

## CORPORATE AFFAIRS AND AUDIT COMMITTEE

<b>Report title</b>	Performance and Risk Management Frameworks update
<b>Director</b>	Strategic Director of Finance, Governance and Support
<b>Date</b>	26 July 2018
<b>Purpose of the report</b>	To outline the recent revisions to the frameworks for corporate performance and risk management, and a new format for quarterly performance reporting to the Executive.
<b>Summary of the report</b>	The report outlines recent changes that have been made to the Council's performance and risk management frameworks, with a specific focus on enhancing the reporting of performance to members and local residents.
<b>If this is a confidential report, which exemption(s) from the Schedule 12a of the Local Government Act 1972 applies?</b>	Not applicable.
<b>Decision(s) asked for</b>	That the Committee notes the revised performance management framework (Appendix 1) and risk management framework (Appendix 2) That the Committee notes the revised quarterly performance reporting format (Appendix 3), to be implemented from Quarter One 2018/19.
<b>Impact of decision(s)</b>	Quarterly reporting to Executive will focus on key strategic matters only, and the performance of the Council will be better communicated to local residents.
<b>Contact:</b>	Paul Stephens, Head of Strategy, Information and Governance

## **What is the purpose of this report?**

1. Approved by Council on 28 March 2018, the streamlined Strategic Plan 2018-22 offers the opportunity to further improve post-quarterly reporting on expenditure against budgets and performance.
2. This report outlines the revised format for these reports, within the context of revised performance and risk management frameworks for the Council, reflecting learning over the past three years.

## **Why is this report necessary?**

3. The Council's Scheme of Delegation gives the Executive collective responsibility for corporate strategic performance and financial management / monitoring, together with associated action. Oversight of the Council's risk and performance management arrangements to ensure compliance with best practice falls within the remit of the Corporate Affairs and Audit Committee.
4. The Executive approved the current corporate performance and risk management framework in June 2018. These frameworks are based on proven industry standards, have been refined and strengthened over time, and been endorsed by Deloitte in its work on the Council Improvement Plan completed in early 2017/18.
5. It is not therefore necessary to significantly vary these frameworks. There was however an opportunity to make a small number of proposed improvements, specifically in relation to performance reporting to members and local residents.
6. The previous performance management framework was based on a balanced scorecard model, which has been successful in bringing together a range of information previously reported to members separately into a comparatively streamlined report that has been well-received overall.
7. However, this balanced scorecard model remained complex, and in its aim to provide a comprehensive picture of performance across all services, did not highlight key strategic issues as effectively as it could have.
8. It was proposed therefore to replace this approach with a more simple quarterly assessment of performance against the Strategic Plan. Officers will still assess the performance of all services on at least a quarterly basis, in line with the performance management framework.
9. As part of the development of the Strategic Plan 2018-22, which is a more streamlined document written in plain English and utilising infographics, it was proposed that quarterly reporting to members adopts a similar approach, and that a summary of the Council's performance is included in LoveMiddlesbrough magazine in future so that performance successes, challenges and activity are better understood by residents.
10. Appendices 1 and 2 set out revised performance and risk management frameworks for the Council incorporating these changes, and minor amendments to account for changes in the Council's management structure since that time.

11. Appendix 3 sets out the new quarterly reporting format for the Executive, focusing on key items of strategic interest.
12. An internal audit review of performance management will be undertaken during 2018/19.

**What decision(s) are being asked for?**

13. That the Committee notes and supports the revised performance management framework (Appendix 1) and risk management framework (Appendix 2).
14. That the Committee notes and supports the proposed revised quarterly performance reporting format (Appendix 3), to be implemented from Quarter One 2018/19.

**Why is this being recommended?**

15. To ensure continuous improvement in corporate performance and risk management and provide for a more effective reporting of performance to elected members and local residents.

**Other potential decisions and why these have not been recommended**

16. The other potential decision considered by Executive was to retain current arrangements. While acceptable from a corporate governance perspective, this was not recommended, as the revised arrangements provided for better consideration of strategic issues and enhanced and regular communication of performance to local residents, which previously was done at an ad hoc basis.

**Impact(s) of recommended decision(s)**

***Legal***

17. The performance and risk management frameworks enable the Council to operate within the resources available to it, and continue to meet its various statutory duties, including the overarching Duty of Best Value.

***Financial***

18. Not applicable.

***The Mayor's Vision for Middlesbrough***

19. The Strategic Plan clearly sets out the Council's planned contribution to the Mayor's Vision for Middlesbrough. The revised quarterly performance reporting format will clearly set out how the Council is delivering this contribution.

***Policy Framework***

20. In underpinning the achievement of the Strategic Plan, the revised frameworks are aligned with the Council's policy framework.

***Wards***

21. The proposals have no direct or differential impact on wards in Middlesbrough.

***Equality and Diversity***

22. Not applicable.

***Risk***

23. The risk management framework provides for effective risk management across the Council, and quarterly reporting to Executive and Overview and Scrutiny Board will continue to incorporate a summary of the Council's strategic risk register and changes made to this in the previous quarter.

**Actions to be taken to implement the decision(s)**

24. Not applicable.

**Appendices**

- 1 Revised performance management framework
- 2 Revised risk management framework
- 3 Proposed revised quarterly performance reporting format

**Background papers**

- 14/07/15 Executive Corporate Performance and Risk Management Framework
- 28/03/18 Council Strategic Plan 2018-22
- 12/06/18 Executive Corporate Performance and Risk Frameworks

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## Appendix 1: Performance management framework

### Introduction

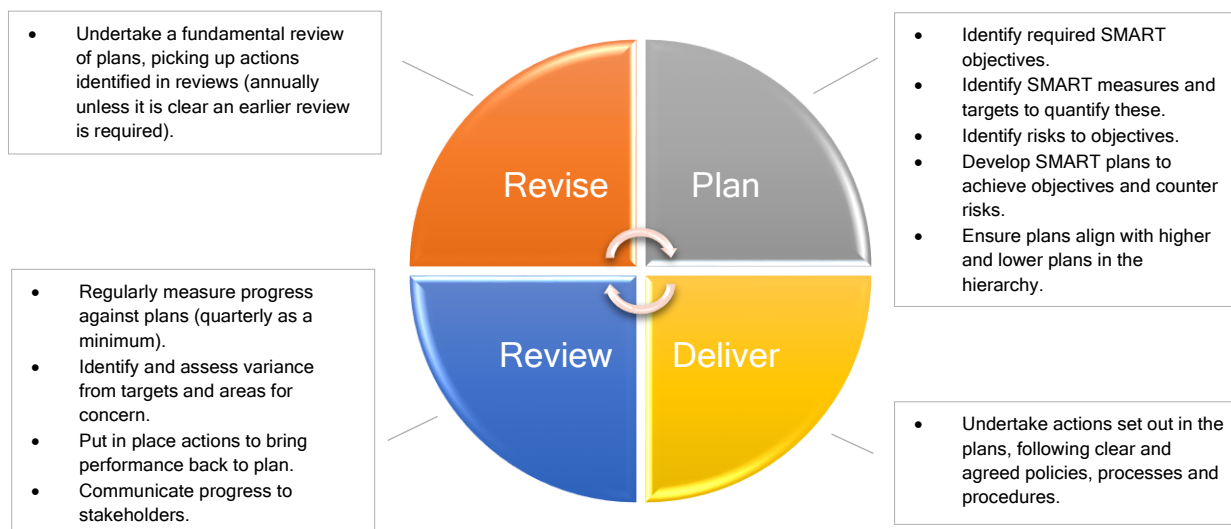
1. Performance management is a statutory requirement for local authorities, and is a critical element of corporate governance. In assessing the economy, efficiency and effectiveness of services and of the organisation overall, it is the principal means through which the Council can demonstrate to its stakeholders that it is delivering Best Value, as required by the Local Government Act 1999.

### Definition

2. Performance management is defined as: 'taking action in response to actual performance to make outcomes for users and the public better than they would otherwise be'. The key words here are 'taking action'. The Council's expectation is that managers will actively manage, rather than simply monitor performance.
3. An effective approach to managing performance will significantly enhance our prospects of delivering our strategic and operational objectives. Our performance management framework represents such an approach.

### Framework

4. Our performance management framework is based on the cycle of 'Plan-Deliver-Review-Revise', which applies at all levels of the organisation, and to which all elected members and employees contribute.



5. The key principles of the framework are:

- everything we do is geared towards achieving our strategic objectives;
- all of our objectives will be SMART and interlink, from top to bottom;
- all of our objectives will reflect agreed budgets;
- we have up-to-date risk registers, setting out how will deal with threats;
- we have up-to-date plans in place for all services, programmes and projects;
- we have robust systems in place to monitor and report performance; and
- unit costing and appropriate benchmarking will inform everything we do.

## Roles and responsibilities

6. All members and employees share responsibility for managing performance effectively, and have specific roles within the framework, as outlined below.

Role	Responsibilities
Executive	Overall responsibility for performance management across the Council, including agreeing the performance management strategy and framework, developing the Strategic Plan, and ensuring that organisational performance is monitored and reviewed regularly.
Corporate Affairs and Audit Committee	Review the effectiveness of performance management and receive an annual assurance report on progress being made.
Elected members	Agree the Council's Strategic Plan (as Council) and scrutinise service performance in line with the performance management framework.
Chief Executive and Leadership Team	Lead and coordinate performance management corporately, ensuring that the Council fully complies with all corporate governance requirements.
Executive Directors and Directors	Own and manage Directorate Plans, and ensure that the performance management framework is implemented within department and directorates.
Heads of Service	Adopt a proportionate approach to service planning, and ensure that the performance management framework is implemented within services and teams.
Middle managers	Promote a culture of effective service delivery and be accountable for service performance.
Frontline managers	Contribute to service planning and manage day-to-day performance.
All employees	Understand the level of personal performance that is expected and deliver on this.

7. The following sections outline expectations on how effective performance management will be achieved within the Council.

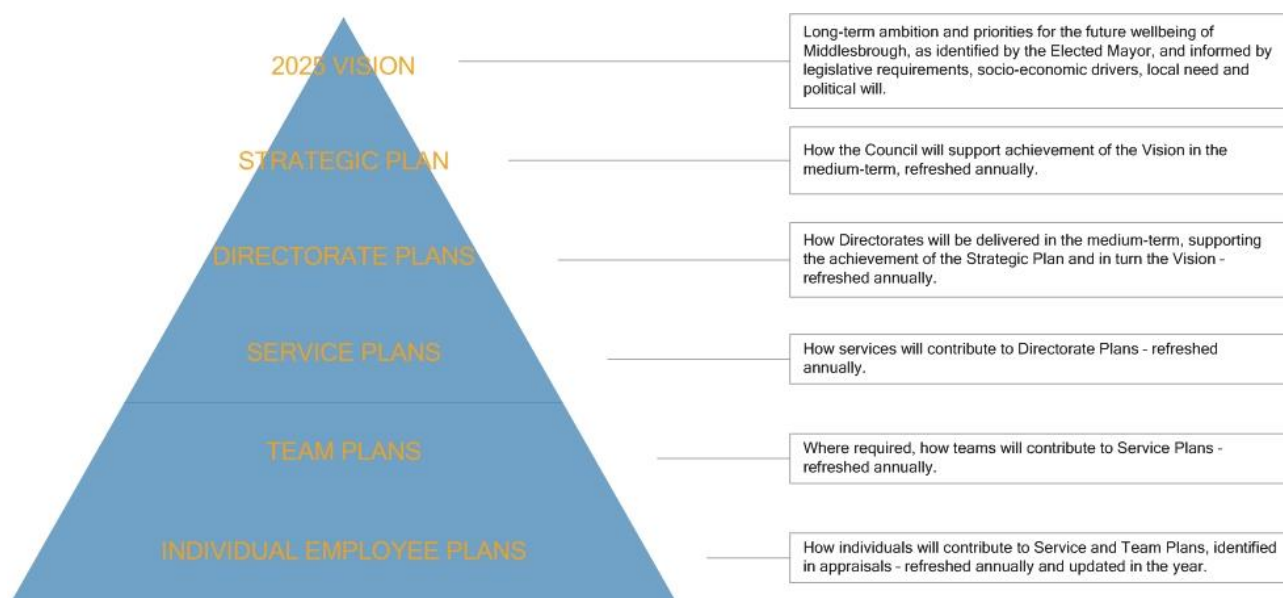
### Plan

8. The Council has put in place a clear planning hierarchy to demonstrate clear line of sight from top to bottom of the organisation.
9. The Elected Mayor of Middlesbrough sets a vision for the future of the town and associated strategic priorities for local wellbeing. These are articulated in the 2025 Vision for Middlesbrough – Fairer, Safer, Stronger.
10. The Strategic Plan is the Council's overarching business plan for the medium-term (four years ahead), and is refreshed on an annual basis. It sets out three strategic aims, representing the Council's approach to delivering the Mayor's Vision:
- Business Imperatives – Ensuring that the Council operates efficiently and effectively, so that Physical and Social Regeneration outcomes are maximised.
  - Physical Regeneration – Investing in Middlesbrough to provide and improve facilities which act to increase the town's reputation, create social opportunity, and improve the Council's finances.

- Social Regeneration – Working with our communities and other public service organisations to improve the lives of Middlesbrough’s residents.

11. Each Directorate will develop a short Directorate Plan, mirroring the format of the Strategic Plan and demonstrating how the directorate contributes to strategic priorities, that will be communicated to each member of staff in that directorate.

12. Planning below this level demonstrates how services, teams and individuals contribute to the achievement of the Strategic Plan, and through this to the Mayor’s Vision. All managers are required to have a plan for their area of responsibility, which translates high-level objectives into management action and performance targets, which can then be tracked through the Council’s performance monitoring process. This is outlined in the graphic below.



13. The purpose of the planning process is therefore to:

- identify SMART (Specific, Measurable, Achievable, Relevant, Timed) objectives;
- identify SMART measures and targets to quantify these objectives;
- identify risks to achieving the objectives (to be addressed through the Council’s risk management framework);
- develop SMART plans to achieve the objectives and counter risks; and
- ensure that these plans align with higher and lower plans in the planning hierarchy.

14. All plans will set out performance indicators and targets that align with SMART objectives. Managers are responsible for identifying appropriate performance indicators and SMART targets for these. The Strategy, Information and Governance service will work alongside the Leadership Team to provide challenge, ensuring that the right outcomes are being measured and targets are set at an appropriate level.

15. Responsibility for data quality and information governance is the responsibility of managers. The quality of data collected must be fit-for-purpose in relation to any decision-making it supports. Managers must understand the quality of the data they use, any limitations of the data and communicate issues to decision-makers as appropriate.

16. Managers are responsible for identifying and recording the steps they need to take to deliver agreed performance targets. All plans must achieve the minimum standard, as reflected in the Council's service plan template, be reviewed at least quarterly and refreshed annually (unless emergency action is required). They must be outlined by the end of November annually, signed-off by the appropriate line-manager and approved as required by the end of March annually.
17. In respect of partnerships and shared services, the performance management framework of the lead organisation will apply. Where this is not the Council, managers must ensure that arrangements are in line the key principles of this framework.

### **Deliver**

18. This purpose of this step is to deliver as far as practicable the actions identified in plans in line with agreed intentions. Managers are required to deliver agreed plans in line with the Council's risk appetite i.e. at least 90% of business plan objectives and at least 75% of performance targets must be achieved annually.
19. Business-as-usual delivery must comply with agreed strategies, policies, standards and processes governing the service(s) or function(s). The Council has a minimum standard to which services must adhere when developing strategy and policy.
20. Programme and project delivery (business change) must comply with the Council's programme and project management framework.
21. Managers are required to establish continuous internal monitoring mechanisms to ensure effective delivery of both business-as-usual and business change. This will include 1:1s, team and project meetings at appropriate frequencies.

### **Review and Revise**

22. The purpose of these steps, which are often taken together, is to on a periodic basis measure and assess progress against plans, identify areas for concern, explain any variance and outline actions to bring progress back to plan as far as practicable.
23. A critical aspect here is that actual performance, including highlights and plans to address and issues identified, is properly communicated to stakeholders, including elected members and local residents.
24. Performance dashboards being implemented across directorates as part of the Council's Digital Strategy and are now being routinely used by services on a daily basis to manage performance, forecast future events and drive decision-making. Ultimately, such solutions will replace the traditional model of performance management, focused on the periodic monitoring of KPI targets.
25. However, at this stage the Council will maintain an integrated programme of quarterly performance clinics, through which directorate performance is reviewed, issues and risks identified, mitigations put in place, and plans revised as appropriate. Performance clinics are coordinated by the Strategy, Information and Governance service, and are concluded within one month of quarter-end with a presentation to Leadership Team. Medium-term plans are reviewed and revised in greater detail on an annual basis, unless in-year performance suggests that urgent changes are required.



26. A short quarterly performance report will then be presented to the Executive to provide a summary of:

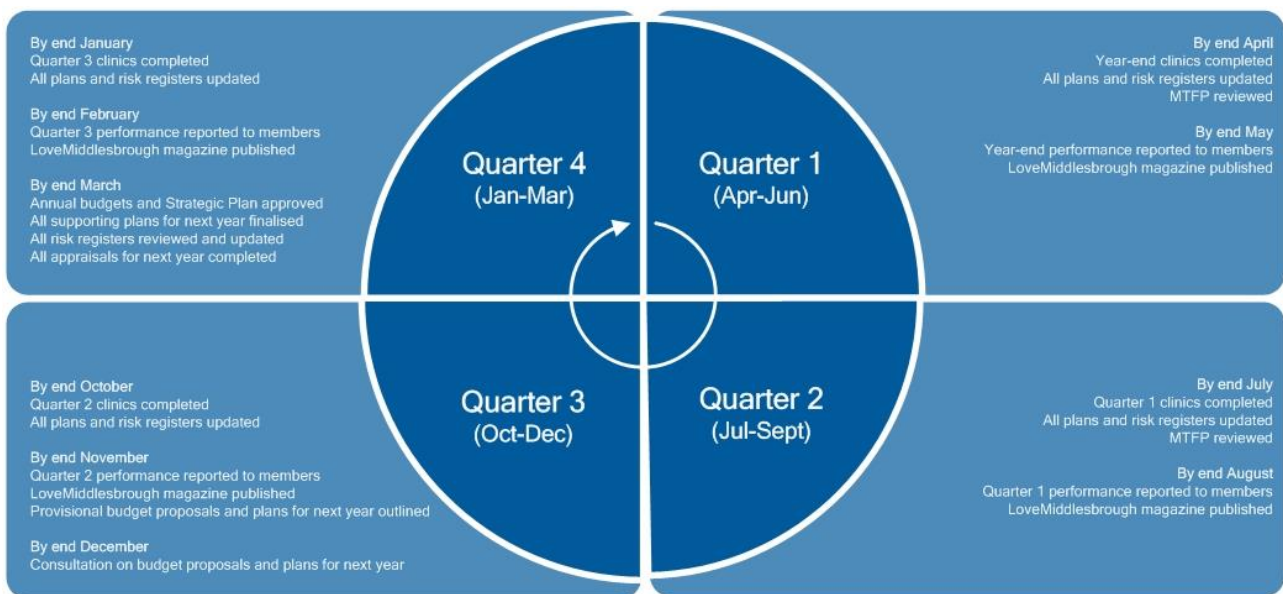
- performance against the priorities and key measures of success set out in the Strategic Plan;
- the Council’s financial position, including revenue and capital budgetary performance and the reserves position, outlining key variations and requesting approval for virements and other changes that are the responsibility of the Executive; and
- the Council’s strategic risk register.

27. The same report will also be considered by the Council’s Overview and Scrutiny Board.

28. Following this, a summarised infographic version of the report will be communicated to local residents through the Council’s website and social media accounts, and in the subsequent edition of LoveMiddlesbrough magazine.

### Timetable

29. The annual timetabling of activities within the framework is set out in the graphic below.



### Assurance, compliance and support

30. The Council’s expectations around performance management are clearly set out within its corporate values and associated competency frameworks. All managers and employees are required to comply with the performance management framework to ensure that the Council effectively manages performance in pursuit of its strategic objectives. Managers and employees will be provided with a range of resources, and where appropriate, training, to support the effective implementation of this framework.

31. An annual assurance report on the Council’s performance management arrangements will be submitted to Corporate Audit and Affairs Committee. This will be supported by a targeted internal audits as appropriate, which will listed in the Council’s annual audit plan.

## **Appendix 2: Risk management framework**

### **Introduction**

1. Risk management is a statutory requirement for local authorities, and is a critical element of corporate governance. Working in conjunction with active performance management, effective risk management significantly enhances our prospects of delivering our strategic and operational objectives, by managing threats, enhancing opportunities and adding value to ongoing activity. This risk management framework supports effective management of risk within the Council.

### **Definitions**

2. Risk is defined as 'the probability of an event occurring and its consequences'. Risk management is defined as 'the process by which we manage threats, enhance opportunities and add value to our activities'.
3. Risks to the Council's services generally fall into the following areas:
  - Strategic risks – risks to the Council's strategic objectives.
  - Operational risks – risks arising from the day-to-day operation of services.
  - Programme and Project risks – risks arising from the PPM environment.
  - Compliance risks – risks relating to the contravention of legal duties.
  - Hazards – risks relating to health and safety and emergency planning.

### **Objectives and benefits**

4. This framework:
  - ensure that risk management is embedded within the culture of the Council, and is integral to the business planning and performance management;
  - ensure that the risk management cycle and associated processes are implemented consistently and proportionately across the Council; and
  - communicate the Council's approach to risk management to all employees and stakeholders.
5. If this is achieved, the following benefits will be achieved:
  - optimisation of performance management (including programmes and projects);
  - maximum protection of customers and employees; and
  - assurance of statutory compliance.

### **Responsibilities**

6. Ultimate responsibility for risk management within the Council lies with the Mayor and the Executive, and with the Chief Executive and the Leadership Team. However, all elected members and Council officers have roles in delivering risk management and should be aware of their individual responsibilities in identifying and managing risks, as outlined below.

Role	Responsibilities
The Mayor and Executive	Overall responsibility for effective risk management, including agreeing the Council's risk management framework, and ensuring that both it and the Council's strategic risk register are monitored and reviewed regularly.
Corporate Audit and Affairs Committee	Review the effectiveness of risk management and receive an annual assurance report on progress being made.
Elected members	Ensure that risks are being identified and effectively managed, and scrutinise the Executive's decisions to ensure that they meet the requirements of effective risk management.
Chief Executive and Leadership Team	Lead, coordinate and champion effective risk management across the Council, ensuring that the Council fully complies with all corporate governance requirements; regularly review the Council's risk appetite and strategic risk register.
Executive Directors	Own and manage Level 1 risk registers, and ensure that the risk management framework is implemented within department and directorates.
Directors	Ensure that risk management is implemented within the directorate in line with the Council's Risk Management Strategy, own and manage Level 2 risk registers.
Heads of Service	Adopt a risk-based approach to service planning, own and manage Level 3 risk registers.
Middle Managers	Adopt a risk-based approach to service planning, own and manage team risk registers.
Frontline Managers	Adopt a risk-based approach to service planning, manage day-to-day risks.
Strategy, Information and Governance service	Provide guidance and coordinates the Council's approach to risk management and develops and monitors the risk management framework and associated risk registers.
Risk Management Group	Develops and oversees risk improvement activity, with directorate leads cascading information back to their directorate and feeding back any issues for consideration.
Internal Audit	Ensure that internal controls are robust and operating correctly, audit the key elements of the risk management process and ensure that risk work undertaken across the Council informs the overall audit plan.
Programme Managers	Ensure that the programme is managed within established tolerances for acceptable risk and ensure that the programme board takes ownership of and manages the programme risk register.
Project Managers	Ensure the project is managed within established risk tolerances and manage the project risk register, and facilitate escalation and de-escalation of risks between programme and project risk registers.

## Risk Appetite

7. The Council has established a clear risk appetite statement, which sets out the amount of risk the Council is willing to seek or accept in the pursuit of its strategic objectives. The risk appetite is the cornerstone of risk management within the Council, and is reviewed annually by the Leadership Team.

- Any current RED risks (with a current score of above 20 on the Council's risk matrix) must be wherever possible managed down to the lowest practicable level immediately.
- Any current AMBER risks (with a current score of 9-15) must be wherever possible managed down to the lowest practicable level within three months.
- Any current GREEN risks are accepted and no specific action is required.

Subject to the above:

- At least 80% of employee objectives (as set out in appraisals) must be achieved annually.
- At least 90% of business plan objectives must be achieved annually.
- Programmes and projects must be managed within 10% tolerance.
- At least 90% of risk mitigation plans must be achieved annually.
- At least 75% of key performance targets must be achieved annually.
- Budgets must be managed within 10% tolerance.

8. Articulating and communicating the risk appetite will:

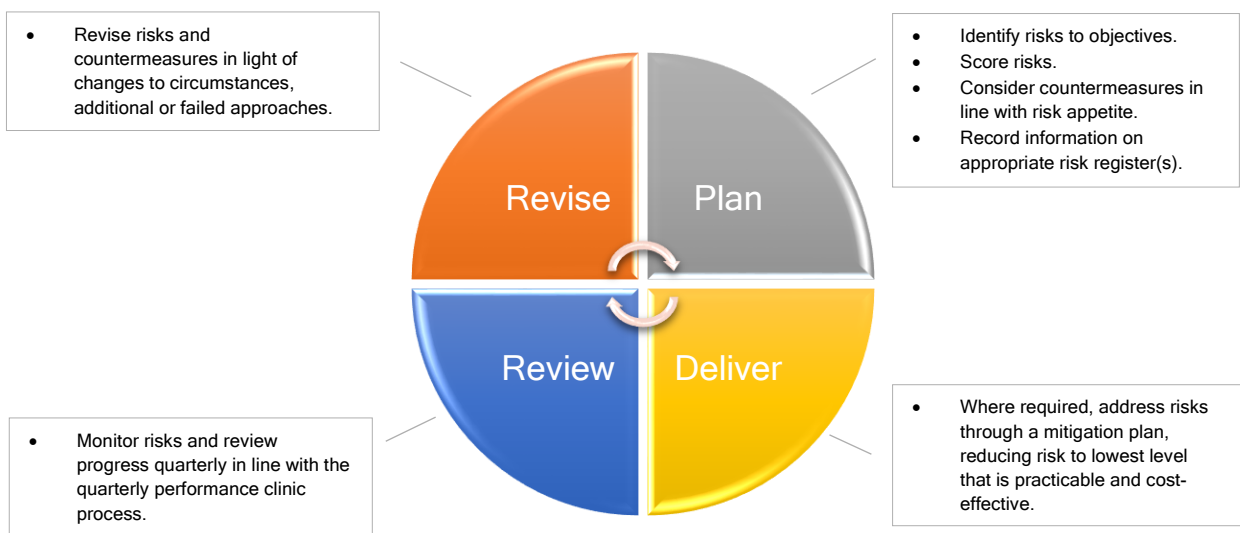
- ensure that the Council is only taking a level of risk – and the type of risks – it is comfortable with;
- ensure that the risks the Council is exposed to are proportionate to the opportunity or reward to be gained;
- provide a framework for informed decision making;
- guide staff on judgements about which risks are acceptable and which are not;
- ensure the Council’s response to risks is proportionate, and to avoid over the top or lax reactions to risk; and
- ensure appropriate escalation where the Council’s appetite for risk is exceeded.

9. The Council’s risk appetite is illustrated via the below risk matrix. Guidance on the use of this matrix, and all associated risk management activity, is set out in the manager’s risk management toolkit.

<b>Likelihood (Probability)</b>	Almost Certain >80%	5	<b>Low (5)</b>	<b>Medium (10)</b>	<b>Medium (15)</b>	<b>High (25)</b>	<b>High (35)</b>
	Likely 51% - 80%	4	<b>Low (4)</b>	<b>Low (8)</b>	<b>Medium (12)</b>	<b>High (20)</b>	<b>High (28)</b>
	Possible 21% - 50%	3	<b>Low (3)</b>	<b>Low (6)</b>	<b>Medium (9)</b>	<b>Medium (15)</b>	<b>High (21)</b>
	Unlikely 6- 20%	2	<b>Low (2)</b>	<b>Low (4)</b>	<b>Low (6)</b>	<b>Medium (10)</b>	<b>Medium (14)</b>
	Rare <6%	1	<b>Low (1)</b>	<b>Low (2)</b>	<b>Low (3)</b>	<b>Low (5)</b>	<b>Low (7)</b>
			1	2	3	5	7
			Insignificant	Minor	Moderate	Major	Extreme
<b>Impact</b>							

## Risk management cycle

10. The Council's risk management cycle is based on the best practice outlined in A Risk Management Standard (IRM/AIRMIC/ALARM: 2002), ISO31000 Risk Management principles and guidelines, and other associated documents.
11. There is a clear similarity between the objectives and core processes of risk and performance management, which can essentially be viewed as two sides of the same coin. Both systems support the achievement of the Council's strategic objectives, with performance management identifying and monitoring what is required to achieve objectives, and risk management addressing those hazards that may occur to prevent this.
12. As such the Council's risk management cycle supports, and is integrated within the Council's Performance Management Framework, with all risks being identified, reviewed and mitigated through the Council's quarterly clinic process. The key elements of the cycle are set out in the following graphic.



13. The Strategic Risk Register sets out risks to the Council's strategic objectives and appropriate countermeasures. As for business plans, risk registers will also be developed, managed and reviewed on a quarterly basis at the three most senior management levels of the organisation:

- Level 1 Departmental (owned by Executive Directors)
- Level 2 Directorate (owned by Directors)
- Level 3 Service (owned by Heads of Service).

14. Again, as with business planning, team risk registers will be developed at the discretion of the Head of Service, in line with business need.

15. All risk registers must achieve the minimum standard, as reflected in the Council's risk register template, be reviewed at least quarterly and refreshed annually (unless emergency action is required).

16. In respect of partnerships and shared services, the risk management framework of the lead organisation will apply. Where this is not the Council, managers must ensure that arrangements are in line the key principles of this framework.
17. As innovation brings greater risk, programme and project risks will be managed more closely and at a greater frequency (in proportion to the level of risk identified), in line with the Council's Programme and Project Management Framework.
18. Business interruptions will be managed in line with the Council's Business Continuity process and plans.
19. Managers are responsible for identifying and recording the countermeasures require to address risks. Countermeasures will include actions to avoid, transfer, reduce or accept the risk.
20. Review and revision of risks are undertaken as part of the performance clinic process outlined within the Council's performance management framework.

### **Escalation**

21. When, following review, risk scores move outside of the Council's risk appetite, or where risk controls have failed, or are no longer effective in reducing a risk, this must be escalated by the risk owner to the next level of management as soon as possible and appropriate mitigation plans put in place to ensure that the risk complies with the Council's risk appetite as soon as practicable.

### **Assurance, compliance and support**

22. The Council's expectations around risk management are clearly set out within its corporate values and associated competency frameworks. All managers and employees are required to comply with the risk management framework to ensure that the Council effectively manages risks to its strategic objectives and effectively exploits opportunities. Managers and employees will be provided with a range of resources, and where appropriate, training, to support the effective implementation of this framework.
23. An annual assurance report on the Council's risk management arrangements will be submitted to Corporate Audit and Affairs Committee. This will be supported by a targeted internal audits as appropriate, which will listed in the Council's annual audit plan.

### **Appendix 3: Proposed revised quarterly reporting format**

The report will be set out in a form similar to that used by PLCs to announce quarterly results, prioritising the use of infographics and charts, with explanatory text. It is expected that it will be no more than 10 sides, with technical appendices as appropriate.

#### **Single page summary**

- Infographic summary with key messages. This will be the section that will feature in the subsequent edition of LoveMiddlesbrough magazine.

#### **Progress against Strategic Plan 2018-22**

- A summary update on strategic priorities and key measures of success set out in the Strategic Plan, under the aims of Physical Regeneration, Social Regeneration and Business Imperatives.

#### **Projected outturn 2018/19 Revenue Budget**

- A summary of the projected outturn, with areas of variance above £150,000, mitigating actions and implications for the Medium-Term Financial Plan.

#### **Progress against Investment Strategy**

- A summary of the projected outturn, with areas of variance above £150,000 and mitigating actions.

#### **Borrowing and reserves**

- A one page summary of the position, highlighting changes from the previous quarter.

#### **Strategic risks**

- A one page summary of key risk, highlighting changes from the previous quarter.

#### **Technical appendices**

- The revised Investment Strategy – as the Executive must approve variations to this within the agreed total envelope.
- Others, as appropriate.