

Perth & Kinross Council

Audit & Risk Committee

26 June 2023

ANNUAL REPORT - STRATEGIC RISK MANAGEMENT

Report by Head of Legal & Governance
(Report No. 23/202)

1. PURPOSE

- 1.1 The purpose of the report is to provide assurance that the Council's Risk Management Framework is adequate and effective and to advise the Committee of the current key strategic risks facing the organisation and how these risks are being mitigated and managed.

2. RECOMMENDATIONS

- 2.1 It is recommended that the Committee:
- i) Considers the content of the report and provides appropriate and constructive challenge and comment.
 - ii) Notes the current key strategic risks which have been identified through the application of the approved risk management process.
 - ii) Accepts the assurance as to adequacy and effectiveness of the risk management framework

3. STRUCTURE OF REPORT

- 3.1 This report is structured over the following sections:
- Section 4: Context
 - Section 5: Summary of Risk Activity 2022/23
 - Section 6: Key Strategic Risks for 2023/24
 - Section 7: Conclusion and Next steps
 - Appendix 1 Strategic Risk Register 2023/24

4. CONTEXT

- 4.1 Effective risk management is a key element of the Council's system of internal control and essential to the good governance of any organisation. Given the nature of Local Government, our risk landscape is complex and varied. It is vital, therefore, that we have an effective framework in place for identifying, assessing, mitigating and managing the many different risks which the Council must deal with. As risk is fluid and the level of threat can vary depending upon circumstances at any given time, it is important that it is continuously monitored and reviewed.

- 4.2 The effectiveness of the Risk Management Framework as a whole, is reviewed each year, as part of the assurance exercise undertaken to produce the Council's Annual Governance Statement (AGS). As part of the process to produce the AGS for 2022/23, the Strategic Risk Register has been reviewed comprehensively to ensure that it reflects the current key strategic risks facing the Council at this time.
- 4.3 The organisation's approach to risk management as set out in the Risk Management Framework and has been assessed as being effective in identifying, assessing, evaluating, prioritising, and mitigating and managing risk, appropriately and proportionately during the period 2022/23.
- 4.4 The Council's Risk Management Framework was developed and approved in 2017 and has been reviewed regularly and where necessary revised, to ensure that it remains fit for purpose. The Framework is based on the Management of Risk (M_O_R®) methodology. The approach is now embedded across the Council and risk at all levels is managed through a continuous process of identification, assessment, evaluation, prioritisation and mitigation.
- 4.5 Risk is evaluated based on the likelihood of the risk arising (probability) and the potential impact in both financial and non-financial terms. Given that risk can never be eliminated completely, proportionate controls and mitigation measures are then put in place to manage the risk.
- 4.6 The Strategic Risk Register is annexed to this report at Appendix 1. It reflects our identification, assessment, and evaluation of the key strategic risks which the Council is facing at this point in time. It sets out the current control measures in place which help us to mitigate the impact of the risks. As risk is defined as an uncertain event, it is by its very nature, fluid. As such, the identification of risks, the scoring and the controls and actions needed to mitigate the risks, need to be continuously monitored and reviewed. Whilst the Strategic Risk Register presents a snapshot of risk at a point in time, operationally it is a live document which is routinely reviewed by the senior leadership group and Service Management Teams.

5. RISK ACTIVITY 2022/23

- 5.1 Throughout the year, strategic and operational risks have been managed in accordance with the Risk Management Framework. Services have been supported in this by the Performance Planning & Risk Group (PP&R), a small number of officers who are trained risk practitioners.

- 5.2 The key focus for the PP&R Group during this period has been the specification, procurement and development of a new risk and performance software solution ("PK Performs") which has been procured. The risk practitioners have undertaken training in relation to the system and are using that knowledge to further enhance and refine user experience. They have developed training guides and videos to support the operational roll-out across the organisation.
- 5.3 The initial phase of onboarding information into PK Performs has been focused on strategic risks held both corporately and within Services. The next stage of implementation will encompass change/transformation and relevant operational activity.
- 5.4 The process of implementation has afforded an excellent opportunity to interrogate and better understand our risk landscape. Further work will be undertaken throughout 2023/24 to develop appropriate dashboards, reporting and analysis tools.
- 5.5 Work is also underway to revise the risk e-learning module which was being developed to support staff to understand the M_O_R® risk management process, to take account of the new system requirements. Once complete, this will be rolled out Council-wide. The e-learning module will be supported by a suite of refreshed resources and will be available via the Council's intranet site.
- 5.6 The PP&R Group are also working to map the complex risk and reporting profile between the Council, the Health & Social Care Partnership (HSCP) and Integration Joint Board (IJB) to design an appropriate mechanism for risk assurance in relation to public protection. HSCP colleagues have also been included in implementation arrangements for PK Performs with a view to future use of the platform by HSCP/IJB for management of risk.

6. STRATEGIC RISK REVIEW PROCESS

- 6.1 The PP&R group have worked with Risk Owners, Service Management Teams (SMT) and the Executive Leadership Team (ELT) to analyse the current risk landscape both strategically and operationally. The PP&R Group, SMTs (Service Management Teams) and the Policy & Governance Group have also carried out a critical review of strategic and service risk registers and have assessed the system of internal control for risk management as part of the assurance process for the Annual Governance Statement.
- 6.2 Various workshop sessions have been undertaken where nature, scoring and control measures for risks have been scrutinised and challenged risks to ensure that the risk assessment remains relevant and is robust.

- 6.3 The refreshed Strategic Risk Register attached has been taken from the new risk management system, PK Performs. A risk summary section provides context of the overall risk landscape for corporate strategic risk. The pages thereafter provide a more detailed view of each risk, outlining causes and consequences alongside existing risk control measures and their effectiveness. It also shows mitigating actions we are taking where it is felt that further action would be appropriate and cost-effective in risk reduction. *(Please note that the default references to risk appetite should be disregarded at present as this is an area for future development).*
- 6.4 The risks are articulated in terms of cause and effect to ensure that there is a clear understanding of the numerous factors which potentially give rise to the risk being realised and the impact that they may have in various areas.
- 6.5 Risk scores are calculated based on probability and impact. The **INHERENT risk score** is the evaluation of the risk prior to any control actions being implemented. The **RESIDUAL risk score** is the evaluation of the risk based on the probability and impact once control/mitigation measures are implemented. It should be noted that some risks cannot be reduced significantly, regardless of what control or mitigation measures are put in place. This may be particularly relevant where the risk is not one which can be managed by the Council alone and requires mitigating action to be taken by other parties.
- 6.6 Risks are then prioritised, based on the **RESIDUAL** risk score; -
- Priority 1: Residual risk score 16-25
 - Priority 2: Residual risk score 10-15
 - Priority 3: Residual risk score 6-9
 - Priority 4: Residual risk score 1-5
- 6.7 Based on the evaluation, unsurprisingly, the highest (Priority 1) risks facing the Council relate to:
- the protection of vulnerable children and adults
 - reducing the impact of climate change
 - growing the local economy
 - addressing poverty and the inequalities gap
- 6.8 This scoring is not reflective of the quality or level of mitigation; in relation to all of these there is significant control and mitigation activity being undertaken which is having a positive impact. The fact that despite this, the risk level remains in the Priority 1 zone, is more reflective of the fact that mitigating action also requires to be taken by other bodies/partner agencies, or broader external factors are at play (e.g., global economy) or what is required is a significant change in social behaviour (climate change).

- 6.9 Similarly, the fact that other risks are scored lower in no way signifies that these are of lesser importance; the scores are more reflective of the scope and effectiveness of the current controls within the direct influence of the Council. Furthermore, some other important risks will sit on Service Risk Registers in accordance with the Risk Management Strategy. These will be monitored and managed by the relevant Senior Management Teams, subject to the provisions within the Risk Management Framework governing escalation and accountability.
- 6.10 It is also recognised that risks need not always be negative in impact; some uncertain events will give risk to potential opportunities (e.g., for change or improvement). Our response to risk (Accept/Avoid/Reduce/Transfer/Share/Enhance/Exploit) therefore will vary depending upon the nature of the risks, the potential impact and particular circumstances at a given time.

7. NEXT STEPS

- 7.1 The focus for 2023/24 will be the implementation and organisational wide roll out of the new system for integrated risk and performance management across the Council; giving us better quality business information and intelligence by way of a more holistic view of key issues, challenges, and opportunities to support better informed, evidence based, decision-making across the organisation.
- 7.2 As part of this implementation, we recognise the importance of ongoing risk management training. We will launch the e-learning training module, publish new resources aligned to our new software solution and continue to educate officers in the use thereof.
- 7.3 These are challenging times for the Council and the communities that we serve; the local economy is struggling, there is a cost-of-living crisis and increasing poverty, a decline in people's mental health and wellbeing and an increasing demand for our services. We must therefore challenge our traditional thinking around the design and delivery of services to ensure that they meet the increasing and changing needs of our communities, now and in the future.
- 7.4 Change and transformation needs a positive approach to risk, and during 2023/24 we will review our risk appetite in light of the strategic objectives set out in our new Corporate Plan. Accordingly, we will be engaging with Elected Members and officers to develop a fresh Risk Appetite Statement over the next year.

8. CONCLUSION

- 8.1 The Council's Risk Management Framework is robust and effective and will continue to be reviewed throughout 2023/24 to ensure that it remains effective and fit for purpose.

- 8.2 A programme of work is in place to further develop the Framework to better support the organisation to achieve its strategic objectives and deliver better outcomes for the people of Perth & Kinross. Risk will continue to be regularly monitored, reviewed and managed in accordance with the approved Risk Management Framework

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Approved

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1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

Strategic Implications	Yes / None
Community Plan / Single Outcome Agreement	Yes
Corporate Plan	Yes
Resource Implications	
Financial	None
Workforce	None
Asset Management (land, property, IST)	None
Assessments	
Equality Impact Assessment	None
Strategic Environmental Assessment	None
Sustainability (community, economic, environmental)	None
Legal and Governance	None
Risk	None
Consultation	
Internal	Yes
External	None
Communication	
Communications Plan	No

1. Strategic Implications

Community Plan / Corporate Plan

- 1.1 This report supports the delivery of the Strategic Objectives within Perth and Kinross Community Plan (Local Outcomes Improvement Plan) 2017-2027 and Corporate Plan 2022-28

2. Resource Implications

Financial

- 2.1 There are no financial implications arising from this report.

Workforce

- 2.2 There are no workforce implications arising from this report.

Asset Management (land, property, IT)

- 2.3 There are no asset management implications arising from this report.

3. Assessments

Equality Impact Assessment

- 3.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.
- 3.2 This report has been considered under the Corporate Equalities Impact Assessment process (EqIA) with the following outcome:
- Assessed as not relevant for the purposes of EqIA

Strategic Environmental Assessment

- 3.3 The Environmental Assessment (Scotland) Act 2005 places a duty on the Council to identify and assess the environmental consequences of its proposals. No further action is required as it does not qualify as a PPS as defined by the Act and is therefore exempt.

Sustainability

- 3.4 Under the provisions of the Local Government in Scotland Act 2003 the Council must discharge its duties in a way which contributes to the achievement of sustainable development. In terms of the Climate Change Act, the Council has a general duty to demonstrate its commitment to sustainability and the community, environmental and economic impacts of its actions.
- 3.5 The information contained within this report has been considered under the Act. However, no action is required as the Act does not apply to the matters presented in this report.

Legal and Governance

- 3.6 Not applicable.

Risk

- 3.7 Not applicable.

4. Consultation

Internal

- 4.1 Senior Managers and the Executive Leadership Team were consulted during the preparation of this report.

External

4.2 Not applicable.

2. BACKGROUND PAPERS

Not applicable.

3. APPENDICES

Appendix 1 - Strategic Risk Register June 2023