Borough of Pendle

REPORT FROM:	**CORPORATE GOVERNANCE WORKING GROUP**
TO:	**ACCOUNTS & AUDIT COMMITTEE**
DATE:	**27th JULY 2021**

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CORPORATE GOVERNANCE UPDATE

PURPOSE OF REPORT

The purpose of this report is to provide the Committee with the outcome of the most recent review of the Council's Corporate Governance Framework (incorporating the action plan), the Strategic Risk Register (undertaken by Risk Owners and the Corporate Governance Working Group (CGWG)) and the Risk Management Strategy and Policy as agreed with Management Team.

RECOMMENDATIONS

The Accounts & Audit Committee is recommended to:

(1)   consider the review of the Corporate Governance Framework (including the incorporated action plan) at **Appendix 1** and comment as appropriate;

(2)   note that those actions in the Self-Assessment with an Amber rating will remain under regular review to ensure appropriate action is taken to improve the arrangements in place;

(3)   consider and comment on the updated Strategic Risk Register provided at **Appendix 2** and advise if they would like any further information on specific aspects of the Council's arrangements;

(4)   review and provide feedback on the Risk Management Strategy and Policy Statement at **Appendix 3 and 4** which have been updated in line with recommendations from the recent Internal Audit Review and approved by Management Team;

(5)   subject to (4) above endorse the documents for submission to Policy & Resources Committee and Council requesting that Council formally approve and adopt these documents.

REASONS FOR RECOMMENDATIONS

(1)   To ensure the Committee is made aware of current developments impacting on the Council's wider corporate governance framework.

(2)   To inform members of the current risks facing the Council, along with the actions and planned activities that are taking place to mitigate against those risks. In turn this will enable us to work towards reducing our exposure to any potential subsequent threats they pose and where appropriate maximise opportunities to effectively reduce exposure.

ISSUE

1. It is considered good practice for the Council's corporate governance and risk management arrangements to be subject to a regular review.

2. The Corporate Governance Framework (and action plan) and the Strategic Risk Register are both subject to periodic review by the CGWG (Chief Executive, Corporate Director, the Chief Finance Officer i.e. the three statutory officers; the Head of Legal Services; and the Corporate Client and Performance Manager) and Management Team.

3. Both the Corporate Governance Framework and Strategic Risk Register have recently been reviewed on a number of occasions by the CGWG, with an integral part of this review being the impact, response and recovery relating to the COVID-19 outbreak.

4. The Risk Management Strategy and Policy is subject to review at least every 3 years, or as circumstances dictate. This has now been reviewed in line with recommendations made during the recent Risk Management Internal Audit Review.
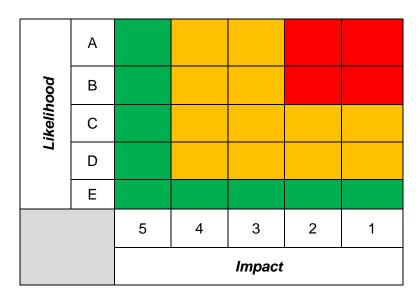
CIPFA/ SOLACE Good Governance Framework – Update on self-assessment

5. Councillors will appreciate that the governance of the Council is fundamental to its success as an organisation. In this context, governance comprises the arrangements put in place by the Council to ensure that intended outcomes are defined and achieved which are in the public interest at all times.

6. Annually, the Council is required to produce an Annual Governance Statement (AGS), which is published as part of its Statement of Accounts, which comprises a description of the governance arrangements in place at the Council and how they have operated throughout the year. In support of this, the Council is expected to keep its governance arrangements under regular review throughout the year.

7. To support local authorities in their endeavours to ensure that governance arrangements are adequate and appropriate, the Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives (SOLACE) collaboratively produced the *Delivering Good Governance in Local Government: A Framework* (hereafter referred to as 'the Framework').

8. The Framework defines the principles of good governance that should underpin the governance of each local authority and importantly provides a structure to help Councils with their approach to governance.

9. Since the Framework was published the Council has maintained a Local Code of Corporate Governance in the form of a Self-Assessment against the principles (and sub-principles) of good governance identified in the Framework. This Self-Assessment is the subject of a periodic review by the Corporate Governance Working Group.

10. The latest periodic review of the Self-Assessment has recently been undertaken and the outcome of that review is provided at Appendix A. Compliance with the principles is measured by the following indicators:-

- GREEN - current arrangements assessed as meeting the requirements.
- AMBER - scope to strengthen current arrangements/some improvement required.
- RED - nil compliance – no evidence that arrangements exist.

11. On the basis of the latest review, there are 8 areas which are AMBER rated and for which further action is required. Where this is the case, details of the action to be taken, responsible Officer and likely implementation are provided in **Appendix 1**.

12. It should also be noted that whilst some actions are GREEN rated, anticipated changes in the Council's governance arrangements will require some aspects of the Council's arrangements to be reviewed and updated. An example of this is the Council's Scheme of Delegation which is currently being reviewed by Management Team.

13. As has been the case previously, the Self-Assessment will remain under review to ensure action is taken on the AMBER rated items and further reports will be submitted to this Committee in due course.

Strategic Risk Register (SRR)

14. The Council has maintained a Strategic Risk Register (SRR) for a number of years. These are the main risks identified as being potential threats to the achievement of the Council's corporate objectives. Each risk is assigned to a risk owner and each is scored using a 5 by 5 risk matrix which assesses the impact and probability (likelihood) of the risk occurring as shown below:

Likelihood						
	A	🟩	🟨	🟨	🟥	🟥
	B	🟩	🟨	🟨	🟥	🟥
	C	🟩	🟨	🟨	🟨	🟨
	D	🟩	🟨	🟨	🟨	🟨
	E	🟩	🟩	🟩	🟩	🟩
		5	4	3	2	1
		Impact				

15. The perceived likelihood and impact of each risk is assessed and scored according to the matrix above. At this stage the score is referred to as the Inherent Risk. The procedures and controls that the Council has in place to mitigate against that risk are considered to assess how effective they can be in reducing risk exposure. The risk is then re-scored leaving the Residual Risk that is not covered by the existing procedures and controls.

16. The recently updated SRR also describes the risk and outlines current developments impacting on the risk, actions taken or planned and identifies the risk owner(s).

17. Risks that have a high residual risk score are included on the SRR and these risks are reported on periodically via Policy and Resources and Accounts and Audit Committee.

18. More detail with regard to the scoring methodology and matrix is contained within the Risk Management Policy and Strategy which is available upon request.

19. The most recent review of the risk register identified that all previous risks remain relevant with the exception of the following detailed below which will now be removed from the SRR:

- **Brexit** – this is now considered to be subsumed into business as usual; an approach which is mirrored by the Lancashire Resilience Forum, whose Brexit sub-group has now been stood down.
- **Commercial Strategy – adopting a commercial approach within services –** this is no longer a strategic focus, particularly given the Government's stance on commercial investments. However, some commercial activity will be pursued / considered as part of the Council's approach to balancing the budget and so this will be picked up in the risk around the Medium Term Financial Plan (MTFP).
- **Changes to Borough Electoral arrangements** – this is now completed following the all-out Election in May 2021.

20. One further to change to the SRR is that the risk score for **Lomeshaye Phase 2 (Strong Economy)** has been increased from D2 to B2 to reflect the fact that the funding to buy the site is no longer available.

21. No new risks have been identified for inclusion in the SRR at this stage.

22. Other factors identified impacting on existing risk, either increasing exposure, assisting mitigation or added opportunities included the following:-

- Impact of and recovery from the COVID-19 pandemic.
- Pendle Borough Council (PBC) will be undertaking a Disaster Recovery Test within the coming months.
- Balanced budget approved for 2021/22.
- Outcome of the Budget 2021.
- Recruitment and retention of specialist and qualified staff is becoming more of an issue.

23. Each risk has been identified against the most relevant Key Objective of the Strategic Plan and has been summarised on Page 2 of the SRR, attached at Appendix 2.

24. For information, the table below provides a summary of the current top strategic risks included in the SRR (on the basis of the Inherent / Residual Risk scores):

No.	Risk Identified	Residual Risk Score
1	The Medium Term Financial Plan is not sustainable.	A1
2	Financial position of Leisure Trust resulting in inability to provide existing level of Service.	A1
3	National crisis affecting delivery of Council services (e.g. viral outbreak / epidemic / pandemic)	A1
4	Major Disaster affecting delivery of Council services.	A2
5	Failure to make an impact on young people where it is necessary to improve poor educational attainment.	A2
6	Failure to bring development forward in line with the adopted Core Strategy leading to missed opportunities for growth in employment and housing.	A2
7	Risk of serious data breach and failure to comply with General Data Protection Regulation (GDPR).	A2
8	Failure to optimise Pendle's economic growth / development within the region.	B1
9	Increased Health Inequalities – failure to deliver an improvement to the general health of Pendle's residents; Arrangements for Public Health in Lancashire fail to deliver health improvements in Pendle	B2

10	Local Government Re-organisation and impact on regions with current two-tier local government structure.	**B2**
11	Climate Change, in particular the need to reduce our use of Single Use Plastics.	**B2**
12	Failure to deliver a balanced housing market with reference to need and demand.	**B2**
13	Failure to deliver our Strategic Employment Site at Lomeshaye – Phase 2	**B2**
14	Poor road, rail and digital connectivity prevents growth	**B2**
15	Universal Credit impacts on the Council's contract with Liberata.	**B2**
16	Impact on Council's capacity / viability of organisational change linked to on-going reductions in funding for local government.	**B2**

25. Any review of risks needs to be considered in the context of the organisation's 'risk appetite'. For example, how willing are we to accept a level of risk and what should that level of risk be? When the current risk management policy and strategy was adopted during 2017 the Council's appetite to risk was defined as "Open" based on the following hierarchy:

Classification	Description
Averse	Avoidance of risk and uncertainty is a key Organisational objective
Minimalist	Preference for ultra-safe business delivery options that have a low degree of inherent risk and only have a potential for limited reward.
Cautious	Preference for safe delivery options that have a low degree of residual risk and may only have limited potential for reward.
Open	Willing to consider all potential delivery options and choose the one that is most likely to result in successful delivery while also providing an acceptable level of reward (and value for money etc.).
Hungry	Eager to be innovative and to choose options offering potentially higher business rewards, despite greater inherent risk

26. As part of the Risk Management Strategy and Policy review by Management Team it was agreed that the Risk Appetite of 'Open' is still appropriate as detailed below.

Risk Management Strategy and Policy Statement
27. Whilst the Council's risk management framework has been established for some time the overarching Risk Management Strategy and Policy has not been fully reviewed and updated since 2017.

28. As part of our corporate governance arrangements it is important that the strategy and policy be subject to periodic review – at least every three years - and this has now been undertaken. Revised documents are attached at Appendix 3 and 4 for consideration by the Committee.

29. In summary the changes made have been minor administrative changes, e.g. officer titles, document / version control section required, etc. and formalising existing arrangements, such as needing to further define the differing roles and reporting lines of the Risk Management Working Group and the Corporate Governance Working Group (please refer to diagram added on Page 13). The Strategy and Policy Statement have now also been divided into two separate documents.

30. However, some more fundamental changes were highlighted by a recent Risk Management Audit Review by the Internal Audit Service delivered by Mersey Internal Audit Agency (MIAA). These are summarised below and Management Team have given these due consideration and have agreed the following:

- **Operational Risks** – MIAA picked up that RMWG only seemed to focus on H&S risks with no evidence of operational risks being considered / reviewed / escalated. The audit report recommended that we put service level operational risk registers in use. Whilst we acknowledge this is good practice, this is something which needs to be considered by RMWG along with the level of resource available to maintain these. RMWG is also asked to consider other ways that operational risks can be managed which may be more proportionate to the resources available.

- **Risk Assessment of Projects** - Despite there being a good discipline in using the Checklist for Risk Assessment on Projects (Appendix 3 to the Strategy), there is a need to strengthen the evidence base that demonstrates that projects are risk assessed prior to approval and subsequently risk managed during delivery / implementation. It was agreed that the Risk Assessment Checklist should be utilised in line with the Risk Management Strategy.

- **Consistent Risk Model** - the need to have a consistent risk model applied across the Council, e.g. projects, business continuity, RMWG. MIAA agreed the risk model in use for Strategic Risk Management was sound. Therefore, should this Strategy be approved and endorsed, the expectation is that this is the risk model which should be applied across the Council.

- **The Council's Risk Appetite** - The document defines our risk appetite as an organisation and sets out the responsibilities of various parties within the risk management framework. The CGWG felt that the level of risk appetite as selected in the document ('Open') remains appropriate and Management Team agreed with this.

31. Another issue highlighted via the audit was the lack of any recent risk management training having taken place. Therefore, following approval of the strategy and policy, relevant training will be provided as required. A proposal from the Council's insurer, Zurich, has been received and endorsed by Management Team.

32. The next steps with the Strategy and Policy following this meeting is to share this internally with RMWG (which includes representation from our Insurers) and this has been shared with MIAA to seek their views. This will then be updated as required and presented to Policy & Resources Committee (Strategy) and Council (Policy) for approval and endorsement.

IMPLICATIONS

Policy: There are no policy implications arising directly from the recommendations in this report.

Financial: There are no financial implications arising directly as a consequence of the recommendations in this report.

Legal: There are no new legal implications resulting directly from the recommendations in this report.

Risk Management: The proposed strategy and strategic risk register is demonstrating effective risk management evidencing that risks facing the Council are under review and activity to mitigate against risk remains relevant.

Health and Safety: There are no health and safety implications arising directly from the recommendations in this report.

Sustainability: There are no sustainability implications arising directly from this report.

Community Safety: There are no community safety issues arising directly from the contents of this report.

Equality and Diversity: There are no equality and diversity issues arising from the contents of this report.

APPENDICES
Appendix 1 – Corporate Governance Framework – Update June 2021
Appendix 2 – Strategic Risk Register – Update June 2021
Appendix 3 – Risk Management Strategy
Appendix 4 – Risk Management Policy Statement

LIST OF BACKGROUND PAPERS
MIAA Risk Management Audit Report
Previous Corporate Governance Framework Updates
Previous Strategic Risk Register Updates
Existing Risk Management Strategy & Policy