RISK MANAGEMENT STRATEGY

Introduction

Risk management is a key task for managers in every organisation. Identifying and evaluating the consequences of policies or actions is not always referred to as risk management. However, failure to pay proper attention to the likelihood and consequences of risks can cause serious problems. Financial costs, service disruption, bad publicity, threats to public health or claims for compensation are among the most obvious. The effective management of risk is therefore critical to the Council's achievement of its priorities, efficient service delivery and maintaining high standards of Corporate Governance.

A systematic assessment of risk needs to be undertaken as an integral part of the Council's:

- Strategic planning
- Business planning
- Financial planning
- Performance management
- Policy making/ review
- Decision making
- Project management
- Partnerships' governance
- Operational activities (including Business Continuity Planning)

This strategy is drawn up in order to ensure that areas of high risk are identified, appropriate remedial action is considered and where appropriate, financial provision is made to implement risk reduction measures.

Definition

Risk management is the process of identifying, evaluating and taking appropriate actions to minimise the hazards, reduce the risks, and maximise the opportunities presented by the Council's activities in providing Community Leadership and public services.

It is not an end in itself. Rather, risk management is a key everyday management task aimed at minimising the costs and disruption caused by undesirable events and maximising the benefit from opportunities. The objective is to reduce the frequency of risk events occurring (wherever this is possible) and minimise the severity of their consequences if they do occur. Even when the likelihood of an event occurring (such as a severe storm) cannot be controlled, steps can be taken to minimise the consequences (for example, by having an effective and robust Emergency Plan and Business Continuity Plan in place).

Objectives

The key objectives of the risk management strategy, in relation to the Council's aims and objectives, are:

a) To minimise the costs, disruption to services and harm to the reputation of the Council;

b) To embed risk management into the culture and operations of the Council;

c) To ensure adequate risk management arrangements exist within the Council's key partnerships;

d) To support sustainable improvements in service and the achievement of Value for Money;

e) To encourage innovation and improvement through decision-making that is based on a sound awareness of opportunities and risks;

f) To anticipate and respond to changing social, environmental and legislative requirements and standards of governance;

These objectives will be achieved by:

a) Employing a corporate approach to proactive risk management in accordance with shared best practice;

b) Ensuring that officers and elected Members have clear accountability for the ownership, control and cost of risk and the tools to manage them effectively;

c) Adopting a systematic approach to risk management as an integral element of strategic planning, business planning, financial planning and performance management;

d) Adopting a systematic approach to the identification and management of operational risks and Business Continuity Planning;

e) Providing effective training and guidance in risk management practices to enable staff to take responsibility for risk within their own working environment;

f) Ensuring that reports to support strategic policy decisions and other member decision related documents include a risk assessment that evaluates both threats and opportunities;

g) Ensuring that all project initiation documents include a risk assessment that evaluates both threats and opportunities.

h) Ensuring that the risk management process specifically identifies risks in relation to partnerships and provides for assurances to be obtained about the management of those risks;

Risk Management Processes

The Council's Risk Management approach will involve the following 4 processes:

1. Identification of risk and opportunities.

A systematic approach needs to be applied if all strategic and operational risks are to be identified and managed. By identifying areas of risk before an event or loss occurs, steps can be taken to prevent the event occurring and/or minimising the cost to the authority. Reacting to events only after they have occurred can be a costly method of risk identification.

Similarly, opportunities need to be identified and managed in order that their potential benefits can be maximised.

2. Analysis of risk

Having identified areas of potential risk and opportunity, they need to be systematically and accurately assessed. The process requires managers to make:

• An assessment of the likelihood of an event occurring

• An assessment of the impact should such an event occur or an opportunity be realised.

3. Treatment of risk (altered)

It is acknowledged that risk cannot be eliminated completely. Risk treatment is the process of taking economic action to minimise the likelihood of the risk event occurring and/or reduce the severity of the impact should it occur. The agreed controls designed to mitigate the identified risk will be recorded in the risk records (either the risk register, project risk logs or within Business Continuity Plans) together with the name of the officer responsible for implementing each control and the deadline date for completion.

There are six options or combinations of options for treating risk:

a) **C**ontingency

Where a risk cannot be entirely avoided, contingency arrangements should be in place to ensure that any impact, for example to service delivery or to reputation, is kept to a minimum.

b) **A**ccept

Having identified and evaluated a risk, a decision may be made to accept the risk without taking any mitigating action. This would usually be in instances where the likelihood and/or impact are so small that implementing Risk Treatment Actions would not be cost-effective, or where the risk relates to a course of action that is a key priority for the Council.

c) **R**educe

Risk reduction relates to the implementation of cost-effective measures (Risk Treatment Actions) that will help minimise the likelihood of an event occurring or limit the impact of the risk should it occur.

d) **P**revent

In certain circumstances, it may be possible and cost-effective to implement Risk Treatment Actions that will prevent an event occurring in the first place. An extreme form of prevention could be ceasing to carry out an activity that involves the risk in question. For example the temporary laying down of unsafe cemetery headstones, whilst controversial in some areas, effectively removed the potential risk of injury to members of the public.

e) **E**xploit

Opportunity is often regarded as the "flip-side" to risk. Where opportunities arise, the likelihood of them being realised and their potential contribution to the Council need to be evaluated. If a case can be made that pursuing an opportunity will be cost-effective and benefit the Council's objectives, it should normally be exploited. The failure to fully exploit realistic opportunities presents a particular type of strategic risk.

f) **T**ransfer

Risk transfer involves transferring liability for the consequences of an event to another body. This can occur in a number of forms. Firstly, legal liability may be transferred to an alternative provider under contractual arrangements for service delivery. Secondly, liability may be transferred to a partner under agreed partnership terms. Finally, transferring some or all of the financial risk to external insurance companies may reduce the costs associated with a damaging event.

Monitoring and review of risk

The risk management process does not finish when the Risk Treatment Actions have been identified. There must be monitoring and review of:

- The implementation of the agreed Risk Treatment Actions

- The effectiveness of the actions in controlling risks

- How risks have changed over time and the emergence of new risks and opportunities

Funding (altered)

Through the Business Planning process, there is an opportunity for service managers to make funding requests based on risk and opportunities. The embedding of risk management in the corporate planning and budgeting process will help ensure that scarce resources are directed to areas of highest priority in a systematic and transparent manner.

Funding requests that arise at short notice, such as for managing new/ emerging risks, can be referred to the Risk Management Steering Group for consideration of funds being provided from the Risk Management Reserve. This reserve provides the opportunity to apply for financial support and creates an incentive for loss control, without adversely affecting service area budgets.

In addition to these funding sources, the Financial Regulations allows for emergency requests for funding.

Corporate Risk Management Steering Group (altered)

The establishment of an effective corporate risk management steering group is seen as essential to the effectiveness of the risk management process.

Membership of the group is sufficiently senior within the organisation to ensure that risk management receives appropriate attention. To give authority to the group and facilitate real and effective work, the group is chaired by the Head of Financial Services and will report to Performance Management Group as appropriate.

Responsibilities

The following have responsibilities for risk management:

Elected Members:

Cabinet (altered)

- Through Performance Review Team (PRT) activity reports, to analyse and review high level strategic risks relating to portfolio holders' individual areas of responsibility and for the leader to review the Council's overall Risk Management position.

- To demonstrate and promote a risk management culture through Cabinet's activities and decision making.

- To develop / propose priorities based on robust risk analysis in accordance with the Budget and Policy Framework timetable including receiving the full Strategic Risk Register annually As well as risk analysis on individual budget proposals.

Audit Committee (unchanged)

The Audit Committee's Terms of Reference include '*To monitor the effective development and operation of risk management and corporate governance in the Council'* per minutes of Council 18 April 2007.

This will entail:

- To agree the strategy, policy and processes for risk management and to review their effectiveness as a contribution towards providing assurance on the Council's standards of Corporate Governance.

- To monitor and review the effective management of risk by officers.

- To receive reports on the effectiveness of, the Risk Management strategy and to review assurances that corporate business risks are being actively managed.

- To report to full Council annually on the Committee's work and performance during the year, including the results of its consideration of Risk Management arrangements.

- To appoint the Chairman of the Audit Committee as the Council's Member Champion for Risk Management

Overview and Scrutiny (unchanged)
- To consider risk management issues in the development of policy and analysis of possible options.

Budget and Performance Panel (new)
- Through Performance Review Team (PRT) reports and Corporate Financial Monitoring, to consider risk management issues in reviewing and scrutinising performance.

Officers:

The Chief Executive: (unchanged)

- To ensure that risk is managed effectively through the development and implementation of an all encompassing corporate strategy.

- To ensure that elected Members are appropriately advised on risk management matters.

The Corporate Director (Finance and Performance) (Unchanged)

To act as the Council's Officer Risk Management Champion with responsibility for liaising between the Corporate Management Team and the Risk Management Steering Group.
- To ensure the Risk Management Policy and Strategy are effective in supporting high standards of corporate governance.

Performance Management Group (new)

- To ensure that managers implement and have regard to the Risk Management policy and strategy.

- To promote and co-ordinate risk management activity within their Service areas.

- To receive quarterly exception reports on strategic and other high impact risks and on Risk Treatment Action (RTA) progress (via Corporate Financial Monitoring).

The Head of Financial Services: (altered)

- To Chair the Risk Management Steering Group.

- To advise on the development and implementation of the risk management strategy, both through the Risk Management Steering Group and in the wider corporate context.

- To ensure that an effective system of internal audit is carried out for the authority.

- To oversee the monitoring and control of the risk management reserve.

- To provide a report on the effectiveness of the risk management strategy to each meeting of Audit Committee. Reports to cover high impact risks and provide assurance that Risk Treatment Actions (RTAs) are being pursued.

- To provide quarterly exception reports to Performance Management Group. Reports will be via Corporate Financial Monitoring and will cover strategic and other high impact risks as well as progress on Risk Treatment Actions (RTAs).

Risk Management Steering Group (altered)

- To effectively develop, implement and review the risk management strategy on a corporate basis.

- To co-ordinate loss control activities and in the process identify trends and priorities.

- To advise on the use of the risk management reserve to support funding necessary for projects, activities and initiatives.

- To evaluate new approaches on risk management and the extent to which they would be helpful to the authority and its services.

- To advise on the development of loss prevention practices as a normal part of management.

- To support the provision of staff training in risk management.

- To provide for information sharing and mutual support links with other groups at regional and national level.

- To promote good risk management practice throughout the authority by co-operation and liaison with managers and employees and relevant external agencies.

- To report to Performance Management Group on an exception basis, should the need arise.

Risk and Insurance Manager (altered)

- To consult regularly with service managers concerning risk issues, providing advice as appropriate.

- To assist in the promotion of good risk management practice throughout the authority through co-operation and liaison with managers, other employees and relevant external agencies.

- To undertake, where necessary, incident investigations.

- To support the provision of staff training in, and raise the level of, risk management throughout the authority.

- To act as lead support officer for the Risk Management Steering Group.

- To ensure that appropriate insurance cover is in place and that a register of claims is maintained.

- To present insurance claims summary reports to service managers and to the Risk Management Steering Group.

- To prepare reports to Performance Management Group and the Audit Committee on behalf of the Risk Management Steering Group / Head of Financial Services.

Heads of Service (unchanged)

- To identify and evaluate risks and opportunities facing their service areas and to take appropriate management action.

- To ensure that risk management issues are appropriately considered and recorded when developing Service Business Plans and to ensure that risk registers are kept up-to-date.

- To ensure that risk is managed effectively in each service area within the agreed corporate strategy and that Risk Treatment Actions (RTAs) are implemented.

- To highlight significant ongoing or emerging risks, on an exception basis, through quarterly Performance Review Team reports.

- To ensure that the control environment relating to systems operated within service areas are secure and that agreed actions resulting from Internal Audit reviews are implemented.

- To ensure effective communication within their service area of the risk management strategy.

Employees (unchanged)

- To manage risk effectively in their job and report opportunities / risks to their service managers.

- To undertake their job within risk management guidelines.

Internal Audit (unchanged)

- To review the Council's risk management processes and provide an annual opinion as to the effectiveness of the Council's internal control system and corporate governance arrangements.

- To promote and support the development of the Council's risk management processes.