WARWICK DISTRICT COUNCIL	Finance & Audit Scrutiny Committee - 8 October 2013	Agenda Item No. 5

Title	**Risk Management Annual Report 2012/13**
For further information about this report please contact	Richard Barr Tel: (01926) 456815 E Mail: richard.barr@warwickdc.gov.uk
Service Area	Finance
Wards of the District directly affected	Not applicable
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No
Date and meeting when issue was last considered and relevant minute number	Executive – 9th January 2013. Last report for consideration of Significant Business Risk Register: Executive – 10th July 2013.
Background Papers	Minutes of Risk Management Group meetings

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	No
Included within the Forward Plan? (If yes include reference number)	No

Officer/Councillor Approval

With regard to officer approval all reports *must* be approved by the report authors relevant director, Finance, Legal Services and the relevant Portfolio Holder(s).

Officer Approval	**Date**	**Name**
Relevant Director	25 Sept 2013	Andrew Jones
Chief Executive	25 Sept 2013	Chris Elliott
CMT		CMT
Section 151 Officer	25 Sept 2013	Mike Snow
Legal		
Finance	25 Sept 2013	As S151 Officer
Portfolio Holders	25 Sept 2013	Councillor Michael Doody and Councillor Andrew Mobbs

Consultation Undertaken

Not applicable

Final Decision?	Yes

Suggested next steps (if not final decision please set out below)

1 SUMMARY

1.1 As part of the ongoing objective to embed risk management within the organisation the report updates the Risk Management Strategy (Appendix A) and details progress in implementing risk management throughout the organisation including the implementation of items in last year's risk management action plan (Appendix B).

2 RECOMMENDATIONS

2.1 That members note the report and its contents, in particular that which sets out members' responsibility for risk management.

2.2 That members affirm the council's risk management strategy (Appendix A).

2.3 That members confirm they are satisfied with the progress being made in embedding risk management in the council, noting the review of Year Two of the 4-year Action Plan (Appendix B).

3 REASON FOR RECOMMENDATIONS

3.1 To assist members fulfil their role in overseeing the organisation's risk management framework.

3.2 Members are required to approve the council's policy on risk (including the extent to which the council is willing to accept risk).

3.3 Members are required to approve initiatives designed to enhance risk management.

See 'Responsibility for Risk Management' –Section 7 overleaf.

4 ALTERNATIVE OPTION(S) CONSIDERED

4.1 This report is not concerned with recommending a particular option in preference to others so this section is not applicable.

5 BUDGETARY FRAMEWORK

5.1 Although there are no direct budgetary implications arising from this report, risk management performs a key role in corporate governance including that of the Budgetary Framework. An effective risk management framework helps to ensure that the Authority manages its resources and achieves its objectives economically, efficiently and effectively.

6 POLICY FRAMEWORK

6.1 Although there are no direct policy implications, risk management is an essential part of corporate governance and will be a major factor in shaping the Policy Framework and council policies.

7 RESPONSIBILITY FOR RISK MANAGEMENT

7.1 In its management paper "Worth the risk: improving risk management in local government", the Audit Commission sets out clearly the responsibilities of members and officers:

> "Members need to determine within existing and new leadership structures how they will plan and monitor the council's risk management arrangements. They should:
>
> - decide on the structure through which risk management will be led and monitored;
> - consider appointing a particular group or committee, such as an audit committee, to oversee risk management and to provide a focus for the process;
> - agree an implementation strategy;
> - approve the council's policy on risk (including the degree to which the council is willing to accept risk);
> - agree the list of most significant risks;
> - receive reports on risk management and internal control – officers should report at least annually, with possibly interim reporting on a quarterly basis;
> - commission and review an annual assessment of effectiveness: and
> - approve the public disclosure of the outcome of this annual assessment, including publishing it in an appropriate manner.
>
> The role of senior officers is to implement the risk management policy agreed by members.
>
> It is important that the chief executive is the clear figurehead for implementing the risk management process by making a clear and public personal commitment to making it work. However, it is unlikely that the chief executive will have the time to lead in practice and, as part of the planning process, the person best placed to lead the risk management implementation and improvement process should be identified and appointed to carry out this task. Other people throughout the organisation should also be tasked with taking clear responsibility for appropriate aspects of risk management in their area of responsibility."

8 PROGRESS TO DATE

8.1 The overriding objective for risk management is to embed it within the organisation so that it is a seamless, but fundamental, part of the organisation's processes and not viewed as a separate bureaucratic activity with little value. However, as with all things of this nature, there is no specific picture of what a fully risk-embedded organisation looks like and the goal of embedding risk management is an ongoing process rather than one with a definite ending.

8.2 To help achieve the objective of embedding risk management the council has a Risk Management Strategy, set out as Appendix A to this report.

8.3 Within the Strategy is an action plan that details the tasks necessary to advance risk management. The action plan is a 4-year programme that was initiated in 2011/12. The programme is therefore currently in its third year. Members are required each year to review the Strategy and review the progress made in the action plan. The action plan is set out as Annexe 1 within Appendix A.

8.4 The action plan has been based on the areas for improvement identified from a recent appraisal of the council's risk management arrangements, undertaken through the CIPFA Risk Management Benchmarking Club.

8.5 The benchmarking survey is based on ALARM's National Performance Model for Risk Management in Public Services that breaks down risk management activity into seven strands:

- Leadership and management
- Strategy and policy
- People
- Partnership, shared risks and resources
- Processes and tools
- Risk handling and assurance
- Outcomes and delivery

8.6 Under each strand, answers to a series of questions identify the level of maturity the organisation has reached.

8.7 Further details are set out in Annexe 1 to Appendix A.

8.8 The level of maturity is assessed at one of the following (in ascending order of maturity):

- Engaging
- Happening
- Working
- Embedded & Integrated
- Driving

8.9 A strategic action plan has been produced to improve maturity levels for those strands deemed to be at lower levels of maturity i.e. at the "Happening" or "Engaging" levels.

8.10 The arrangements to be addressed are those that particularly fall short within those strands.

8.11 Previous annual action plans were based on addressing areas for improvement identified by the Key Lines of Enquiry 2.4 under the Comprehensive Area Assessment.

8.12 Progress in respect of last year's action plan is set out as Appendix B to this report.

8.13 The Risk Management Group meets on a regular basis throughout the year to review progress and share and promote best practice in the field of risk management.

8.14 There had been a Risk Management Group within the council for a number of years but following structural and staffing changes the Group was re-launched about three years ago and a revised terms of reference agreed.

8.15 Each quarter, the senior management team reviews and updates the Significant Business Risk Register. This is then presented to the Executive for its consideration. Finance and Audit scrutiny Committee also consider the report making any representations to Executive as they see fit.

8.16 The Finance and Audit Scrutiny Committee has instigated a programme of quarterly reviews of service risk registers. This has proved to be highly beneficial, providing the impetus for services to review thoroughly their risk registers via the engagement of their management team and their portfolio holder.

9 CONCLUSIONS

9.1 The acknowledged key to effective risk management is having risk management arrangements which are embedded in the culture of the organisation and which are not separate 'bolt on' activities. Clearly, this is not an easy objective to achieve and, with the accepted wisdom that "risk management is an ongoing journey rather than one with a fixed destination", the crucial factor is that we continue to make good progress in implementing risk management within the Authority. This report provides evidence of that being achieved.

Appendix A

WARWICK DISTRICT COUNCIL RISK MANAGEMENT STRATEGY

Purpose of strategy

The purpose of the strategy is to embed risk management in the Authority by establishing a risk management framework that provides:

- an efficient control environment
- the overt allocation of accountability for risk management throughout the organisation
- a well-established risk assessment process
- performance monitoring of risk management activity
- communications process to support risk management

A 4–year action plan to advance risk management in the organisation is set out as Annexe 1.

Definition and scope of risk management

The council has adopted the Audit Commission's definition of risk and risk management as contained in its Management Paper, 'Worth the risk: improving risk management in local government':

Risk is the threat that an event or action will adversely affect an organisation's ability to achieve its objectives and successfully execute its strategies. Risk management is the process by which risks are identified, evaluated and controlled. It is a key element of the framework of governance together with community focus, structures and processes, standards of conduct and service delivery arrangements.

The overall process of managing risk can be divided into:

- Risk analysis, or assessment, which includes the identification, estimation and evaluation of the risks; and
- Risk management that encompasses the planning, monitoring and controlling activities based on the information derived from risk analysis.

Aims and objectives

The risk management policy of Warwick District Council is to adopt best practices in the identification, evaluation, and cost-effective control of risks to ensure that they are eliminated or reduced to an acceptable level.

It is acknowledged that some risks will always exist and will never be eliminated.

All employees must understand the nature of risk and accept responsibility for risks associated with their area of authority. The necessary support, assistance and commitment of senior management will be provided.

The risk management objectives of the council are to:

- integrate risk management into the culture of the council
- manage risk in accordance with best practice
- consider legal compliance as a minimum standard
- anticipate and respond to changing social, environmental and legislative requirements
- prevent injury and damage and reduce the cost of risk
- raise awareness of the need for risk management.

These objectives will be achieved by:

- establishing a risk management organisational structure to act in an advisory and guiding capacity which is accessible to all employees
- including risk management as an agenda item at meetings as appropriate
- continuing to demonstrate the application of risk management principles
- providing risk management awareness training
- maintaining documented procedures for the control of risk and the provision of suitable information, training and supervision
- maintaining an appropriate incident reporting and recording system, with investigation procedures to establish cause and prevent recurrence
- preparing contingency plans in areas where there is a potential for an occurrence having a catastrophic effect on the council and its service delivery capability
- maintaining effective communication
- monitoring arrangements on an ongoing basis

Definition of the council's risk appetite

An organisation's risk appetite is the amount of risk that it is prepared to take in order to achieve its objectives. Defining the organisation's risk appetite provides the strategic guidance necessary for decision-making. Local authorities have lower risk appetites than commercial organisations as the incentive to achieve is not as obvious. Risk appetites for local authorities will also be lower due to the regulatory nature of most services and because of their stewardship obligations for public resources. However, local authorities may be forced to take risks beyond their choosing to comply with central government directives or to satisfy public expectations of improved services.

Warwick District Council's risk appetite is determined by individual circumstances. In general terms, the council's approach to providing services is to be innovative and to seek continuous improvement within a framework of robust corporate governance. This framework includes risk management that identifies and assesses risks appertaining to actions being considered or proposed. Decisions on whether to proceed with such actions are only taken after the careful assessment of the identified risks and an analysis of the risks compared to the benefits.

However, in all circumstances:

§ The council would wish to manage its financial affairs such that no action will be taken that would jeopardise its ability to continue to provide services within its available resource; and

§ The council would wish to secure the legal integrity of its actions at all times.

Roles and responsibilities

The following groups and individuals have the following roles and responsibilities for risk management within the council.

Executive

To oversee the effective management of risk throughout the council; to hold the corporate management team accountable for the effective management of risk by officers of the council.

Finance and Audit Scrutiny Committee

To scrutinise and review the management of risk on behalf of Executive.

Elected Members

To understand the importance of risk management in all that the council does; to champion the cause of risk management as part of the fulfilment of the role of members.

Senior Management Team

To ensure that the council manages risk effectively through the development of a comprehensive risk management strategy; to monitor delivery by receiving reports from the risk management group.

Risk champion[1]

To champion the cause of risk management within the council, particularly at the strategic level; to take personal responsibility for ensuring that the risk management objectives as set out in the policy are achieved.

[1] This officer is the Deputy Chief Executive (AJ)

Risk manager[2]

To support the council and its departments and services in the effective development, implementation and review of the risk management strategy.

Risk management group

To determine, implement and review the council's risk management policy and its risk management strategy. The risk management group is responsible for developing specific programmes and procedures for establishing and maintaining risk management activities. This group will ensure the dispersal of vital information and, where appropriate, provide guidance, interpretation and understanding of the systems involved.

The terms of reference of this group are set out as Annexe 2.

Departmental management teams

To ensure that risk is managed effectively in each service area within the agreed risk management strategy; to report to the Risk Management Group on how hazards and risks have been managed within their service area.

Service managers

To manage risk effectively in their particular service areas; to report on how hazards and risks have been managed to their Departmental Management Team or directly to the Risk Management Group.

Employees

To manage risk effectively in their jobs and report hazards and risks to their service managers

Insurance & Risk officer

To advise on practices which will minimise the likelihood of adverse events occurring and arrange insurance cover where necessary and appropriate.

The responsibilities of the various groups and individuals are summarised in the table that is included as Annexe 3.

Methodology for identifying and assessing risk

Risk is categorised between strategic and operational.

Strategic risks are those risks identified as potentially damaging to the achievement of the council's objectives. These can be sub-categorised into:

- Political
- Social
- Legislative
- Competitive

[2] This officer is the Audit and Risk Manager.

- Economic
- Technological
- Environmental
- Customer/citizen

Operational risks are those risks that should be managed by departmental officers who will be responsible for operating and maintaining the services. These can be sub-categorised into:

- Professional
- Legal
- Contractual
- Environmental
- Financial
- Physical
- Information

For risk registers, the following definitions are applied for the measurement of risk in respect of probability and consequences:

Probability of Occurrence

Estimation	Description	Indicators
5: High (Probable)	Likely to occur each year (defined as more than 25% chance of occurrence in any one of the years covered by the assessment).	• Potential of it occurring several times within the specified period (for example - ten years). • Has occurred recently.
4: Medium to High	Apply judgement	Apply judgement
3: Medium (Possible)	Likely to occur during a 10 year period (defined as between 2% and 25% chance of occurrence in any one of the years covered by the assessment).	• Could occur more than once within the period (for example - ten years). • Could be difficult to control due to some external influences. • Is there a history of occurrence?
2: Low to Medium	Apply judgement	Apply judgement
1: Low (Remote)	Not likely to occur in a 10 year period (defined as less than 2% chance of occurrence in any one of the years covered by the assessment).	• Has not occurred. • Unlikely to occur.

Consequences

Estimation	Description
5: High	• Financial impact on the organisation is likely to exceed £500K • Significant impact on the organisation’s strategy or operational activities • Significant stakeholder concern
4: Medium to High	Apply judgement
3: Medium	• Financial impact on the organisation likely to be between £100K and £250K • Moderate impact on the organisation’s strategy or operational activities • Moderate stakeholder concern
2: Low to Medium	Apply judgement
1: Low	• Financial impact on the organisation likely to be less that £10K • Low impact on the organisation’s strategy or operational activities • Low stakeholder concern

Annexe 1: Risk Management Strategic Action Plan 2011/12 to 2014/15

It was considered timely to appraise the council's risk management arrangements thoroughly, with the areas for improvement identified from the analysis forming the components of a comprehensive action plan.

To achieve this, the function joined the CIPFA Risk Management Benchmarking Club.

This involved completion of a very detailed survey and receipt of a report on the results of the exercise.

The benchmarking survey is based on ALARM's National Performance Model for Risk Management in Public Services published in 2009. This in turn is based on the "Risk Management Assessment Framework", developed by HM Treasury in 2002, itself having its genesis in the EFQM approach.

It breaks down risk management activity into seven strands:

- Leadership and management
- Strategy and policy
- People
- Partnership, shared risks and resources
- Processes and tools
- Risk handling and assurance
- Outcomes and delivery

Under each strand, a series of questions have been developed which members answer. These answers are weighted to reflect their relative impact on performance and collated into a final "score" for each section. This identifies the level of maturity the organisation has reached.

The level of maturity is assessed at one of the following (in ascending order of maturity):

- Engaging
- Happening
- Working
- Embedded & Integrated
- Driving

Our results are as follows:

- Leadership and management – Working
- Strategy and policy – Working
- People – Working
- Partnership, shared risks and resources – Happening
- Processes and tools – Working
- Risk handling and assurance – Happening
- Outcomes and delivery – Engaging

In terms of what this means for us, this is described in the following table. 'Our Level' describes the risk management arrangements that we are currently achieving whilst 'Ahead of us' describes advanced risk management arrangements that we aspire to.

Strand	Behavioural Maturity Level	
	Our Level	Ahead of us
Leadership and management	Working: • Senior managers and portfolio holders take the lead to apply risk management thoroughly across the organisation. • They own and manage a register of key strategic risks and set the risk appetite.	Embedded & Integrated: • Risk management is championed by the CEO. • The Board and senior managers challenge the risks to the organisation and understand their risk appetite. • Management leads risk management by example. Driving: • Senior management uses consideration of risk to drive excellence through the business, with strong support and rewards for well-managed risk-taking.
Strategy and policy	Working: • Risk management principles are reflected in the organisation's strategies and policies. • Risk framework is reviewed, developed, refined and communicated.	Embedded & Integrated: • Risk handling is an inherent feature of policy and strategy making processes. • Risk management system is benchmarked and best practices identified and shared across the organisation. Driving: • Risk management capability in policy and strategy making helps to drive organisational excellent.
People	Working: • A core group of people have the skills and knowledge to manage risk effectively and implement the risk management framework. • Staff are aware of key risks and responsibilities.	Embedded & Integrated: • People are encouraged and supported to take managed risks through innovation. • Regular training and clear communication of risk. Driving: • All staff are empowered to be responsible for risk management. • The organisation has a good record of innovation and well-managed risk taking. • Absence of a blame culture.

Strand	**Behavioural Maturity Level**	
	Our Level	Ahead of us
Partnership, shared risks and resources	Happening: • Approaches for addressing risk with partners are being developed and implemented. • Appropriate tools are developed and resources for risk identified.	Working: • Risk with partners and suppliers is well managed across organisational boundaries. • Appropriate resources are in place to manage risk. Embedded & Integrated: • Sound governance arrangements are established. • Partners support one another's risk management capacity and capability. Driving: • Clear evidence of improved partnership delivery through risk management and that key risks to the community are being effectively managed.
Processes and tools	Working: • Risk management processes used to support key business processes. • Early warning indicators and lessons learned are reported. • Critical services supported through continuity plans.	Embedded & Integrated: • A framework of risk management processes in place and used to support service delivery. • Robust business continuity management system. Driving: • Management of risk and uncertainty is well integrated within all major business processes and key driver in business success.
Risk handling and assurance	Happening: • Some evidence that risk management is being effective. • Performance monitoring and assurance reporting being developed.	Working: • Clear evidence that risk management is being effective in all key areas. • Capability assessed within a formal assurance framework and against best practice. Embedded & Integrated: • Evidence that risk management is being effective and useful for the organisation and producing clear benefits. • Evidence of innovative risk taking.

Strand	Behavioural Maturity Level	
	Our Level	Ahead of us
		Driving: • Clear evidence that risks are being effectively managed throughout the organisation. • Considered risk taking is part of the organisational culture.
Outcomes and delivery	Engaging: • No clear evidence of improved outcomes.	Happening: • Limited evidence that risk management is being effective in, at least, the most relevant areas. Working: • Clear evidence that risk management is supporting the delivery of key outcomes in all relevant areas. Embedded & Integrated: • Clear evidence of significantly improved delivery of relevant outcomes and evidence of positive and sustained improvement. Driving: • Risk management arrangements clearly acting as a driver for change and linked to plans and planning cycles.

It is considered that ‘Working’ is a satisfactory level of maturity for an authority of our size with many advanced arrangements that are characteristic of the higher levels of maturity being unrealistic or not worthwhile in terms of the benefits that would derive from them.

A strategic action plan has been produced to improve maturity levels for those strands deemed to be at lower levels of maturity i.e. at the “Happening” or “Engaging” levels.

The arrangements to be addressed are those that particularly fall short within those strands.

Risk Management Strategic Action Plan

The key questions asked under the benchmarking exercise that led to the maturity assessments are set out below. These will become the areas to investigate and, where possible, address. Individual action plans will be developed but these will need to be flexible as matters evolve. The strands, or areas, to address have been prioritised according to their level of assessed maturity. The periods over which to address these areas are also identified below.

Year One: 2011/12

Outcomes & delivery (Engaging)

Risk management contribution to overall performance –The organisation can demonstrate that its risk management arrangements are making a positive contribution to overall performance and service delivery.

Key Questions:

- Is there demonstrable evidence that risk management is contributing to the delivery outcomes?
- Is there demonstrable evidence that risk management is contributing to better financial outcomes?
- Is there demonstrable evidence that risk management is contributing to supporting the reputation of the organisation?
- Is there demonstrable evidence that risk management approaches are having a beneficial effect on how risks to the public are being managed?

Contribution to specific outcomes – Evidence of examples of risk management arrangements having a direct positive effect on the delivery of annual or strategic objectives.

Key Questions:

- Are there examples of risk management arrangements (maximum of three) that have had a significant and direct positive impact on annual or strategic objectives?
- Are there examples of risk management directly contributing to innovative improvements that have improved delivery of services or products to the public?

Partnership, shared risks & resources (Happening)

Year Two: 2012/13

Partnerships – Partnership work is undertaken with appropriate consideration of risk and formal risk management arrangements are in place.

Key Questions:

- Are all key partnerships formally identified and are there consistent and common approaches to managing risks with partners, which cut across organisation boundaries ?

- Where different public sector bodies work together to manage risks for shared strategic objectives: Is there an agreed protocol that defines when risk identification and assessments should be carried out jointly and clearly establishes accountability and capacity maintained to monitor performance and take early action in the event of difficulty?

- Where different public sector bodies work together to manage risks for shared strategic objectives: Has the extent to which risks can be transferred to, or shared with, organisations – both public and private – best placed to manage and / or carry them been assessed?

- Are appropriate contingency and service continuity agreements in place with key partners to manage major incidents?

Year Three: 2013/14

Finance – Risk financing arrangements for the organisation ensure that sufficient resources are available to deliver its risk management strategy and to protect itself against insurable losses.

Key Questions:

- Are sufficient resources provided to fund the implementation of the risk management strategy?

- Are additional resources provided when additional risk activities are cost-effective?

Tools – A range of appropriate tools and process are available to the organisation to manage risk.

Key Questions:

- Does the organisation have appropriate tools for collecting and analysing risk information?

Year Four: 2014/15

Risk handling & assurance (Happening)

Risk handling – Risks are handled effectively across the organisation, particularly in terms of cost effectiveness and including arrangements with partner organisations.

Key Questions:

- Are major decisions risk-informed?
- Are strategic risks including risks to the public, risks that cut across service areas, departments, several organisations, etc. and those risks that relate to the delivery of services managed cost effectively - without incurring disproportionate risk management costs or experiencing excessive losses?
- Are there arrangements to ensure that opportunities are taken and managed cost effectively - without incurring disproportionate risk management costs or experiencing excessive losses?
- Are plans and targets risk-based?

Assurance – The organisation has effective arrangements in place to ensure that it can provide itself with assurance that risks are well managed.

Key Questions:

- To what extent does assurance information cover all significant risks?
- Does assurance information cover all key controls and their effectiveness?
- Is an assessment of the performance of the organisation's risk management arrangements reported and to what extent is risk information disclosed to stakeholders?
- Is there a statement from an independent source about whether risk management is effective and carried out as approved?

Annexe2: Risk Management Group - Terms of Reference

The terms of the reference of the risk management group comprises:

Overall aim

- To ensure that effective Risk Management is in place across the council.

Membership

- The Group will comprise representatives from key services across the council.

Specific Objectives and Responsibilities

- Promote best practice in the management of risks.

- Assist in the identification and evaluation of risks that could threaten achievement of the council's objectives.

- Help develop, implement and review the corporate risk management strategy and policy.

- Help managers maintain and develop their risk registers by periodically reviewing them and making recommendations on their improvement.

- Review events and disseminate information regarding lessons learnt in an attempt to help services improve on the management of risk.

- Compile and implement an annual work plan that helps to embed risk management in the organisation.

- Help create a risk-aware culture by, for example, instilling in staff the need to manage risks in their jobs.

- Identify cross-cutting and strategic risks for the attention of senior management.

- Make recommendations to management on practices and procedures that it is intended will improve the management of risks within Warwick District Council.

- Oversee the development and implementation of a consistent approach to risk management across the council's services.

Annexe 3: Summary of Responsibilities

	Develop the corporate risk management strategy	Agree the corporate risk management strategy	Provide advice and support on strategy development and implementation	Implement the strategy	Share experience of risk and risk management issues	Review the effectiveness of the strategy
Elected members/ Executive		§				§
Senior management team	§	§		§		§
Risk champion	§		§	§	§	§
Risk manager	§		§	§	§	§
Risk management group	§		§	§	§	§
Departmental management teams				§	§	§
Service managers				§	§	§
Employees				§	§	
Insurance Officer				§	§	

Appendix B

REVIEW OF PROGRESS FOR EMBEDDING RISK MANAGEMENT AT THE COUNCIL

PROGRESS ACHIEVING YEAR TWO OF ACTION PLAN 2011/12 TO 2014/15: PARTNERSHIPS RISK

Required benchmark: Partnership work is undertaken with appropriate consideration of risk and formal risk management arrangements are in place.

Introduction to Partnerships Risk

The Audit Commission has defined partnership as an agreement between two or more independent bodies to work together to achieve a common goal, through the creation of an organisational structure or process and agreed programme, whilst sharing information, risks and rewards. They state that in the local government context, *partnership* is not a contractual arrangement.

Whilst partnership working in the public sector has a long history, the white paper *Strong and Prosperous Communities* (2006) and the *Public Involvement in Health Act* (2006) provided the statutory framework for local authorities and their partners to work together to agree Local Area Agreement (LAA) priorities. This has led to the development of area based Sustainable Community Strategies (SCS).

With the economic downturn, the Total Place agenda has emerged, focussing on *"new and more efficient ways to serve the public"* (Total Place, 2009). This theme shows no sign of abate, with the paper *Smarter Government: Putting the Frontline First* (2009) advocating more freedom for local areas to set priorities and manage pooled budgets with less inspection. Partnerships are an essential component of this process.

The Paper noted that there are also risks associated with working in partnership:

- Partners often lack understanding that in the absence of statutory powers or a formally constituted joint committee, a partnership will have no executive or decision making powers
- Governance of partnerships can be problematic
- Accountability between partners is not always clear, including redress when things go wrong
- Too much competition between partner organisations. While competition can be healthy, too much will lead to blame, resentment and lack of co-operation
- Loss of control
- Slow, top heavy decision making
- Added confusion (e.g. all working to different organisational rules)
- Responsibilities of other partners taken on
- Higher administrative costs
- Opportunity costs (what else could have been done with the resources?)
- Bad publicity caused by actions of the partnership or a partner

Staff transfer issues
Potential for poor partnership management
Extra risks (involving the service, finance, and legal issues)
Termination (or reducing commitment) difficulties including the lack of a proper exit strategy agreed when the partnership was formed
Possible uncapped liability of partners.

The Audit Commission in a recent Public Sector National Report entitled 'Governing Partnerships: Bridging the Accountability Gap' reported that local partnerships are essential to deliver improvements in people's quality of life, but:

They bring risks as well as opportunities, and governance can be problematic.
They may not deliver good value for public money, so local public bodies should ask searching questions about those they are engaged in.
Clear accountability is needed between partners to produce better accountability to the public, including redress when things go wrong.

In its report, the Audit Commission made the following observations:

Partnerships can provide flexibility, innovation and additional financial and human capital resources to help solve problems but partnerships also bring risks. Working across organisational boundaries brings complexity and ambiguity that can generate confusion and weaken accountability.

Local public bodies should be much more constructively critical about this form of working: it may not be the best solution in every case. They need to be clear about what they are trying to achieve and how they will achieve it by working in partnership. This clarity will come when public bodies ask themselves two broad questions about their partnerships:

1. ***How do partnerships add value?*** *There is very little hard information about its impact. Not all organisations even know how many partnerships they are involved in.*

2. ***Who is in charge of partnerships?*** *Problems arise when governance and accountability are weak: leadership, decision-making, scrutiny and processes such as risk management are often under-developed in partnerships.*

The assessment of risks and benefits in partnerships is most finely balanced when service planning, commissioning and delivery between separately constituted bodies become more integrated. Pooled budgets, for example, have great potential to bring clarity of purpose to partnership working; to enhance the resources brought to bear on problems and to deliver better services to users. But integration without clear protocols and agreements can reduce accountability and increase risks.

There is no one size fits all model of governing partnerships: governance arrangements should be proportionate to the risks involved. Partners must strike the right balance between the need to protect public money and ensure value for money, and the innovation and flexibility that can exist when organisations collaborate. The governance of partnerships should promote good internal *accountability between partners and better external accountability to service users. Shared responsibility should not mean diminished accountability.*

Not enough public bodies have comprehensive agreements in place for their significant partnerships. Such agreements are the basis for better governance and management of risks.

Strong corporate governance is needed to support partnerships effectively, and to create a clear and shared focus on users and on value for money.

The Audit Commission recommended that public bodies should:

a) Know the partnerships they are involved in, and how much money and other resources they invest in them. They should review each partnership using an appropriate checklist to strengthen accountability, manage risks and rationalise working arrangements.

b) Establish clear criteria against which partnerships can be evaluated to determine that they help to achieve partners' corporate objectives cost-effectively.

c) Take hard decisions to scale down their involvement in partnerships if the costs outweigh the benefits, or if the added risks cannot be managed properly.

d) Agree and regularly review protocols and governing documents with all partners.

e) Tell service users and the wider public about how key partnerships work, where responsibility and accountability lie and how redress can be obtained through joint complaints procedures.

Evaluation of the council's partnership risk arrangements

Most of the council's services that some may perceive as being provided in partnership are in reality provided through a contractual relationship with the council as the principal and the contractor as the agent.

Two forms are required to be completed for partnerships – one is known as the Partnership Return and is completed for, what was previously, an annual review; the other is the Partnership Questionnaire and is required to be completed and submitted with a report to Executive before the partnership is entered into.

Working with the Scrutiny Committees, and using the information derived from completion of the Partnership Returns by services, the Deputy Chief Executive (AJ) has reviewed the council's partnership arrangements on an annual basis over the last three years. The evidence from this work suggested that an annual review was excessive. The last full review was in 2012 and therefore the Deputy Chief Executive has determined that the next review will take place in 2014.

With regard to the Partnership Questionnaire, this has two main purposes: One is to provide a record of the details of the partnership; the other is to ensure that specific standards or requirements in respect of the partnership arrangements are met.

During the course of the year the Risk Management Group assessed the process for completion of the Partnership Questionnaires as well as the Questionnaires themselves to ensure they had been properly completed and that the form was fit-for-purpose. Consequently, the Group recommended to the Deputy Chief Executive that the form should be amended to include:

- The name of the partnership
- The name of the lead officer
- A brief description of the purpose of the partnership and details of the partners
- The date that the review is completed and the name of the officer or body etc undertaking the review
- The requirement to attach a copy of the risk register and record details of when it was last reviewed (reference Question 9.9 of the form).

There is also a concern that partnerships could be entered into without prior authorisation and completion of the Partnership Questionnaire. The Risk Management Group has recommended to the Deputy Chief Executive that a register of partnerships should be created and then updated as partnerships terminate and new ones are initiated. This would be used to check the Partnership Returns against.

The Risk Management Group's recommendations will be addressed as part of the 2014 review, referred to earlier.

Assessment of the council's partnership risk arrangements against the Key Questions set out in Year Two of the Risk Management Action Plan:

> *Are all key partnerships formally identified and are there consistent and common approaches to managing risks with partners, which cut across organisation boundaries ?*
>
> Although some effort is made to identify partnerships there is no regular (e.g. annual) review or 'audit' to ensure that all partnerships have been 'captured'. On a minor note, no distinction is made as to whether the partnerships are 'key' or not.
>
> The procedures the council has in place to authorise and review partnerships should mean that there is a consistent approach to managing risk.
>
> *Where different public sector bodies work together to manage risks for shared strategic objectives: Is there an agreed protocol that defines when risk identification and assessments should be carried out jointly and clearly establishes accountability and capacity maintained to monitor performance and take early action in the event of difficulty?*
>
> The procedures we have put in place to authorise and review partnerships should mean that risk identification and assessments should be carried out jointly and that difficulties in the partnership are identified at an early stage.
>
> *Where different public sector bodies work together to manage risks for shared strategic objectives: Has the extent to which risks can be transferred to, or shared with, organisations – both public and private – best placed to manage and / or carry them been assessed?*

There is very little shared service working in the council. Where it does occur, the evaluation of risks is part of the process for determining the feasibility and objectives of shared service working.

Are appropriate contingency and service continuity agreements in place with key partners to manage major incidents?

Contingency and service continuity agreements with partners are not in place for all partnerships. The requirement for appropriate contingency and service continuity agreements needs to be included within the partnership questionnaire and assessed as part of the proposed annual review of partnerships.

In conclusion significant progress has been over the last three years in improving the risk management of partnerships. There has been full engagement with the Scrutiny Committees and some of the Scrutiny's findings have fed into the redesign of service delivery. There is still some work to be done, however, and reports will be issued to Members detailing the progress being made.

OTHER ACTIVITIES UNDERTAKEN DURING THE YEAR THAT HELP TO EMBED RISK MANAGEMENT

Insurance Renewals

The council's insurances were tendered in the open market in the summer of 2012 with a contract start date of 1st November 2012. The tender was split into seven lots to encourage competition from specialist insurers and the evaluation criteria for each lot included price, policy cover, administration and claims handling with the weighting for each criteria varying for each lot.

All seven lots were won by the same insurer, Zurich Municipal and, despite increases in sums insured, the total cost of premiums were within the overall budget for insurance. Rises in rates for liability covers were offset by reductions in rates on property covers.

While market rates and sums insured have a big part to play in the rates that are charged, insurers are very interested in past claims history as this gives them an indication of the sums they may have to pay out. If insurers see that the claims experience is worsening then they will look to increase premiums. The council has entered into a 3+2+2 year long term agreement and insurers have guaranteed to hold rates for the 2013 renewal. Insurers are sticking with this although premiums will increase for insurance in 2013/14 because of increases in the base figures on which the premiums are calculated i.e. sums insured for buildings.

If claims experience worsens insurers could look to increase rates in the future. It is important that the council continues to manage its risks with good maintenance of our assets, regular inspections and good record keeping as this reduces the possibility of property damage claims and enables prompt accurate decisions to be made on liability claims with most being successfully repudiated. A report was issued to SMT on 5 December 2012 reminding services of the importance of maintaining good inspection and maintenance records.

Insurance Valuations

As part of the insurance tender response from Zurich Municipal they have given the council £5,000 a year to spend on risk management.

Areas of concern identified by the Risk Management Group included management of events and building sums insured as several internal audit reports have questioned whether sums insured for buildings insurance are sufficient.

Some of the money is to be used to put on a course for staff involved in managing events and the balance of the money from 2012 is to be used to have some properties rebuilding costs reviewed.

It is not possible to have all buildings surveyed for this purpose but a small selection of properties has been identified where scale plans are available. Insurers will then advise the cost of providing up-to-date rebuilding values for the properties so a decision can be made as to which buildings should be reviewed.

Once values are supplied by insurers an assessment will be able to be made on how accurate the sums insured are and, where necessary, adjustments made to the rebuilding values of all the council's property portfolio.

Having scale plans available means insurers don't have to measure the property so more properties can be surveyed without adding to costs.

A selection from the full range of the council's buildings are to be surveyed, namely operational properties, housing properties, and non-operational properties.

Reviews of service risk registers

The Finance & Audit Scrutiny Committee has continued its programme of service risk register reviews. This has proved to be a very effective process that has raised significantly the profile of risk management throughout the organisation and the value derived from it.

Risk Management Training

Utilising sums of money provided by the council's insurer and broker for this purpose, some risk management training is to be provided to senior officers and, separately, the Risk Management Group. With regard to the former, this training has been arranged for the Senior Officers Meeting in March of next year.

Project Risk Registers

Project risk registers are now routinely in place for specific projects such as the Local Plan and the England Bowls. In the case of the Local Plan, this is reviewed by SMT regularly.