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ZURICH®

Risk Management Health Check Review

North East Derbyshire District Council

Contents

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1. Introduction

Zurich have been commissioned by North East Derbyshire District Council to review risk management arrangements across the organisation. To measure the maturity of risk management a performance model has been used which breaks down risk management activity into six categories that contribute towards effective risk management arrangements within an organisation:

Risk Culture & Leadership	Exploring the attitude that Senior Officers and Members take towards the role and priority of risk management
Risk Appetite & Strategy	Reviewing the extent to which the policies for risk management support the organisation and how the appetite for risk is considered and utilised
Governance	Establishing how assurance is provided to stakeholders, the effectiveness of reporting arrangements and how risk is managed within departmental areas.
Methodology	Assessing whether effective risk processes and tools are in place to support the organisation
People & Training	Evaluating the level of risk management skills, knowledge, and capacity across the organisation
Projects, Partnerships & Supply Chain	Determining whether there are effective arrangements for managing risks within projects and with partners and suppliers

The model enables an assessment to be made around the extent to which risk management is having a positive effect on the organisation. The five levels of maturity are as follows:

Level 1	Level 2	Level 3	Level 4	Level 5
Fragmented	In Development	Managed	Integrated	Transformational

A series of observations and recommendations are outlined in the following pages for consideration.

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2.   Executive summary

There is evidence to demonstrate the Council takes its risk management seriously and continues to make arrangements to support improving learning and practices. This is driven by the Managing Director and Executive Management Team; however, all staff buy into the one team culture. What we observed when on site demonstrated what can be achieved across a diverse organisation like a local authority when managers are clear on the approach and messaging. It was refreshing to observe.

The Council demonstrates a willingness to evolve and continue to progress, some of the recommendations within this report, aligned to existing plans could improve its maturity rating. Of most value would be to concentrate on embedding of operational risk management practices to support the already positive and embedded strategic approach. Building the links between strategic and operational risks and engaging all staff, particularly managers, in the importance of risk management and the effectiveness good risk management can have on achieving objectives.

To measure the maturity of risk management, a performance model has been used which breaks down risk management activity into six categories that contribute towards effective risk management arrangements within an organisation. It is worth noting, given the complexity of services provided and the resources often available to support risk management within the public sector, a good score is considered at level 3, Managed, whilst most local authorities would be judged to be level 2, In Development.

Figure 1.
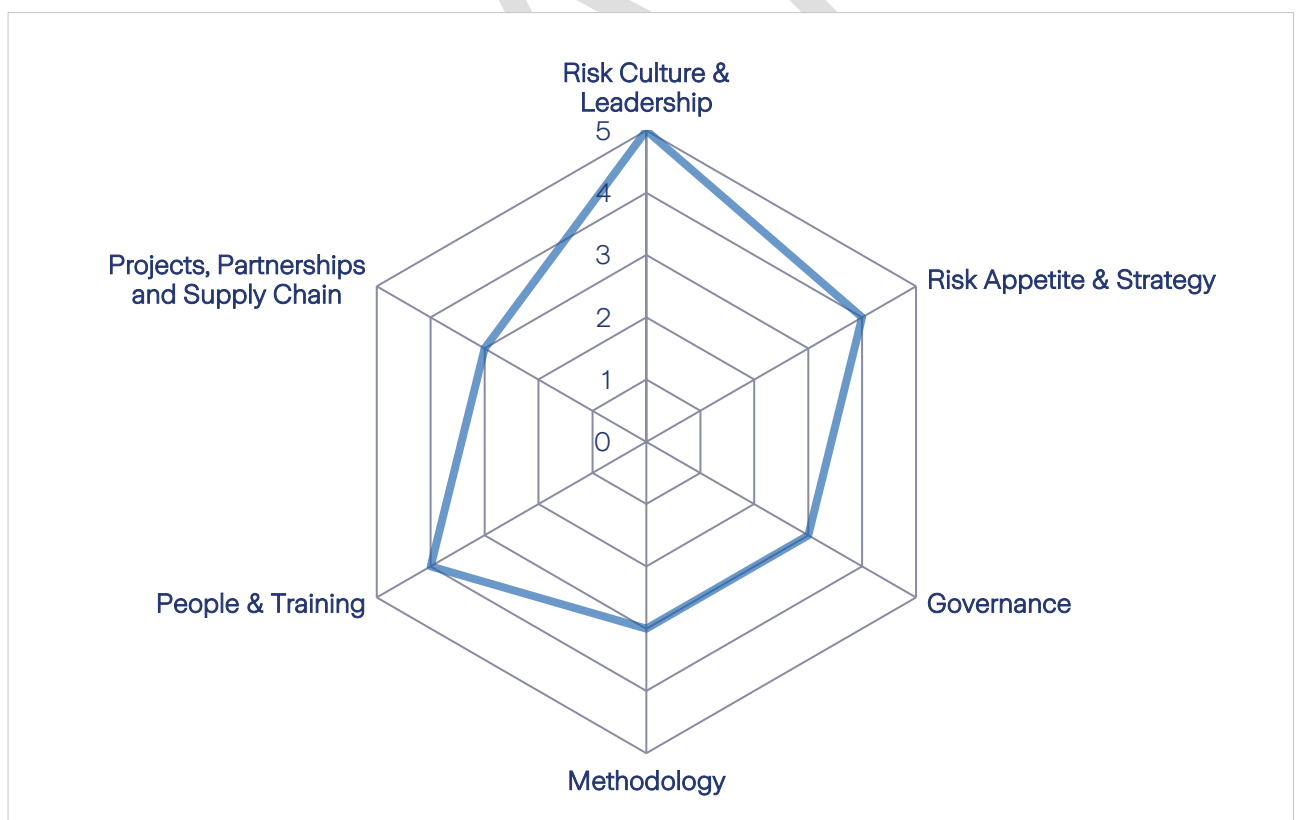
The above figure indicates where North East Derbyshire District Council is judged to be based on this review.

Positives observed:

- Strong 'tone from the top' and consistent messaging from Leadership around Risk Management supporting embedding a risk aware culture.

- Embedded processes for Corporate Risks around review, escalation and monitoring from both officers and members at the council particularly at strategic level.

- Use of Risk Appetite to support review and decision making, especially for commercial objectives.

Development opportunities:

- Operational risk management is behind the corporate, it requires further work to embed the process, practical application and ensure risks are reviewed and information shared consistently.

- Re-share current risk management guidance with good case study examples for practical learning and ensure accessibility for all staff.

We have scored the organisation overall as a Level 4 Integrated. The council has several areas which are aspirational to its peers. Particularly around the leadership and culture of the organisation. This was the best I have observed in my time carrying out these review's and is particularly pleasing as it demonstrates what can be achieved when a clear and pragmatic approach is adopted.

Level 1 Fragmented	Level 2 In Development	Level 3 Managed	Level 4 Integrated	Level 5 Transformational

3. Observations and recommendations

3.1. Risk Culture and Leadership

This section considers the attitude of senior officers and members towards the role and priority of risk management.

What was evidenced across the document review and the interviews with staff, was amongst the best I have witnessed in this section. There is a strong belief in the council's risk management arrangements and confidence in its embedding at strategic level. There has been a proactive development of risk management over several years, all lead from Managing Director, Executive Management Team with member's support. The risk management policy is clear and concise, free of unnecessary jargon and refreshing to observe.

Corporate risks are regularly considered and confidence of support in leadership by the Managing Director and Executive Management is clearly articulated by all those who took part in the review. There is also a confidence in the process being so well established that any concern of key person dependency was dismissed with all displaying confidence that the process would withstand the departure of members of senior leadership.

Clearly, at the time of the review, the recent elections presents a challenge to ensure the engagement and constructive challenge from the previous regime is established under the new, however the confidence displayed by all in the process, the clarity in how it is applied and the leadership displayed by all gives confidence that newly elected members will be supported in understanding their role and encouraged to adopt role which has become synonymous with the running of risk management at the authority.

Beyond the strategic level it is also important for any organisation to have a robust process for operational risks. There is evidence that operational risks are considered in day-to-day operations. There is a process which is understood for officers at all levels and a clear escalation route through line management.

It is noteworthy, that the council has a clear risk aware culture and a confidence in its ability to continuously consider and manage risk even though there are some areas of improvement for consistent application

Recommendations:

1. There is a need to build new relationships with members following the elections, however there is confidence in the established process that this will be developed

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3.2.   Risk Appetite and Strategy

This section assesses the extent to which the policies for risk management support the organisation and how the appetite or risk is considered and utilised.

The council has a clearly defined Risk Appetite. There is evidence of good practice with risk categories identified and varying appetites dependant on those categories. Through the discussions with those involved, it was clear that risk appetite plays a part in key decisions, with assurance given that all risks remain judged on their own merit and the appetite used to support the review, but not pre-determine the outcome.

The council has an established risk aware culture, officers are encouraged to consider new ways of working and future development options considered on a risk-based approach.

There is a clear understanding of risk appetite concepts amongst senior management and is utilised when discussing strategic risks. It was noted that at operational levels, appetites of risk are discussed however it may not be understood as the concept of risk appetite.

Continued evolution of this approach, subsequent reviews of the appetite statements as scheduled on an annual basis and ensuring risk appetite forms part of risk discussions and challenge will enable the council to build on existing maturity in this area.

To progress this further, risk appetite needs to be understood and embedded consistently through organisation levels as well as evidence of discussions on operational risks.

Recommendations:

2. Consider developing a risk appetite quick tool guide to support consistent understanding and embedding at operational levels including how this can be evidenced.

3. Build appetite discussions into operational risk discussions, particularly at department management team risk conversations.

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3.3.   Governance

We review the assurance provided to stakeholders, the effectiveness of reporting arrangements and how risk is managed within service areas.

The council has clear governance arrangements in place acting as a 'golden thread' down the organisation where risk is reported, escalated, and considered on meeting agendas. The interviewees all understood the value of risk being managed proportionately and at the right level. How to escalate risks is clearly understood however it was noted that content within risks at lower levels is inconsistent leading to senior officers seeking assurance and addressing issues as they arise.

There are clear reporting arrangements into members and escalation of significant risks as they are identified. It was reassuring to hear members are approachable for staff to report risk and encourage sharing of risk information. There was some suggestion that officers would like to see the outcome of risk information impacting decisions which will support further engagement with the process.

To be considered at a higher maturity level, these discussions need to be consistent in their review, with members clear of their roles and responsibilities to ensure risk is reviewed and challenged not only as its own element, but alongside other processes such as performance. The recent change in elected membership present a challenge to embed with a new group.

Some peer organisations are using dedicated software to manage its identified risks. Whilst I have no personal perception that this is better, one benefit which I do accept is around version control. This may be something which NE Derbyshire wishes to consider in the future.

Recommendations:

4.   Consider sharing the decisions and output from risk reporting back down the 'golden thread' to increase understanding and value of risk reporting.

5.   Continue with planned work to support new members in understanding their role in risk management.

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3.4. Methodology

This section considers what processes and tools are in place to aid risk management and whether they are effective.

The council uses Microsoft Word to capture risks with the guidance of risk management framework and guidance tools and templates. This seems effective across senior management with those who are confident and continuously practice the processes. Although, it was noticed that a small number of departments seem somewhat unfamiliar with the methodology due to lack of capacity and resource to fully embed and engage with the framework (a predisposition to manage risk).

Currently, the council is using the Microsoft Word application for risk registers which can invite issues such a version control. It was evident that the authority has managed to maintain a dynamic 'live' version of the register which is credit to those involved.

It was acknowledged that the Managing Director and Executive Management Team are key advocates and drivers for the upkeeping and success of embedding risk management within the Council and is very helpful in developing and assisting the implementation of improved methodology and integrated practices.

Risk-based auditing is undertaken with risks in mind which brings focussed attention to the organisation's key controls that have an impact on the management of risks and address any key actions.

Within the register, it was noted that some actions are "ongoing". This presents a challenge as to whether these risks should be considered under business-as-usual activity – or challenge whether the true route cause of the risk has been clearly identified and articulated on the register.

To be considered for the next level of maturity, mitigating actions with no clear end date should be challenged to determine and understand their effectiveness and / or whether the risk is now part of BAU. Further development to incorporate trends – documented over a rolling 12/18month period will be able to highlight whether there are any increasing concerns within the risks identified.

Recommendations:

6. Incorporate Trend analysis within risk register templates and actively challenge "ongoing" action timescales.

7. Consider stress testing / scenario planning strategic risks to understand the effectiveness of identified mitigations.

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3.5.   People and Training

This section of the health check explores the level of risk management expertise and capability across the organisation.

Once again, the role undertaken by the Managing Director and Executive Management Team in sourcing and delivering training for all staff was recognised during discussions. Risk management training modules are in place for all officers with an annual refresher supporting continued understanding and practice. Particularly encouraging was the tailoring of the training to the audience to aid engagement and understanding

Going forward, practical training or case studies of good risk management examples would support enhancing officers learning and ensure understanding the full process from risk identification to decision making.

It is natural for risk management responsibility to fall to a small number of officers within the council. It was reassuring that staff collectively felt there is no single key person dependency, continued training and reinforcement of good practice will continue to ensure that collective understanding is maintained. Risk understanding below AD level was more sporadic. Whilst this isn't impacting on the effectiveness of the authority's risk management now, it may impact operational risk identification and training with these officers should continue to be prioritised.

Recommendations:

8.   Consider future training sessions as a workshop to provide opportunity for staff to put into practice the observed training with good risk management case studies.

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3.6.   Projects, Partners, and Supply Chain

In this section I look at the effective controls in place to manage risks with partners / suppliers and in projects.

The council has a more open approach to risk in commercial partnerships which reflects the risk appetite in this area. There is, however, some feeling from the interviews that commissioning / contracting risk is not as robust.

Project risk management mirrors the corporate risk process and feeds into the same governance risk reporting arrangements which is an effective practice for leaders to gain assurance for project risks. There is some belief that risks in projects are not managed effectively. There is a reliance on individuals with project / contract management responsibilities to highlight and share risk information and it was noticed from the interviews that there was an inconsistent understanding of the integrated practice.

There are examples in the recent past of contract risks which have been escalated on to the strategic register. However, it is recognised that staff are often taking on responsibility for projects and contracts and dedicated risk management training for those roles should be considered.

Interviewees provided some level of assurance that risks with partners and suppliers were well understood and managed individually by departments however it was clear that a structured process is not in place for consistent application and oversight.

Recommendations:

9.   Dedicated training for risk management within projects and contracts should be considered for those who are taking on the responsibility.

10.   Undertake further work to understand the common/shared risks within partnerships. Maintain joint risk registers with key partners to monitor key issues.

Level 1 Fragmented	Level 2 In Development	Level 3 Managed	Level 4 Integrated	Level 5 Transformational

4. Appendices

4.1 Recommendations Summary

Risk Culture and Leadership	1. There is a need to build new relationships with members following the elections, however there is confidence in the established process that this will be developed
Risk Appetite and Strategy	2. Consider developing a risk appetite quick tool guide to support consistent understanding and embedding at operational levels including how this can be evidenced. 3. Build appetite discussions into operational risk discussions, particularly at department management team risk conversations.
Governance	4. Consider sharing the decisions and output from risk reporting back down the 'golden thread' to increase understanding and value of risk reporting. 5. Continue with planned work to support new members in understanding their role in risk management.
Methodology	6. Incorporate Trend analysis within risk register templates and actively challenge "ongoing" action timescales. 7. Consider stress testing / scenario planning strategic risks to understand the effectiveness of identified mitigations.
People and Training	8. Consider future training sessions as a workshop to provide opportunity for staff to put into practice the observed training with good risk management case studies.
Project, Partners, and Supply Chain	9. Dedicated training for risk management within projects and contracts should be considered for those who are taking on the responsibility. 10. Undertake further work to understand the common/shared risks within partnerships. Maintain joint risk registers with key partners to monitor key issues.

4.2 Maturity Assessment

	Risk Culture & Leadership	Risk Appetite & Strategy	Governance	Methodology	People & Training	Projects, Partnerships & Supply Chain
Level 5 Transformational	Risk Management is actively championed by the CEO, Senior management and Members. There is a strong consideration of risk in all decision making processes	Risk appetite is reviewed at least annually and is taken into account in key decision points including day-to-day operational, as well as strategic, decisions	There is active oversight of risk management from Members and senior management	Management of risk and uncertainty is well integrated with all key business processes and shown to be a key driver in business success	Staff are empowered to be responsible for risk management and the organisation has a good record of well managed risk taking	Risk management is a collaborative activity amongst all parties and shown to be a key driver in success delivery
Level 4 Integrated	Senior Management & Members constructively challenge risk information and consider risk within decision making processes	The organisation has formalised its risk appetite and statements exist for each principal risk category for practical use at key decision points	Governance arrangements are effective and aligned with other processes within the organisation	Risk management processes are used to support key business processes and service delivery	Suitable guidance is available and a training programme has been implemented to ensure the continuation of risk management capability	Sound governance frameworks are established in these areas and common risk goals are identified amongst all parties
Level 3 Managed	Senior management & Members take the lead to apply risk management across the organisation and a register of key strategic risks is maintained	The concepts of risk appetite and tolerance are understood and utilised by senior management when discussing strategic risks	Formal reporting and assurance arrangements for risk management exist which are delivering value to the organisation and are consistently applied	Risk management processes are established and effective but are not being applied consistently across the organisation	A core group of people have the skills, knowledge and capacity to manage risk effectively and implement the risk framework across the organisation	Risk Managed in these areas is effective, appropriately resourced
Level 2 In Development	Senior management & Members are actively building the organisation's risk culture and a senior level 'risk champion' has been appointed	Risk Management strategies & policies are drawn up, communicated and being acted upon but Risk Appetite is not a concept actively used within the organisation, even if it is mentioned within the policy / strategy	Reporting and assurance exist but are currently being implemented or require development	Risk management processes exist but are currently being implemented or require development	The organisation is taking steps to increase the capacity and competency of individuals with risk management roles and responsibilities	Approaches for managing risk in these areas exist but are currently being implemented or require development
Level 1 Fragmented	Senior management & Members are aware of the need to manage risks	Risk Management is sporadic and unstrcutured within the organisation	The monitoring and reporting of risks is limited and only done when requested by senior management or Members	No formal process exists for risk management within the organisation	Key people are aware of the need to understand risk principles but there is a skills gap across the organisation	Key people are aware of potential risks factors in these areas