

CABINET: 12 JULY 2018

**RISK MANAGEMENT STRATEGY & POLICY AND QUARTER 4
POSITION 2017/18**

**FIANANCE, MODERNISATION & PERFORMANCE
(COUNCILLOR CHRIS WEAVER)**

AGENDA ITEM: 8

1. To seek approval from Cabinet for the Risk Management Strategy and Policy, attached in Appendix A, which will replace the current Risk Management Policy, Strategy and Methodology.
2. To bring the risk management position at quarter 4 2017/18 to the attention of the Cabinet, for consideration of the key risks facing the Council.

Background

3. The Council's Risk Management Policy, Strategy and Methodology has been in place since 2014. This new approach targets improvements in order to show consistency in assessment, identification, evaluation and response to risk
4. The revised approach recognises the strengths of existing arrangements, but now progresses to support a more mature and engaged approach to risk management following:
 - Benchmarking with the Chartered Institute of Public Finance and Accountancy (CIPFA)
 - Risk maturity modelling using an Institute of Internal Auditors (IIA) approach
 - Risk Champions Network engagement, Risk Management Steering Group, Senior Management Team, AON insurance and Audit Committee review.
5. The Cabinet receives an update on the risk management position on a biannual basis, with previous reviews being considered on 14 December 2017, at which time the risk management position at quarter 2 2017/18 was presented.
6. Each Directorate holds a Directorate Risk Register (DRR), and the Senior Management Team (SMT) collectively own a Corporate Risk Register (CRR). The CRR records the main risks to the delivery of

corporate objectives and priorities, whilst the DRRs record the key risks to the delivery of Directorate functions and priorities.

7. A risk escalation process is in place, whereby each Director is required to take ownership of all residual (current) risks rated as 'red/amber' and above on their DRR and, at a minimum, to escalate all 'red' residual risks to SMT for collective ownership and review.
8. SMT determine if any changes are required to the CRR each quarter as a result of this reporting process. The remaining escalated risks continue to be held on DRRs and reviewed by SMT each quarter until it is agreed that mitigation is sufficient for risk ownership to transfer back to the Directorate.

Issues

i. Risk Management Strategy and Policy - Development

9. The Risk Management Strategy and Policy has been developed to support innovation and well-informed decisions. It sets out the risks that the council may be able to accept, and those that the council need to directly manage and reduce. The approach has been designed using the benchmarking, maturity modelling and engagement outlined in paragraph 4.
10. The Council's network of Directorate Risk Champions have a core role to support managers to assess and report risks each quarter. To communicate the responsibilities of all staff to report risks and apply risk management when making decisions, a 'Risk Management Essentials Guide' has been prepared, included in Appendix B. This 6 page guide is designed as a readable overview to communicate the key principles, requirements and responsibilities to all staff.
11. To ensure all dimensions of a risk are considered, the approach contains five standard perspectives / lenses for evaluating risk, to be used as part of the risk assessment and review process.

1. Strategic Risk

The consequences of strategic decisions, or the failure to achieve our strategic vision.

2. Financial Risk

Risk to the Council's balance sheet, assets and liabilities, funding, income and spending levels.

3. Service Delivery Risk

Risks to the effective and efficient delivery of Council services and business continuity.

4. Legal & Regulatory Risk

Risks of breaching the law, legal action, losses, fines and other sanctions arising from non-compliance with laws and regulations.

5. Reputational Risk

Risks of adverse or damaging perception of the Council by the general public and Cardiff residents.

12. The risk response is guided by the amount of risk the Council is prepared to take, known as Risk Appetite. It will result in some actions which are positive and progressive and others which focus on mitigation. The Strategy and Policy empowers an 'open' and balanced approach to managing 'strategic risk', 'financial risk' and 'service delivery risk'. It requires a 'cautious' approach to 'legal and regulatory' and 'reputational risk'.
13. Training and support will be provided to the Council's Risk Champions to develop them in delivering the requirements of the Strategy and Policy, to commence in July 2018. The content of the Cardiff Manager Programme is being refreshed to develop the awareness and skills of line managers, and corporate communications will be used to support wider staff awareness and reinforce the messaging from the Risk Management Essentials Guide. To support the Strategy and Policy to embed, arrangements for risk management reviews, monitoring and health checks will follow.

ii. Risk Management Position - Quarter 4 2017/18.

14. Each Director has worked with their Risk Champion(s) to undertake their quarter 4 risk management review. The Risk Management Team has also provided advice and guidance on the measurement and reporting of risks. The quarter 4 risk assessments are presented on the Corporate Risk Map (Appendix C), the Summary CRR (Appendix D) and the Detailed CRR (Appendix E).
15. The Risk Management Review process has two tiers (Directorate and Corporate) and the actions at each for quarter 4 are detailed as follows.

Directorate Risks

16. At the end of quarter 4, 343 risks were reported from DRRs. All escalated risks and requests for de-escalation were discussed and approved in SMT on 22 May 2018.
17. It was decided that 10 directorate risks would be carried forward as SMT escalated risks at the end of quarter 4.

Directorate	Resources	City Operations	Communities, Housing & Customer Services	Economic Development	Education & Lifelong Learning	Social Services	Governance & Legal Services
Directorate Risks	118	43	60	80	19	16	7
Risks at SMT Escalation Point	2	1	1 (shared)	2 (inc.1 shared)	3	1 (shared)	2 (inc.1 shared)

Corporate Risks

18. SMT has collectively reviewed the escalated directorate risks and corporate risk updates from risk owners. In consideration of the potential impact on corporate priorities and objectives and the supporting

mitigations, SMT has approved the following CRR changes since the last Cabinet update on 14 December 2017.

19. **Delivering Capital Ambition Programme'** - A new corporate risk was added to the CRR in quarter three, focussed on the delivery of the Cabinet's four year Capital Ambition Delivery Programme, which replaced the Council's Organisational Development Programme (ODP) from December 2017. The ODP, which has been removed from the CRR, was subject to an independent review in May 2017 which concluded that the change programme had effectively served its purpose and should allow the Council to respond and adapt to the changing operational environment. In line with the recommendations of the independent review, the new programme will focus on a smaller number of transformational programmes.
20. **'Air quality'** – The residual risk increased from C1 to B1 in quarter three. Welsh Government have agreed to a Legally Binding Consent Order with Client Earth to initiate measures within very specific and challenging timescales. The requirement to undertake this work now lies with Cardiff Council in the form of a Formal Direction from Welsh Government for a full assessment, feasibility and through to the potential implementation of specific improvement measures. The risk rating to the Authority was increased due to the aforementioned timescales and the potential implications should the requirements of the direction not be achieved.
21. **'Coastal Erosion'** - Coastal erosion was extracted from the Corporate Climate Change and Energy Security risk as a stand-alone risk in quarter three to reflect the immediate urgency of the coastal erosion flood risk, which is very different to the mid-long term climate change risk. The coastal risk of the breach of defences (i.e. risk to life/property/ infrastructure/ services etc) is current, not future, and is unable to be mitigated until works to prevent it are holistically complete (currently 2021 subject to funding for design & construction).
22. **'Climate Change and Energy Security'** – The residual risk was reduced from B1 to C1 in quarter three, to reflect the mid-long term nature of this risk, following the decision to report on coastal erosion as a separate short-term stand alone risk.
23. **Financial Resilience** – The risk has been refocussed as the aggregation of two corporate risks (Budget Prioritisation and Financial Resilience), with the overall risk moving from C2 to B2 in quarter four. The Budget Challenge focuses on both the year coming and the medium term. As per the 2018/19 Budget Report there is a £34 million budget gap for 2019/20 and a further £57 million gap for the following two years. The risk to Financial resilience is both in respect of the forthcoming year 2019/20 and the medium term (2020/21 and beyond). As a result it is time to aggregate the two risks to Financial Resilience. This will provide further clarity and focus to the reader of the risk register and also emphasise that the Budgetary challenge is an ongoing long term risk which requires a coordinated set of risk mitigations.

24. **Fraud Bribery and Corruption** – The residual risk has been reassessed as C2 (formerly B3) in quarter four. The significance given to robust stewardship, a culture of accountability and zero tolerance to impropriety has been reinforced in the Council's refreshed Fraud, Bribery and Corruption Policy. With the importance given to this area, the risk has been reassessed as having a potential significant impact on the Council, but all indications are that the potential for impropriety is isolated to a minority of areas, in which efforts are being made to strengthen the internal control environment. The assessment is and will continue to be based on management assurances and the independent work of the Internal Audit function.
25. **Schools Organisation Programme** – The risk has been refocussed to the Band B phase, and the residual risk has been assessed as C1 (formerly C3) in quarter four. A significant proportion of Band A of the Schools Organisation Programme has been delivered to date. There is now only £64m left being constructed on site and that will be complete by February 2019. Focus will now begin to switch to delivering 21st Century Schools Band B, for which the funding bid was submitted to Welsh Government in July 2017. The Strategic Outline Case for £284m was approved in November 2017 and two Cabinet Reports in October and December outlined the priorities for this second phase of funding.
26. **Performance Management** – The risk has been refocussed in quarter four to ensuring arrangements in place are embedded, applied consistently, and continue to develop in light of the evolving environment the Council operates within. Although the organisation needs to avoid complacency (and does), the Council is no longer in a situation where clear warnings about performance, and the approach to managing it, have been issued by external regulators. Instead, the work done over the last few years has improved the Council's approach to performance management, and that has led to improved performance in many key areas. While the Council faces performance challenges, namely how to continue to improve service provision with reducing finances and demographic growth, the nature of this challenge has shifted dramatically since Performance Management was originally included on the Corporate Risk Register.

Reason for recommendation

27. To enable the Cabinet to consider the proposed Risk Management Strategy and Policy, and to monitor and consider the quarter 4 risk management position 2017/18.

Legal Implications

28. There are no direct legal implications arising from this report. However, one of the benefits of identifying risk is that mitigation measures may be taken, if appropriate, and consequently successful claims against the Council may be avoided altogether, or reduced.

Financial Implications

29. There are no direct financial implications arising from this report. However, the approach to systematically reviewing 'financial risk' through a core risk assessment lens, supported by an 'open' financial risk appetite, provides an opportunity to achieve effective financial stewardship and value for money.
30. The approach enables financial opportunities to be explored within defined boundaries, whilst setting clear accountabilities for financial governance and is appropriate for the level of innovation required to deliver financial requirements over the medium term.
31. The Corporate Risk register will be used to guide the Internal Audit Plan and the Council's resource planning processes and forms an important part of the governance arrangements for the Council.

HR Implications

32. There are no direct human resource implications arising from the report.

RECOMMENDATIONS

The Cabinet is recommended to approve the Risk Management Strategy and Policy and note the content of the Corporate Risk Register.

SENIOR RESPONSIBLE OFFICER	CHRISTINE SALTER CORPORATE DIRECTOR RESOURCES
	6 JULY 2018

The following Appendices are attached:

Appendix A - Proposed Risk Management Strategy and Policy

Appendix B - Risk Management Essentials Guide

Appendix C - Corporate Risk Map (Q4 2017/18)

Appendix D - Summary Corporate Risk Register (Q4 2017/18)

Appendix E - Detailed Corporate Risk Register (Q4 2017/18)