been on the opportunities offered by partnership and joint working arrangements.

9.2 Working in partnership usually means committing resources such as time and/or direct funding to develop and deliver desired outcomes. It may not be easy and, whilst there are opportunities there are also risks. It is important to understand and manage these in so far as they affect both the partnership and Council.

Potential benefits of partnership working
- Better co-ordination and integration in the delivery of services for users.
- Flexibility and innovation, producing better policy and implementing more credible solutions than those achievable by single agencies.
- Improved communication and information-sharing.
- More efficient and effective use of resources to deliver value for money, including access to additional skills and expertise.
- Greater capacity to plan and develop solutions, including pooling expertise and resources.

Potential risks of partnership working
- Lack of clear purpose or setting unrealistic goals and expectations.
- Unaware of the extent of financial and legal implications, such as breach of statutory duty or failure in the exercise of statutory functions.
- Financial and time commitments outweigh potential benefits.
- Different or conflicting cultures, behaviours and policies lead to conflict, distrust, manipulation or domination.
- Lack of clarity over partner expectations and responsibilities.
- Inadequate governance and scrutiny over planning, decision-making and management of finance, risk and performance.

10. Projects

10.1 Project risk management defines how risks will be managed during the lifecycle of a project or programme. The arrangements acknowledge actual and potential threats to the successful delivery of a project and determine the activities required to minimise or eliminate them.

10.2 Where partners and/or suppliers are involved, it is essential to have a shared understanding of risks and agreed plans for managing them.

11. Risk Management - An Overview

11.1 A toolkit has been devised that provides managers with a guide when undertaking risk management activities at all levels across the Council. The toolkit is a supporting document to this Strategy.

11.2 Figure 1 shows the stages involved in the Council's strategic risk management arrangements.

Figure 1 – Strategic Risk Management Arrangements