

## **RISK MANAGEMENT STRATEGY**

### **1. SUMMARY**

- 1.1 This report seeks Members adoption of the proposed Risk Management policy statement and strategy set out in the Appendices 1 and 2. It also seeks approval to earmarking resources in respect of external assistance where this may be needed to implement the strategy.

### **2. BACKGROUND**

- 2.1. During 2001 the Audit Commission published 'Worth The Risk' which highlighted the need for local authorities to become more risk aware, particularly as there were new drives to engage in new methods of service delivery such as partnerships. Also in that year CIPFA published 'Risk Management In The Public Service'. This document gave guidance on how public authorities should address the issue. The proposals set out in this report are based upon this publication.
- 2.2. In a concurrent report to this Council meeting Members are asked to approve a Local Code of Corporate Governance. In the assessment as to how the Council currently performed against the code, one of the major pieces of work required is the development of an effective Risk Management Strategy.
- 2.3. In respect of risk management, corporate governance requires authorities to demonstrate compliance with a number of best practice standards. Officers are still working on our assessment of how we compare to best practice. Initial indications are that there are many procedures in place which ensure that, on a day to day basis, the risks in respect of service provision are taken into account and addressed.
- 2.4. The Council does, however, need to improve its corporate assessment of risk and the need to ensure more cross-departmental working in this respect. In response to the Year 2000 issues, risk on a corporate basis was addressed, but this needs to be developed further. It is recognised that a key task remains the preparation of a detailed comprehensive business continuity plan in case of a major disruption to the administration over a period. This issue has been raised by the external auditors in their annual management letter.
- 2.5. There is also a need to reinforce risk awareness within the culture of the organisation. For example, with regard to finance, all reports

contain an assessment of resource requirements, all spending officers are totally aware of their budgets and the need to comply with Financial Regulations and Contract Standing Orders. Risk awareness needs to be dealt with in a similar way.

### **3. WAY FORWARD**

- 3.1 The Audit Commission publication states that Members are ultimately responsible for risk management. This is because risks threaten the achievement of policy objectives. They therefore recommend that Members take the following actions:

#### **Exercise Leadership**

Support officers in

- Ensuring that risk awareness and management are part of the culture of the authority
- Not delaying implementation
- Agreeing structures for planning and monitoring risks across the authority
- Correctly positioning risk management
- Promoting the desired mindset and attitude for the successful implementation of risk management
- Ensuring that risk management is an ongoing process rather than a one-off event
- Ensuring a top-down approach is adopted
- Aiming for continual improvement in the long term

#### **Adopt an Implementation Strategy**

Council should approve a strategy explaining how risk management will be implemented throughout the Council including, eg.:

- Key tasks to be undertaken
- Respective roles of senior officers and other officers

- Identification of a nominated risk champion
- Responsibilities and reporting lines
- Process for identifying significant risks and aligning with strategic objectives
- Timetable for implementation
- Allocation of resources

### **Support and Monitor Risk management**

- Members should support officers' promotion of a risk management culture on an ongoing basis
- Finance Overview and Scrutiny Committee should receive formal monitoring returns (at least annually) on the management of risk
- Council should approve (with leading officers) a statement to be published annually on the risk management processes in place and their ongoing effectiveness. This statement will be a public assurance statement and should be evidence based. Where improvements are needed or still remain without the appropriate controls, then these should be disclosed to the public, together with a summary of how they will be addressed in the future.

3.2 To ensure a top down approach the publication recommends that the Chief Executive be the figurehead for the risk management process. He should appoint the most appropriate person, with sufficient authority, to lead the risk management implementation process. It is proposed that the Emergency Planning and Health & Safety Manager be the Corporate Risk Officer. In addition, other officers should also be tasked with taking clear responsibility for appropriate aspects of risk management in their area of responsibility. It states that these roles and responsibilities should be clearly defined in the risk management strategy.

3.3 The publication recognises that Councils will have many processes in place and recommends enhancing and formalising existing processes in order to introduce a framework in an efficient manner. It stresses a top down approach focussing on high level risks which may threaten the achievement of objectives.

- 3.4 A proposed risk management policy statement and strategy are attached as Appendices 1 and 2 to this report which seeks to address the requirements of the advice and guidance issued by the Audit Commission and CIPFA.
- 3.5 By implementing the proposed strategy it should be possible to produce a risk register detailing all significant risks facing the Council and controls in place or required actions to eliminate, reduce, or transfer those risks. The ongoing maintenance and monitoring of the risk register will ensure that the Council has a robust risk management system that embeds risk management into the Council's daily operations. This monitoring role can be undertaken by the Finance & Procedures Overview & Scrutiny Committee.

#### **4. RESOURCE IMPLICATIONS**

- 4.1 The main resource implications will be officer time in implementing and monitoring the strategy.
- 4.2 There will be a requirement for formal training and possibly external assistance in facilitating the implementation.
- 4.3 It is anticipated that costs will be contained within existing estimates for 2002/03. Requests for additional finance will be made as part of the budget process later in the year.

#### **5. RECOMMENDED**

It is proposed that Council **RESOLVES**

To agree and implement the Risk Management Policy and Strategy statements appended to this report (Appendices 1 and 2).

Roger Crofts  
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**Background Papers:** Audit Commission publication  
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**APPENDIX 1****RISK MANAGEMENT POLICY**

- 1.1. The purpose of this policy statement is to recognise the Council's responsibility for the management of both external and internal risks and to set out its commitment to embed risk management into the daily operations of the Council from the setting of objectives, to service planning through to departmental processes.
- 1.2. Risk is defined as being the threat that an event or action will adversely affect an organisation's ability to achieve its objectives and to successfully execute its strategies. Risk management is defined as being the process by which risks are identified, evaluated and controlled. (Audit Commission "Worth the Risk – Improving risk management in Local Government"2001).
- 1.3. The Council's aims with respect to risk management are as follows:-
  - ◆ To integrate risk management into the culture of the Council
  - ◆ To manage risk in accordance with best practice
  - ◆ To anticipate and respond to changing social, environmental and legislative requirements
  - ◆ To prevent injury, damage and losses and reduce the cost of risk
  - ◆ To raise awareness of the need for risk management by all those involved in the delivery of the Council's services
  - ◆ To take actions to minimise the likelihood of risks occurring and/or reducing severity of consequences should risks occur
  - ◆ To ensure that risks are monitored on an ongoing basis and reported annually to Members to inform the annual assurance statement on the effectiveness of the arrangements for risk management.
- 1.4. The Council will achieve these aims by implementing a risk management strategy detailing the actions that the Council will take, and the roles and responsibilities of officers key to its implementation.

## APPENDIX 2

**RISK MANAGEMENT STRATEGY**

## 1. Objectives

## 1.1. The objectives of this risk management strategy are:-

- ◆ To clearly identify objectives, roles and responsibilities for managing risk
- ◆ To introduce a structured framework to the identification, assessment and evaluation of risks
- ◆ To introduce a consistent approach to prioritising risks and determining resulting actions
- ◆ To improve co-ordination of risk management activity throughout the Council
- ◆ To reduce duplication between departments in managing overlapping risks
- ◆ To provide opportunities for shared learning on risk management across the Council
- ◆ To provide a framework for allocating resources to identified priority risk areas, but with clear reference to the Council's other priorities
- ◆ To reinforce the importance of risk management as part of the everyday work of Council employees
- ◆ To ensure senior management and Members can obtain necessary assurance that the Council is making every effort to reduce/eliminate risks of not achieving its objectives

## 2. Definitions

- 2.1. **Corporate Governance** is the system by which organisations are directed and controlled ie., it is the way in which organisations manage their business, determine strategy and objectives and go about achieving these objectives with the underlying principles of openness, integrity and accountability.

- 2.2. **Risk** is the threat that an event or action will adversely affect an organisation's ability to achieve its objectives and to successfully execute its strategies. This will include both external and internal risks.
- 2.3. **Risk management** is the process by which risks are identified, evaluated and controlled. This is achieved by controlling risks, transferring risks or living with risks.
- 2.4. **Internal control** is the whole system of financial and other controls established in order to provide assurance of effective and efficient operations, internal financial controls and compliance with laws and regulations. Internal controls form part of a risk management process and play a significant part in the management of significant risks to the fulfilment of business objectives.
- 3. Categories of risk
  - 3.1. There are principally two types of risk that organisations face – strategic and operational risks.

<b>STRATEGIC</b> Risks that may be potentially damaging to the achievement of the Council's objectives	<b>OPERATIONAL</b> Risks which are faced in the day to day delivery of services
<p><b>Political</b> – linked to possible failure to deliver key objectives or central Government policy.</p> <p><b>Economic</b> – affecting the ability of the Council to achieve its commitments.</p> <p><b>Social</b> – the risks relating to the Council's ability to meet the effects of changes in demographic, residential or social economic trends</p> <p><b>Technological</b> – the ability to deal with technological change and the ability to use technology to meet changing demands</p>	<p><b>Professional</b> – risks associated with the professional competencies of Council officers.</p> <p><b>Financial</b> – risks associated with adequacy of financial controls and the level of insurance cover</p> <p><b>Legal</b> – risks related to potential breaches of legislation</p> <p><b>Physical</b> – risks related to physical damage (eg., fire), security, accident prevention and health and safety</p>

<b>STRATEGIC</b> <b>Risks that may be potentially damaging to the achievement of the Council's objectives</b>	<b>OPERATIONAL</b> <b>Risks which are faced in the day to day delivery of services</b>
<p><b>Legislative</b> – the ability to meet the legislative demands affecting the Council</p> <p><b>Environmental</b> – risks relating to the environmental impact of the Council's service delivery (eg., energy efficiency, pollution, recycling, etc.)</p> <p><b>Best Value</b> – the need to demonstrate the four C's in service delivery</p> <p><b>Customers</b> – the ability to understand the changing needs of our customers.</p>	<p><b>Contractual</b> – risks associated with the failure of the Council's contractors to deliver services or products to the agreed cost and specification</p> <p><b>Technological</b> – risks associated with reliance on operational equipment, eg., IT systems/equipment and machinery</p> <p><b>Environmental</b> – risks associated with pollution, noise or energy efficiency of ongoing service operations</p> <p><b>Best Value</b> – the need to achieve the four C's in service delivery</p> <p><b>Customers</b> – risks associated with the ability to reach all our customers and meet the changing needs of our customers.</p>

These categories of risk are neither prescriptive nor exhaustive, but do provide a framework for identifying and categorising a broad range of risks facing each service. For this reason it is recognised that the Council will consider the risks associated with each of the sub-categories and their interrelationships when performing its full risk assessment.

#### 4. Roles and Responsibilities

- 4.1. In order to ensure the successful implementation of this strategy, clear roles and responsibilities for the risk management framework and process have been established as detailed below.



Group/Individuals	Role/responsibilities
<b>Elected Members</b>	<p>Role of overseeing the effective management of risk by officers. This includes:</p> <ul style="list-style-type: none"> <li>◆ Agreeing on Member structures for planning and monitoring risks across the authority</li> <li>◆ Approving and adopting a risk management strategy, framework and process put forward by officers</li> <li>◆ Receiving annual reports on the management of risk</li> <li>◆ Approving (with lead officers) an annual statement on the risk management processes in place and their ongoing effectiveness or details of improvements required.</li> </ul>
<b>Corporate Management Board</b>	<ul style="list-style-type: none"> <li>◆ Approve and adopt a risk management strategy, framework and process and ensure its achievement</li> <li>◆ Take a lead in identifying and managing the strategic risks and opportunities facing the authority</li> <li>◆ Review corporate and cross cutting risks associated with new policies and service delivery methods</li> <li>◆ Determine the Council's risk preference (ie., risk averse or risk taking) and priorities for action</li> <li>◆ Ensure directorate management teams can provide assurance of effectiveness of controls to mitigate risks within service areas</li> <li>◆ Prepare an annual statement for submission to Council on the effectiveness of the risk management framework, strategy and process (see above).</li> </ul>

Group/Individuals	Role/responsibilities
<b>Corporate Risk Officer</b>	<ul style="list-style-type: none"> <li>◆ Manage the implementation of the integrated framework, strategy and process on behalf of the Council and its management team</li> <li>◆ Ensure the processes are implemented and offer guidance and advice</li> <li>◆ Chair a Corporate Risk Group to co-ordinate risk management activity across the Council</li> <li>◆ Ensure staff across the Council are adequately trained to undertake risk assessments as required</li> <li>◆ Annually review and update the risk management strategy to take into account external and internal changes as well as experience</li> <li>◆ Ensure continual review, update and reporting of risk assessments to the Corporate Management Board</li> <li>◆ Communicate results of risk assessments to all staff and provide/arrange risk awareness training</li> <li>◆ Collate divisional risk registers and controls assurance statements for consideration at Corporate Risk Group</li> <li>◆ Annually report to Finance Overview &amp; Scrutiny Committee on progress of risk management framework, corporate issues, divisional risk registers, control assurance statements and areas for improvement.</li> </ul>
<b>Corporate Risk Group</b>	<ul style="list-style-type: none"> <li>◆ This group, chaired by the Corporate Risk Officer, will draw on recognised risk management disciplines (insurance, internal audit, emergency planning and health &amp; safety, legal, IT) from across the Council together with nominated divisional representatives to ensure a cohesive approach to risk management and business continuity</li> <li>◆ The group will analyse and collate divisional risk registers (incl. Business continuity risks) and annually contribute to the Corporate Risk Officer's report for Finance Overview &amp; Scrutiny Committee. This report will analyse divisional risks as well as risks which affect a number of divisions and the corporate body.</li> </ul>

	<ul style="list-style-type: none"> <li>◆ Make recommendations to CMB as to how generic and cross divisional risks/issues identified from the divisional self assessments could be programmed in a timely and resource effective manner.</li> </ul>
<b>Heads of Service and departmental management teams</b>	<ul style="list-style-type: none"> <li>◆ Extend the process cascaded from CMB</li> <li>◆ Identify, analyse and profile divisional risks within a risk register</li> <li>◆ Prioritise action on divisional risks</li> <li>◆ Monitor progress on managing divisional risks</li> <li>◆ Report the results of the self-assessment to CMB in a controls assurance statement (via the Corporate Risk Group) in order to provide assurance on the effectiveness of controls in place to mitigate/reduce risks</li> </ul>
<b>Heads of Service</b>	<ul style="list-style-type: none"> <li>◆ Responsible for co-ordinating the introduction of the risk management framework amongst all service managers within relevant departments</li> <li>◆ Responsible for maintaining departmental risk register</li> <li>◆ Responsible for co-ordinating the preparation of the annual controls assurance statements for approval by Directorate Management Teams</li> <li>◆ Attendance at Corporate Risk Group meetings for discussion of divisional risks and identification of resulting cross cutting risk areas</li> </ul>
<b>Service Managers</b>	<ul style="list-style-type: none"> <li>◆ Extend the process cascaded from the divisional management team</li> <li>◆ Identify, analyse and profile service risks within a risk register</li> <li>◆ Prioritise action on service risks</li> <li>◆ Monitor progress on managing service risks</li> <li>◆ Report the results of the self assessment to divisional management team in order to provide assurance on the effectiveness of controls in place to mitigate/reduce identified risks</li> </ul>

Group/Individuals	Role/responsibilities
<b>Specialist representatives eg., internal audit, insurance, legal, health &amp; safety, ICT, emergency planning</b>	<ul style="list-style-type: none"> <li>◆ Attend the Corporate Risk Group as necessary in order to consider implications of authority wide risks and to provide relevant advice</li> <li>◆ Internal Audit will review the established risk management process and in particular provide assurance as to the effectiveness of the risk identification, evaluation and reporting process and the adequacy of actions/controls identified to minimise risks.</li> </ul>

5. Risk Management Process

- 5.1. The Council will adopt the following process made up of certain key critical steps in order to identify and manage risks in the Council's activities:-

Step	Description
<b>1. Identifying risk</b>	Strategic and operational risks that may arise will be identified through a series of top down training sessions commencing with CMB/OMT and then being cascaded down to Service Managers
<b>2. Analysing risk</b>	At the training sessions, those attending will assess the likelihood of any risks arising and the consequence or impact it may have if it does arise.
<b>3. Profiling risk</b>	At the training sessions risks will be profiled according to likelihood and severity in order to identify " <b>significant</b> " risks, ie., risks which may impact the achievement of the Council's objectives.
<b>4. Prioritising action based on appetite to risk</b>	At the training sessions actions to address <b>significant</b> risks will be prioritised based on the effectiveness of existing controls, the Council's tolerance to risk and the availability of limited resources.
<b>5. Determining action on risk</b>	At service manager and directorate management meetings, the best course of action will be determined and agreed – ie., avoid, eliminate/reduce, transfer, insure or accept risk in light of overall resource priorities. The key risks identified, and responsibility for managing and actioning will be detailed in divisional risk registers.
<b>6. Controlling risk</b>	Once actions have been determined, nominated managers will take actions required to minimise likelihood of risk occurring and/or reducing the severity of the consequences should they occur.

Step	Description
<b>7. Monitoring and reporting on progress</b>	<p>All Heads of Service will compile and forward divisional controls assurance statements and risk registers to the Corporate Risk Officer for evaluation and discussion at Corporate Risk Group meetings.</p> <p>The Corporate Risk Group will evaluate the returns and ensure specialist risk managers determine actions for any cross cutting risks.</p> <p>The Corporate Risk Officer will present an annual report to Finance Overview &amp; Scrutiny Committee detailing progress on risk management over the year and providing a summary of the risk registers and controls assurance statements.</p>

## 6. Timetable

6.1. The timetable for the implementation of this strategy is proposed as follows:-

	Responsibility	Target date for completion
Report to Council to seek approval of Risk Management Strategy	Corporate Director (Finance & External Services)	30 July 2002
Risk prioritisation training sessions for CMB/OMT	Corporate Risk Officer/specialist	October 2002
Risk prioritisation training sessions for service managers	Corporate Risk Officer/ Divisional Management Teams	December 2002
Compilation of divisional risk registers and approval of agreed actions	Heads of Service /Divisional Management Teams	Jan-March 2003
Preparation of controls assurance statements	Heads of Service	April-May 2003
Report to Finance Overview & Scrutiny Committee on risk management progress and results of divisional and corporate self assessments for 2002/3	Corporate Risk Officer	July 2003

	<b>Responsibility</b>	<b>Target date for completion</b>
Internal Audit review of adequacy and effectiveness of risk management processes and internal controls	Chief Internal Audit	May/June 2003
Council approval of annual assurance statement on effectiveness of risk management and internal control arrangements	Chief Executive Leader	July 2003

7. Resources

- 7.1. The main resource requirement in order to deliver implementation will be met from existing staff levels. However, as existing staff may not have all the relevant expertise, specialists may be used to advise or facilitate in the implementation of aspects of this strategy. These costs will be met from the Council's insurance reserve.