

Audit, Risk & Assurance Committee

Date	12 November 2018
Report title	WMCA Strategic Risk Register Report – November 2018
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Report has been considered by	Senior Leadership Team

Recommendation(s) for action or decision:

The WMCA Audit, Risk & Assurance Committee is recommended to:

- a. Consider and comment on the contents of the Strategic Risk Register (Appendix 1).

Purpose

1. This report is provided to support the Audit, Risk and Assurance Committee with their responsibility of providing oversight of Risk Management within the West Midlands Combined Authority (WMCA).

Background

2. An extensive review of operational risk registers was initiated with all existing and emerging directorates in September 2018. The Corporate Assurance Team supports the development and review cycle of 6 Operational Risk Registers as well as the WMCA Strategic Risk Register.
3. The operational risk review has worked with all directorates to re-establish/ confirm:
 - Risk positions for each directorate
 - Understand any emerging risks for new directorates

- This supported in validating assumptions in the WMCA Strategic Risk Register
4. In conjunction, the permanent Programme Management Office (PMO) Risk Manager has now been appointed into post. This risk review allowed, the PMO Risk Manager to take a lead in reviewing risk registers in the Programme and Project environment to confirm risks that needed to be escalated for the attention of either the Corporate or Strategic Risk Register.

Aligning Risk Management/ Business Planning & Performance Management

5. During this review, an opportunity has been taken with Corporate Risk & Assurance team working closer with Finance and the Director of Strategy to align risk management within the business planning cycle and performance management framework.
6. With the established directorates, Annual Business Plan performance data was also reviewed with the teams as part of the risk review and challenge. At present, the Annual Business Plan currently only reports on mid-levels for TfWM & Corporate Services. As at the end of September 2018, this showed that Mid-levels were:
 - 26% Red, behind schedule
 - 33% - Amber, at risk of slippage
 - 41% - Green, on track
7. The Annual Business Planning cycle 2019/20 has now been initiated and will cover all directorates. It has now been agreed that risk management needs to be embedded into the business planning and performance reporting. The 3 will be synchronised and performance management reports produced for each directorate illustrating performance of key mid-levels and KPIs for each directorate with operational and strategic level risks. See Appendix 3 – Risk Governance

Outcome of Operational – Level Risk Review

8. A positive outcome of the risk review is that directorate-level operational risk registers have now been developed for each new directorate. The established TfWM risk register and Corporate Services risk register underwent a detailed challenge and refresh.
9. The operational risk review did however highlight a number of inconsistencies between risk ratings across the directorates and some examples of potential optimism bias with the risk scoring. This is more evident in the emerging parts of the organisation. Established risk registers and risk governance has been embedded for both TfWM and Corporate Services risk registers since WMCA was formed. This has only recently been developed for the new directorates and the risks captured need to be challenged further to ensure that they are the right risks and confirmed risk scores. Most of the staff in the new directorates have only recently been appointed.
10. The key themes that are emerging from the operational risk review is that there are pressures on:
 - *Operations – Core Functions* – WMCA’s ability to continue to deliver BAU from a people and resource or funding perspective.
 - *Governance* – As the WMCA has expanded there is a requirement to integrate various devolution governance and assurance requirement to the existing governance. As well as a requirement to operate in a complex environment with multiple funders/ partners and their governance

- *Programme Delivery – Devolution Commitments* – there are a high number of high profile programmes that the WMCA will be required to deliver as part of devolution requirements
- *Financial* – This risk relates to external uncertainty and devolution funding has come with certain conditions etc.

11. It has therefore been agreed by the Senior Leadership Team (October 2018) that the risk review continues and a repeated in-depth operational risk review cycle is undertaken again with each directorate with the support of the associated Director. This will enable a more accurate directorate-level risk registers to be established and inconsistencies reduced.

Integrated Risk & Assurance – Amended Risk Categories

12. The outcome of the Operational Risk Register review helped to inform changes to the Strategic Risk Register. For the WMCA Strategic Risk Register, risks have tended to fall into two main categories:

- Risk affecting the established part of the organisation (business as usual operations)
- Risk affecting the devolution and mayoral priorities (new emerging directorates and programmes to deliver devolution commitments).

13. Through discussion at the Senior Leadership Team, it is recognised that the West Midlands Combined Authority has set off on an ambitious programme to deliver devolution and the mayoral priorities. In the next few years there will be:

- Increased Scrutiny** - Due to the next mayoral elections in May 2020 and the preceding campaigning year, SQW Review and increased focus by National Audit Office on the performance of Combined Authorities
- Increased External Uncertainty** – Due to Brexit, Industrial Strategy which could impact WMCA to meet commitments and timeframes
- Reputational Risk of High Profile Programmes** – Due to the requirement for WMCA to deliver Investment Programme targets, Housing & Regeneration targets, 5G Pilot, WMCA work packages for the Commonwealth Games, Transport Programme – (Sprint, New Stations, Cycling and Metro Expansion Programme), Transfer of Governance from WMFS, and PCC.
- Increased dependency on External Delivery Partners** – Many of WMCA’s delivery targets will be delivered jointly with partners or with connected companies. WMCA will need to be confident that the delivery organisations are able to meet the ambitious targets that WMCA will be held accountable for.

14. Due to the above, the Senior Leadership Team has confirmed amendment to the Strategic Risk Categories. The Strategic Risk Categories were originally signed off by WMCA Board in 2016. The Senior Leadership Team has amended the risk categories and re-confirmed the risk appetite for these risk areas. See Appendix 2 – Risk Categories & Risk Appetite.

15. The Senior Leadership Team confirmed that:

- The correct strategic risks were captured on the Strategic Risk Register (see Appendix 1). However

- b. The team were not confident that sufficient evidence had been presented to reduce the Inherent Risk Score down to the Residual Risk Score at this stage. Therefore for now, the residual score should be considered the 'predictive score'
- c. Due to the level of risk, the number of initiatives that have commenced and doubled with external uncertainties, it was agreed that:
 - i. The frequency of Strategic Risk Review by Senior Leadership Team will increase whilst the organisation is undergoing considerable change and growth
 - ii. The Inherent Risk Score would only be reduced if clear evidence is provided to substantiate the reduction
- d. Directorate-level performance dashboards will be produced and the directorate level risk scorecard needs to be signed off by each Director before inclusion into the Senior Leadership Team reporting pack
- e. The 'Delivery' Risk will be further broken down into sub-categories to allow WMCA Senior Leadership team to monitor the risk against the most high profile delivery targets.
- f. A further refined and updated Strategic Risk Register will be presented to Audit, Risk & Assurance Committee in January 2019

Financial Implications

None.

Legal Implications

None.

Equalities Implications

None.

Inclusive Growth Implications

None.

Geographical Area of Report's Implications

None.

Other Implications

None.

Conclusion

In conclusion, there is significant work being undertaken to strengthen both the operational and strategic risk register processes and governance. This review exercise has enabled the Senior Leadership Team to validate whether the assumptions captured in the Strategic Risk Register are correct.

Future reviews of the Strategic Risk Register are going to increase by the Senior Leadership whilst the WMCA is undergoing a period of significant change. A balanced-score card approach that integrates performance reporting and risk management will be introduced to support risk discussions.

Schedule of Background Papers

- Appendix 1 – Strategic Risk Register
- Appendix 2 – Risk Categories and Risk Appetite
- Appendix 3 – Risk Governance

Appendix 2 – Risk Categories & Risk Appetite

Strategic Risk	Appetite	What this means?
Political	AVERSE	We will have a very low tolerance to risks to Political relations. This is because WMCA need to be able to demonstrate to Central Government that WMCA is able to work as a collective to deliver the Strategic Economic Plan for the West Midlands.
Governance	AVERSE	Funding to the WMCA must be spent in accordance to agreed terms and conditions and abide by public sector procurement requirements and devolved funding assurance frameworks as approved by Central Government.
Operations Core Functions	AVERSE	This means WMCA will have a very low tolerance to threats that would cause disruption to be able to deliver key business functions that support the wider business operations.
Programme Delivery & Devolution Commitments	AVERSE	WMCA is averse to taking risk in this area and WMCA & the Mayor will be judged on performance to deliver these commitments.
Economic	CAUTIOUS	WMCA is currently cautious to taking risks in this area because of the uncertainty with external factors.
Operations Emerging	CAUTIOUS	This means we are willing to take some moderate risk in an effort to improve our services, but core business functions and approved business priorities need to be the focus.
Financial	OPEN	This means we are willing to take moderate risks to financial obligations, for example borrowing in order to progress with commitments in the initiation of WMCA Investment Programme.
Programme Development	OPEN	WMCA is open to new programme development opportunities where additional benefits can be delivered/ complementary to existing worksteams in finances and resources permit additions

Appendix 3 – Risk Categories & Risk Appetite

The current Risk & Assurance Process is illustrated below:

