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## Report of the Director of Resources

## Report to Corporate Governance and Audit Committee

Date: 12<sup>th</sup> May 2010

## Subject: Annual Update on the Council's Risk Management Arrangements

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**Electoral Wards Affected: N/A**

Ward Members consulted  
(referred to in report)

**Specific Implications For:**

Equality and Diversity

Community Cohesion

Narrowing the Gap

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## Executive Summary

1. This report provides an update on the Council's risk management arrangements. It notes key developments since the previous annual report on 12<sup>th</sup> May 2009 and subsequent six-monthly report on 12<sup>th</sup> November 2009. These include the increased role of elected members in inputting to and reviewing the corporate risk register, review of the Leeds Risk Management Framework and the risk management element of the Use of Resources Comprehensive Area Assessment.
2. During 2009/10, the authority has continued to develop its risk management arrangements. The corporate, directorate and budget risk registers and risk reporting processes are now well-established as are the role, functions and membership of the Corporate Risk Management Group. Project risk management is becoming more consistent and more accepted as an integral part of project management.
3. However, whilst excellent processes are in place, they are not always consistently carried out and there are some known gaps and so the report also outlines future areas for improvement and discusses how these will be addressed.

## **1.0 Purpose of this Report**

- 1.1 This report provides Corporate Governance & Audit Committee with an overview of the Council's key risk management developments over 2009-10 focusing on the period following the six-monthly report in November 2009. It also reports on the corporate risk register and highlights future areas of work to improve our risk management arrangements. The report helps provide assurance to the Committee on the strength of these risk management arrangements and is therefore an important source of evidence for the Committee to approve the Council's Annual Governance Statement.

## **2.0 Background Information**

- 2.1 Under the Council's Risk Management Policy (updated and approved by Executive Board in January 2008) and the Committee's own Terms of Reference, Corporate Governance & Audit Committee is responsible for reviewing 'the adequacy of the Council's Corporate Governance arrangements (including matters such as internal control and risk management).' (Paragraph 4, CGAC Terms of Reference and Para. 5.2.1 Risk Management Policy.) It is also responsible for reviewing 'the adequacy of policies and practices to ensure compliance with statutory and other guidance.' (Paragraph 3, CGAC Terms of Reference.)
- 2.2 In terms of the Council's Code of Corporate Governance, risk management arrangements fall within the governance area, '*taking informed and transparent decisions that are subject to effective scrutiny and risk management*'. Risk management improvement activities are aimed at being risk aware (not risk adverse), linking risks to strategic outcomes and demonstrably taking account of risk in decision-making.
- 2.3 The report will also help the Council to meet its risk management requirements under the Audit Commission's Comprehensive Area Assessment which include:

### Level 2: Performing Adequately

- 'The cabinet ensures the council identifies and effectively manages corporate business risks in line with its risk management strategy.'
- 'A corporate focus on risk management ensures regular review and effective management of current and future risks. Members are responsible for, and engage in, corporate risk management and work closely with the audit committee.'

### Level 3: Performing Well

- 'The council equips all members to effectively undertake their roles and responsibilities for risk management. For example, the council delivers risk management awareness training suitable to member's needs and responsibilities.'
- '...Other examples of outcomes through good risk management may include... a sound system of corporate governance..... [and] confidence in the rigour of the Annual Governance Statement.'

### **3.0 Main Issues**

#### ***Corporate Risk Register***

- 3.1 The corporate risk register continues to be updated quarterly by all directorates, the three housing Arms Length Management Organisations (ALMOs) and Education Leeds. It was last reviewed by the Corporate Risk Management Group and members of the Corporate Leadership Team in February 2010 and is due its next review by these two groups in May, shortly after this Committee meeting.
- 3.2 There are currently 41 risks on the corporate register of which 9 have the highest 'red' rating: Safeguarding Children, Significant Financial Deficit<sup>1</sup>, Waste Management, Equal Pay, School Places, Climate Change, NEET (Not in Education, Employment or Training), Teenage Pregnancies and Secondary School/Further Education Capital. Work is currently underway to analyse and assess the two new risks agreed last quarter on the Children's Services Improvement Notice and the Loss of Senior Officers (notably at Corporate Leadership Team level) so the ratings for these are not yet known.
- 3.3 At the time of writing, the Risk Management Unit (RMU) has begun meeting with Executive Board members for their six-monthly review of the corporate risk register. At these meetings, Executive members consider the contents of the register, the relative accuracy of the ratings and propose possible new risks. The Risk Management Unit then feeds these comments back to relevant officers for action where required prior to more formal consideration at Corporate Risk Management Group and Corporate Leadership Team. Following the review sessions, a number of new risks proposed by Executive members have been added to both the corporate and to directorate risk registers. This process, which began for the first time in February 2009 and was repeated upon Executive Board members' request in September of that year, should provide the Committee with a significant source of assurance on the rigour of the Council's corporate risk register and that it accurately reflects both members' and officers' concerns.
- 3.4 In November 2009, members of this Committee resolved to 'seek Executive Board support to the committee's proposal for the regular publication of the Council's corporate risk register in a summary form along with the corporate risk map.'<sup>2</sup> The annual report on risk management, which would incorporate the Committee's resolution, was included in the Executive Board work programme for June 2010. However, following the Committee's request in its 10<sup>th</sup> February 2010 meeting at which 'Members expressed their desire for proposals to come to an earlier Executive Board meeting preferably 7 April 2010'<sup>3</sup>, the RMU prepared a draft report for the Executive Board April agenda. We were subsequently requested that this issue be dealt with in the annual report scheduled for the Executive Board meeting 16<sup>th</sup> June 2010.

#### ***Operational Risk Registers***

- 3.5 Directorate risk registers are in place for all directorates, Education Leeds and the three housing ALMOs. These are reviewed by senior management teams within these directorates and organisations each quarter and then reported to the RMU and CRMG for consideration as to whether any of the most significant and/or cross-

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<sup>1</sup> NB: this risk rating relates to the 2009/10 budget. The risk for the new 2010/11 budget will be evaluated in May 2010.

<sup>2</sup> Corporate Governance & Audit Committee minutes 12/11/09

<sup>3</sup> Corporate Governance & Audit Committee minutes 10/2/10

cutting risks should be put forward to Corporate Leadership Team for escalation on to the corporate risk register.

- 3.6 Whilst there are no non-compliance issues to report, there are sometimes problems of timeliness in that updated risks are not returned to the RMU in line with its quarterly reporting cycles (e.g. because this may not tie in with a specific directorate's own reporting timescales or due to an unannounced inspection). In these instances, the RMU will continue its existing practice of seeking alternative assurances that the risks are being managed (e.g. through reviewing reports to Executive Board and/or the Corporate Leadership Team).
- 3.7 Since the establishment of a corporate service planning template and guidance, all services which produce service plans draw up a service-level risk register using templates and guidance documents produced by the RMU. Over time, these service-level risk registers will be housed on the corporate risk management software and used to inform their directorate risk registers.

### ***Project & Programme Risk Management***

- 3.8 The RMU continues to maintain the risk management sections of the Council's Delivering Successful Change documentation which provides officers with guidance and templates on applying scalable risk management to their projects and programmes.
- 3.9 In the case of programmes and projects for which the RMU has facilitated risk management workshops, a full range of risks have been properly identified and, time permitting within the workshop, action plans to manage the most significant risks drawn up. The RMU documents all output in the form of a risk register with accompanying report as to the register's completion and ongoing maintenance, reporting and escalation.
- 3.10 Risk registers are in place for all 16 of the Council's current PFI projects with Project Boards responsible for ensuring mitigating actions are undertaken. The Public Private Partnerships Unit (PPPU) has confirmed that they keep these PFI registers up-to-date.
- 3.11 The Project Assurance Unit (PAU) within the Resources Directorate also reviews the risk registers and makes recommendations on the risk management arrangements for all projects they are assuring through their 'Healthchecks'. These are held quarterly as a minimum. In none of the PAU's Healthchecks for the unit's current caseload of programmes and projects has the area of risk/issue management been rated as 'red' (i.e. none of these programmes and projects show 'limited evidence of control') which is a good indication of embedded risk management processes. However, there are a number of programmes and projects across the Council which at present do not undergo independent assurance. (Please refer to the annual Report on LCC Programme and Project Management Arrangements on today's agenda for more information.)

### ***Partnership Risk Management***

- 3.12 Partnership risk management requirements have been built in to the Council's Partnership Framework and guidance given in both the accompanying toolkit and within a more detailed RMU-produced 'Partnership Risk Management Guide'. These are accessible to all staff on the Council's Intranet site. Compliance with the Partnership Framework is reported separately to the Committee by the Head of Governance Services.

### ***Financial Risk Management***

- 3.13 As part of the budget process, consideration is given to all the risks which are managed within each directorate's overall risk management framework. Within this framework a register of those items considered to carry the highest risks, and therefore require careful and regular monitoring, is prepared. Included within the budget report to Executive Board is a commentary on the major areas of risk within each directorate. Areas of high risk are very closely monitored and projected variances reported quarterly to Executive Board with appropriate actions being identified.
- 3.14 The directorate budget risk registers are monitored and reviewed by directorates during the year and are reported to Financial Performance Group each quarter. As part of budget monitoring, any significant risks are also reported to the lead portfolio member. In addition, a financial risk assessment is carried out each year to identify, assess and manage the principal risks that could threaten the delivery of the Financial Plan.
- 3.15 A risk-based reserves strategy is in place to ensure that reserves are maintained at an appropriate level to secure financial stability. This is reviewed and updated each year prior to the finalisation of the budget process and contributes to the evidence required for the Director of Resources to give assurance on the robustness of the budget and the adequacy of reserves.
- 3.16 Whilst there is a sound risk management framework in place for financial management, the achievement of the 2009/10 budget has presented a significant challenge with the Council having to meet increasing cost pressures on ensuring services for vulnerable children and adults are maintained, whilst suffering the effects of the challenging economic climate. The 2009/10 accounts are still being finalised.

### ***Leeds Risk Management Framework***

- 3.17 The RMU has now completed its initial research into the Council's Risk Management Framework (Policy, Strategy and Toolkit) to gauge whether it remains fit-for-purpose in meeting officers' and members' needs and also in meeting the increasingly mature risk management requirements as set by the Audit Commission.
- 3.18 This research has been based on a variety of tools including one-to-one meetings with key internal stakeholders (e.g. Corporate Risk Management Group members, project managers, financial management officers, corporate governance staff, internal audit), benchmarking the Framework against those of external organisations (such as other local authorities, the NHS etc.) and review of the new International Standard on Risk Management published in November 2010 and the British Standard on Risk Management published the year before.
- 3.19 Analysis of the results is underway and will be used to inform the RMU's revision of the Framework. Any substantial changes will be reported to this Committee in the next six-monthly report.

### ***Corporate Risk Management Group***

- 3.20 The Council's Corporate Risk Management Group continues to meet quarterly and consists of senior officers representing all directorates, Education Leeds and the 3 Housing ALMOs. As noted in the six-monthly risk management report to this

Committee, the group's role was expanded in August 2009 to include business continuity management. Membership of the group is shown at Appendix 1.

- 3.21 Meeting attendance throughout 2009-10 has been very good with an average of 74% attendance or, if representatives for those who have sent apologies are included, the average goes up to 90%.

### ***Risk Management Unit Workshops & Training***

- 3.22 In 2009-10, the RMU carried out risk management and options appraisal workshops for key projects and programmes plus provided risk management training and briefing sessions for 144 people. This number incorporates representatives from some of our most significant partners, such as NHS Leeds and the Housing ALMOs, as well as voluntary organisations and private sector contractors, thereby strengthening the Council's partnership risk management arrangements. Workshops have included Changing the Workplace, Waste Management Solutions, Building Schools for the Future, Wellbeing Programme, World Cup Bid, Eastmoor Secure Children's Unit, Intermediate Care and Adult Social Domiciliary Care.

- 3.23 Feedback forms have been completed for the majority of these events, the responses to which provide the RMU with a good indication of its performance and highlight areas for improvement. Based on the total number of feedback forms returned (105), the RMU has achieved the following results:

- Overall, 98% rated the Risk Management Unit's events as either 'excellent' or 'good'.
- 94% agreed that the objectives had been met to an 'excellent' or 'good' level. 4 people disagreed and two failed to answer this question on the feedback form.
- 100% of people found the trainer(s) to have either 'excellent' or 'good' knowledge of the topic.
- 99% of people found the trainer(s) to have the skills to deliver the workshop. The 1 person who disagreed noted on their feedback form that this was in response to the skills of the external facilitator. This was the only workshop/training session in which the RMU jointly presented.

### **Elected member training**

- 3.24 The RMU provided risk management briefing sessions for the two new Executive Board members last year (Councillor Smith in April 2009 and Councillor Monaghan in September 2009) and, as this Committee will be aware, to Corporate Governance & Audit Committee members in September 2009<sup>4</sup>. The purpose of these briefings was to remind members of their risk management roles and responsibilities under the Council's Risk Management Policy, to notify them of the revised risk management requirements under CAA, to review the contents of the corporate risk register and to discuss risk management within reports.

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<sup>4</sup> Of the 10 Corporate Governance & Audit Committee elected members (not including the non-voting co-opted member), 3 attended the full session, 2 attended the first half and one member had sent a representative to the Committee's meeting and subsequent training.

## **Assurance**

### Comprehensive Area Assessment (CAA)

- 3.25 In our November 2009 report, we noted that the Council's indicative score for risk management under last summer's Use of Resources CAA was a 3. This was subsequently confirmed and was a significant achievement given the 'raising of the bar' by the Audit Commission in its assessment criteria. A Level 3 denotes, 'Exceeds minimum requirements – performs well' and evidences that the Council has 'Implemented effective arrangements that are: forward looking and proactive in identifying and developing opportunities for improvement; and include more sophisticated measuring and assessment techniques. Outputs and outcomes demonstrate arrangements which are effective and have the intended impact. Where appropriate, the arrangements show evidence of effective partnership working.'<sup>5</sup>
- 3.26 In its summary CAA report, the Audit Commission noted that, 'The Council understands the risks it faces and manages them well'<sup>6</sup> and made no recommendations on our risk management arrangements.
- 3.27 Since then, the authority has undergone an additional Use of Resources assessment. The RMU and Corporate Risk Management Group began to prepare for this in November 2009 by developing a number of case studies which highlighted how risk management had been used to deliver successful and/or innovative outcomes. These case studies were submitted to KPMG in February 2010 as part of a corporate portfolio of evidence.
- 3.28 Initial discussions with KPMG in March indicate that we are on track to consolidate our score of '3'. Our indicative score should be released to us on 21<sup>st</sup> April and thus in time to report to the Committee, although there is then a lengthy period of local, regional and national challenge before the final scores are published on 30<sup>th</sup> July.
- 3.29 The Audit Commission has noted that it may make substantial changes to the Use of Resources assessment in the coming year but no details are yet known. As and when information is released, the RMU will work with the Corporate Risk Management Group and corporate performance colleagues to ensure we are fully prepared.

## **Future Improvements**

### Leeds Risk Management Framework

- 3.30 As noted above, the RMU is currently undertaking a complete review of the LRM Framework. The need for this review reflects the greater maturity in the Council's risk management arrangements since the previous revisions made to the Framework in 2007/08 as well as the increased expectations of risk management evidenced in the Audit Commission's Use of Resources assessment criteria.
- 3.31 Changes to the Framework may also be made as a result of the Unit's ongoing benchmarking of the authority's risk management arrangements. We are currently taking part in a national public sector benchmarking exercise which requires us to rate our organisation in the following risk management areas:

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<sup>5</sup> p.7 'Use of Resources Framework: Overall Approach and Key Lines of Enquiry', Audit Commission (October 2009)

<sup>6</sup> p. 3 'Leeds City Council: Organisational Assessment – Summary Version', Audit Commission (9 December 2009)

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

3.32 The results will be collated at a national level and reports issued enabling comparisons to be made with all other participating organisations as well as selected ones (e.g. other Core City local authorities). This exercise will help demonstrate current maturity in respect of external inspection agencies and international standards and provide the opportunity to learn from other organisations' successes and failures.

#### Risk Management Software

3.33 The biggest single improvement to the quality, consistency and ease of maintaining and reporting on risk registers will be the implementation of the Council's new risk management software system. At the time of writing, all bespoke developments have been completed and the majority of issues rectified in preparation for user acceptance testing, piloting and then a phased roll-out starting with each directorate risk register, the corporate risk register and the PFI project risk registers. Over time, it is anticipated that all risk registers, whether these are budget-, service-, project- or any other level, are housed on the system. This will address the concern raised by Executive members in the past over the lack of consistency (format and amount of detail included) in the various risk registers they have sight of.

#### Project & Programme Risk Management

3.34 As part of the launch of the Council's Corporate Approach to Programme Management, the RMU will write a new programme risk management section that will tie in to the existing project management methodology.

#### Partnership Risk Management

3.35 Partnership risk management is an area requiring significant attention and so will be the focus of one of the 10/11 CRMG meetings to identify areas of good practice, any gaps in arrangements and to begin addressing these gaps at a corporate and directorate level. It is likely that this will form part of a wider piece of work on CAA. Any non-compliance issues with the risk management element of the Partnership Framework that are identified by Governance Services and/or Internal Audit through their own reviews should be passed on to the RMU to enable the Unit to then work with relevant service areas.

3.36 Alongside this, the risk management software will be shared with our external partners and contractors where possible so that they can update their risks and actions plans directly. The RMU has liaised with the Information Knowledge Management Team and with Procurement to ensure confidentiality clauses are included in any user agreements with partners to correctly manage the sharing of this risk data.

3.37 The software will also have additional fields that do not exist in the variety of current risk register templates to strengthen partnership risk management arrangements. These include noting whether a risk is wholly-'owned' by Leeds City Council, by a partner or contractor or whether it is shared. Where shared or owned on behalf of the authority by a partner or contractor, the controls already in place by that partner or contractor and the strength of these controls to manage each risk must be



documented. In addition, the Council must document what monitoring arrangements it has in place to gain assurance that its outsourced risks are being properly managed.

### Risk Management Training

- 3.38 The RMU will continue to provide training to elected members with specific responsibility for risk management and offer training sessions open to all elected members. For members of staff, a massive training programme for all those set up on the risk management software system will be undertaken to cover not just how to use the system but to ensure that everyone has a good understanding of the Council's risk management processes and how to apply them in their particular area.

## **4.0 Implications for Council Policy and Governance**

- 4.1 This report provides information for Corporate Governance & Audit Committee on the Council's risk management arrangements to enable it to fulfil its risk management responsibilities under the authority's Risk Management Policy and requirements through the Audit Commission's Comprehensive Area Assessment. It will also provide additional risk management assurance to support the Annual Governance Statement.

## **5.0 Legal and Resource Implications**

- 5.1 None

## **6.0 Conclusions**

- 6.1 Since the previous annual report presented to Corporate Governance & Audit Committee on 12<sup>th</sup> May 2009, the authority has continued to develop its risk management arrangements. The corporate, directorate and budget risk registers and risk reporting processes are now well-established as are the role, functions and membership of the Corporate Risk Management Group. Through the work of the RMU and the PAU team, project risk management is becoming more consistent and more accepted as an integral part of project management.
- 6.2 Having such risk management arrangements in place provides assurance to our customers, staff and elected members that we are aware of our biggest risks and that we have taken steps, as far as we can, to manage them. This means that they are both less likely to occur and also have less of an impact if they did. It also means that our projects and decision-making are more likely to deliver the outcomes and benefits they set out to do and resources are used more effectively.
- 6.3 However, whilst we can give substantial assurance that excellent processes are in place, they are not always consistently implemented and there are also known gaps in the areas of programme risk management (and programme management in general) and partnership risk management which require addressing. Further, although there is a sound risk management framework for financial management, the achievement of the 2009/10 budget has presented a significant challenge with the Council having to meet increasing cost pressures on ensuring services maintained, as well as dealing with the difficult economic climate.

## **7.0 Recommendations**

- 7.1 It is requested that Corporate Governance & Audit Committee notes this report and progress made on further embedding risk management across the authority and uses the information to support its approval of the Annual Governance Statement.
- 7.2 It is also requested that Committee members continue to review and challenge the Council's risk management arrangements and attend risk management training sessions and briefings provided by the Risk Management Unit.

### Background Documents Used

- Corporate Governance & Audit Committee Terms of Reference
- Leeds City Council Risk Management Policy
- Leeds City Council Code of Corporate Governance
- 'Guidance for audited bodies on the Use of Resources 2008/-09 overall approach and Key Lines of Enquiry', Audit Commission (revised February 2009)
- Corporate Governance & Audit Committee minutes, 12/11/09
- Corporate Governance & Audit Committee minutes, 10/2/10
- Annual report to Corporate Governance & Audit Committee on LCC Programme and Project Management Arrangements, 12/5/10
- 'Leeds City Council: Organisational Assessment – Summary Version', Audit Commission (9 December 2009)

**Corporate Risk Management Group**

<b>Name</b>	<b>Job Title</b>	<b>Representing</b>
<b>Chair</b>		
Tim Pouncey	Chief Officer, Audit & Risk	Resources
<b>Leeds City Council Directorates / Service Areas</b>		
Roger Carter	Principal Emergency Planning Officer	Resources
Steve Clough	Head of Performance & Improvement	Planning, Policy & Improvement
Mark Forbes	Chief Officer, Resources & Strategy	Environment & Neighbourhoods
Dennis Holmes	Deputy Director of Strategic Commissioning	Adult Social Care
John Kearsley	Chief Officer, Corporate Property Management	Resources
Coral Main	Principal Risk Management Officer	Resources
Clare Millington	Section Head	Corporate Governance
Ed Mylan	Chief Officer, Resources & Strategy	City Development
Sarah Sinclair <sup>7</sup>	Deputy Director (Commissioning)	Children's Services
<b>Council Partners</b>		
Pamela Bleasdale <sup>8</sup>	Interim Head of Finance & Corporate Services	West North West Homes Leeds
David Heels	Director of Corporate Services	East North East Homes Leeds
Greg Jessop <sup>9</sup>	Interim Head of Support Services	Aire Valley Homes Leeds
Liz White	Performance Management & Information Officer	Education Leeds

<sup>7</sup> Replaced David McDermott, Chief Officer Resources & Strategy, in March 2010.

<sup>8</sup> Replaced Edward Charters, Head of Finance & Corporate Services, in February 2010.

<sup>9</sup> Replaced Gail Teasdale, Head of Support Services, in April 2010.