

REPORT TO CABINET

REPORT OF: Director of Finance and Strategic Resources

REPORT NO: FIN186

DATE: 12 July 2004

TITLE:	RISK MANAGEMENT STRATEGY
FORWARD PLAN ITEM:	
DATE WHEN FIRST APPEARED IN FORWARD PLAN:	
KEY DECISION OR POLICY FRAMEWORK PROPOSAL:	POLICY FRAMEWORK PROPOSAL

COUNCIL AIMS/PORTFOLIO HOLDER NAME AND DESIGNATION:	CORPORATE GOVERNANCE
CORPORATE PRIORITY:	CORPORATE HEALTH

1. Introduction

The purpose of this report is to ask the Cabinet to endorse the updated risk management strategy. It is important that as part of Corporate Governance procedures the Council has a pro-active approach to the management of risk.

2. Background

The strategy has been developed with the help of KPMG, the Council's internal auditors. The document gives an overview of the way in which risk is addressed and managed within the Council. The further development of a risk register and mitigation of risk pro-formas illustrate how the concept is being embodied within normal everyday activity.

3. Other Options Considered and Assessed

The statement of accounts for 2003/04 will include a statement for internal control, which will need to be signed off by the Chief Executive and Leader of the Council. Risk management is a core component of that statement, and adoption of the strategy and its additional elements should secure a satisfactory audit opinion.

4. Comments of Director of Finance and Strategic Resources

As report.

5. Comments of Corporate Manager, Democratic and Legal Services (Monitoring Officer)

None.

6. Comments of Other Relevant Service Manager

None relevant.

7. Conclusion of Summary

8. Recommendations

It is recommended (a) that the Cabinet endorse the Risk Management Strategy and allow it to progress to the Council for adoption, (b) that the Capacity and Resources DSP review the risk register and make any additional observations.

9. Contact Officer

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SOUTH KESTEVEN DISTRICT COUNCIL



Risk Management Strategy

RISK MANAGEMENT STRATEGY

1. Introduction

Risk is one of life's certainties and how successfully organisations deal with it can have a major impact on the achievement of their objectives. Successful organisations are not afraid to take risks; unsuccessful organisations take risks without understanding them.

This document provides a comprehensive picture of how SKDC is taking responsibility to manage its risks and opportunities using a structured and focused approach. It covers:

- what we mean by risk management
- why we need a Risk Management Strategy
- our philosophy towards risk management
- how we will implement the Strategy
- how risk management links into existing processes
- the roles and responsibilities of the Corporate Management team, Cabinet, Constitutional and Accounts Committee and all employees
- a summary of the monitoring and reporting lines for risk management
- potential training requirements
- how we will measure success

2. What do we mean by risk management

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.

Risk Management is the identification, analysis and economic control of all threats to the achievement of the Council's corporate and service objectives. SKDC acknowledges that the purpose of risk management is not to remove all risk (this is neither possible nor, in many cases, desirable). Rather risk management is about ensuring that risks are recognised and their potential to cause loss fully understood. Based on this information action can be taken to direct appropriate levels of resource at controlling risk or minimising the effect of potential loss.

3. Background

Traditionally risk management has focussed upon particular elements of risk eg insurance issues or health and safety regulations. The CIPFA guidance on risk management highlights the wider importance on managing risk and it is an ingredient of an effective organisation. By identifying the risks the organisation is facing in the future, plans can be put in place to mitigate the impact of that risk and limit any financial exposure to risks that materialise.

The Council Financial Regulations (Appendix C) explain the importance of risk management, the key controls expected and the broad responsibilities of the Council's staff on risk matters. A systematic approach to risk is a necessity on the development of this strategy, and corporate governance arrangements are essential for full coverage on a top-down basis.

To further illustrate this, the statement on internal financial control prepared as part of the Statement of Accountants now includes a section on ensuring compliance with established policies, procedures, laws and regulations, including how risk management is embedded in the activity of the authority, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties.

If this statement cannot be signed off the External Auditor may refer to this within the Annual Audit letter and potentially qualify the accounts.

Finally the comprehensive performance assessment process puts great value upon the Council's corporate approach and the part risk assessment and management forms within it.

4. **Risk Management and COUNCIL**

4.1 Risk Management Philosophy

The risk management philosophy needs to achieve the balance in our culture, management arrangements, resource allocation and controls that supports our people and partners in achieving the Council's objectives, and ensures it operates successfully within our governance and stewardship framework. Setting and promulgating this overall approach to risk management is the responsibility of the Cabinet advised by the Director of Finance and Strategic Resources, but must be implemented by us all.

4.2 Risk Management Objectives

The philosophy has been to start in a simple manageable way, building upon competencies and further develop the approach as we become more experienced and skilled. As part of this philosophy, our objectives are to:

- Develop risk management and raise its profile across the Council
- Integrate risk management into the culture of the Council and make it part of all decision making processes
- Actively assess and manage risks and circumstances that could hamper the delivery of services, including early warning mechanisms
- Provide a framework and support so that risks are understood as part of the decision making
- Manage corporate risk in accordance with best practice, as part of good corporate governance

- Create effective processes that will allow the Council to make risk management assurance statements annually.

To achieve these objectives, we will continue to develop risk management processes and procedures by:

- Reviewing the Risk Management Strategy and Policy on an annual basis;
- Establishing clear accountabilities, roles and reporting lines across the Council
- Providing staff and members across the Council with the necessary awareness, skills and expertise
- Providing for risk assessment in all decision making processes of the Council
- Developing Risk Registers to record both strategic and operational risks and the way they are to be managed
- Developing arrangements for the reporting and recording of risks;
- Developing a control framework which provides assurance that risks identified are being managed
- Ensure appropriate consideration of risk within the strategic planning process
- Ensure that partners, providers and delivery agents are aware of the Council's expectations on risk

We will review the Risk Management Strategy annually to take account of changing legislation, government initiatives, best practice and experience gained within the Council in adopting the Strategy. Any amendments will be recommended to the Cabinet to take forward for approval by the Constitutional and Accounts Committee.

A Risk Management Policy is attached as Appendix A. This affirms the Council's awareness of risk and the duty that it has to manage risk. It refers to the Risk Management Strategy as the main tool in achieving this.

5. **Methodology**

5.1 **Background**

Our approach to risk management will be to implement a structured and systematic process for the identification, evaluation, prioritisation and management of risk at strategic and operational levels. The diagram below illustrates the approach:



The risks facing the Council fall into two areas:

- **Corporate** risks are those that could impact on the medium and long term objectives of the organisation and are the responsibility of the CMT led by the Chief Executive.
- **Operational** risks are those that could impact on service delivery leading to service failure and under- performance. These risks are the responsibility of managers and staff who manage them on a day-to-day basis in the course of their work.

The approach we will adopt is to identify both strategic and operational risks using a ‘top down’ (corporate) and a ‘bottom up’ (service) process of risk assessment and analysis resulting in coverage of the whole of the organisation.

5.2 Risk Identification

This involves identifying potential opportunities and risks relating to the achievement of corporate and service objectives. These may arise because of the general environment in which we are operating or in relation to specific decisions being made or options being considered. It is important to adopt a consistent approach to the identification of risks throughout the organisation. Our approach will involve a combination of top-down and bottom-up inputs both of which will be delivered through facilitated workshops as follows:

- Corporate risk review – Members and senior management will assess key corporate risks in relation to our overall aims and objectives.
- Service risk review – a bottom up approach by which each Service will assess risks in relation to its objectives and targets and to feed upwards its diagnosis of the risks faced.

Key risks categories relevant to the Council are noted in Appendix B.

5.3 Risk Analysis

Once risks have been identified they need to be systematically assessed using a defined model. There are numerous models available to assess risk all of which incorporate some form of subjective assessment. Our approach will be to assess risks according to:

- Likelihood of occurrence - the probability of an event occurring
- Impact - the potential severity of the consequences should an event occur

Each risk will be assessed according to the above criteria and categorised. To do this effectively (and consistently across the organisation) we have developed a framework to assist managers make objective decisions within the resources available. This is shown attached at Appendix C. It is intended that this will be refined and reviewed as part of the annual review of the Risk management Strategy.

In arriving at the risk ranking, the assessment should consider the impact on:

- corporate/service objectives
- statutory requirements;
- financial position;
- reputation.

As well as prioritising risks, this stage need to look at the inter - relationship between risks, and particularly at the links and potential impact between corporate and service risks. This is likely to lead to some adjustment of the risk profile at both levels.

5.4 Risk Evaluation

Stages 1 and 2 will generate a risk profile or updated risk profile. Risk evaluation involves a three-part process:

5.4.1 Risk Decision

Assessing whether to transfer, tolerate, treat or terminate risk based on our agreed appetite for risk and the availability of resources.

- Transfer - Involves transferring risk which may be done through insurance or transferring to a third party.
- Tolerate - In the event that the ability to control risks is limited or the cost of taking action outweighs the potential benefits, risks may be tolerated.
- Treat - Most risks will fall into this category. The aim of treatment is to contain the risks to an acceptable level as eradication is not possible. Risks are treated through a series of internal controls.
- Terminate - In extreme cases, risks may be uncontrollable to the point where terminating the activity is the only way of managing the risk. This may not always be possible where activities form part of the organisation's statutory duties.

5.4.2 Control Analysis

In the event that it is determined that risks should be treated, a control analysis will need to be undertaken. Controls are those systems, policies and procedures that management put in place to provide some assurance that objectives will be achieved and risks managed (many of which will already be in place).

Controls may be both preventative and detective. A list of example controls is included in Appendix D and a description of the Council's key control systems is shown in Appendix E. Once controls have been matched to each treatable risk then each risk should be revisited and a new risk ranking established based on the impact and likelihood given the control structure in place.

It will then be necessary to determine whether controls are sufficient (or indeed excessive) for managing the risks identified i.e. whether the new risk score is acceptable. This is where our overall approach and attitude to risk particularly needs to be considered. It is also important to recognise that the process is not intended to eliminate all risks and not all the risks identified can be managed all of the time. Also, risks will still exist that have not been identified. Where it is considered that revised or additional controls are required an action plan should be put in place and recorded in the risk profile detailing:

- Action required;
- Responsibility for action;
- Timescales;
- Resources required.

5.5 Monitoring the risk register and action plans

In order to ensure that the risk register and action plans are still relevant, they will need to be monitored on a regular basis. This will involve the following steps:

- Updating the risk register to add new risks, delete risks or amend risks. Where new risks are added or existing risks amended, then steps 5.1 – 5.4 will need to be followed.
- Seeking confirmation that the controls/mitigations identified against each risk are operating as intended. This assurance may be gained in a number of ways:
 - Internal audit reviews;
 - External audit;
 - Inspections;
 - Management assessment;
 - Independent surveys/research;
 - Performance outcome results.

In the event that the above evidence indicates that there may be a problem then risk scores will need to be revisited and a management decision made as to whether further action is required.

- Assessing the progress made in implementing agreed actions. Where action has been completed, then steps 5.1 – 5.4 will need to be followed to ensure that the status of the risk is still valid.

5.6 Risk Registers

In developing the risk register, the proformas at Appendix F and G should be used.

6. Roles and Responsibilities

The Director of Finance and Strategic Resources has overall responsibility for risk management. Corporate Directors and Service Managers have responsibility for its implementation, and upholding the values and approaches expressed in the Council's risk management strategy. A schedule of the roles and responsibilities for risk management within COUNCIL are set out below.

6.1 The Cabinet

- Approve the overall approach and attitude to risk management

6.2 The Constitutional and Accounts Committee

- Approve the risk management strategy
- Monitor the implementation of the strategy

6.3 The s151 Officer (Director of Finance and Strategic Resources)

- Agree the strategy with the Cabinet.
- Promulgate and promote the strategy throughout the CMT and SM forum.
- Report on the risk management process and the system of internal control to the Capacity and Resources DSP.
- Present strategy to Constitutional and Accounts Committee for approval.

6.4 Corporate Managers/Senior Managers

- Communicating the Risk Management approach and strategy throughout the department;
- Ensure that each Service Plan includes a Risk Register related to that service (see Appendix H);
- Developing an open and transparent culture for the identification and management of risk, and encouraging employees to instil risk awareness in their behaviour;
- Ensuring, by means of regular communication, that appropriate employees are aware of the key risk issues facing the Council;
- Reporting to the Director of Finance on:
 - Strategy implementation
 - Progress on actions arising from controls assessments in the risk profile
 - New threats or risks arising and/or control failures, either directly or via the profile process
- Demonstrating that each Section considered risk issues, and any new threats arising or control failures;
- Regularly reviewing the risk management process in their area of responsibility.
- Providing support and assistance to all employees in fulfilling their individual risk management duties.

6.5 Staff

All staff have a responsibility to manage risk effectively in their job and report opportunities and risks to their managers. Understanding this role is essential – operational staff are those most likely to have direct contact with stakeholders and so can have a huge impact on the external reputation of the Council.

6.6 Internal Audit

In determining the role of Internal Audit, it is important to bear in mind the professional requirement for Internal Audit to continue to work independently and objectively. The role of Internal Audit therefore is not to be responsible or accountable for risk management across the Council or for managing risks on management's behalf. Their key tasks will be to:

- become a centre of expertise for managing risk, providing active support and involvement in the risk management process;
- provide guidance and advice on all matters of risk management and facilitate risk management training where appropriate;
- provide managers with practical techniques for identifying and assessing risks and designing control and mitigation strategies;
- support risk identification and assessment workshops;
- provide management with an assessment, through internal audit reviews, of whether controls in place to manage risks are appropriately designed and operating as intended.

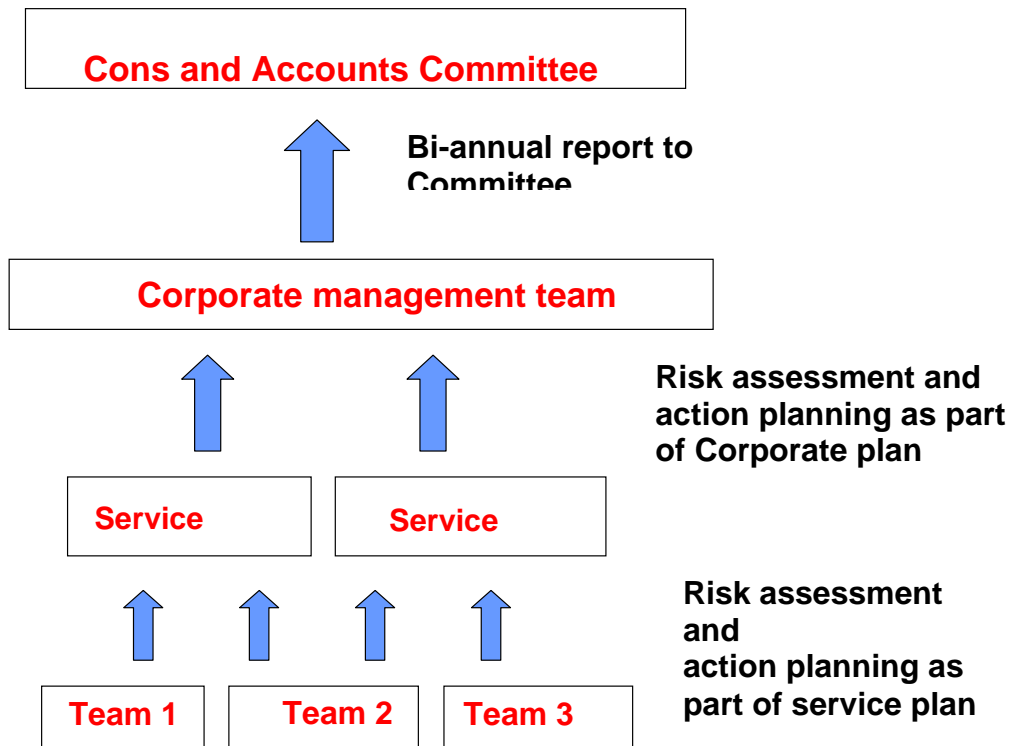
In addition to the above, Internal Audit also has a role in auditing the risk management process and its application. Internal Audit will:

- assess the adequacy of the mechanisms for identifying, analysing and mitigating key risks; and
- provide assurance to officers and members on the effectiveness of controls.

The outputs from the risk management process can also be used internally to help inform the annual audit programme.

7. Reporting and Monitoring Arrangements

The following diagram illustrates the proposed reporting and monitoring arrangements:



These arrangements will allow:

- regular monitoring of the risk identification and prioritisation process as an integral part of the existing processes;
- regular monitoring and updating of the key risks facing the Council and Services;
- a bi-annual report to the Acomm on the key risks facing the COUNCIL and its management;
- an annual review of the risk management strategy.

Each Service will be expected to manage their own risks while CMT will be responsible for the COUNCIL's corporate and cross cutting risks. However, as part of the process, the more serious risks identified at each level of the organisation will be reported, and considered by, the next level up. This allows risks to be managed at the level most appropriate to their seriousness.

8. **Training**

To effectively embed risk management across the whole of the organisation, staff will need to continue to gain the appropriate skills. As part of performance appraisal, the training needs of each staff will be considered. It is however recognised that:

- key members of staff will need specific training on the methodology and the skills required;

- other staff will need general awareness training to develop the “hearts and minds” element of the process and reinforce a culture of effective risk management across the organisation.

9. **How we will measure success**

There are a number of ways we can confirm the successful implementation of the Strategy. In Council terms, risk management is about contributing to the achievement of objectives.

- that resources have been directed at delivering priorities rather than being diverted to deal with unassessed risks;
- that risks are mitigated by the proactive approach;
- the audit commission will give an unqualified opinion on the accounts;
- the next CPA will give a positive opinion on the effective management of the organisation.

Appendix A

Risk Management Policy Statement

COUNCIL potentially faces a wide range of risks, threats and hazards that can limit its capacity to fulfil the delivery of its Regional Economic Strategy and associated objectives. COUNCIL will therefore pro-actively manage those risks (both strategic and operational) in a balanced, structured and focused way. COUNCIL's Risk Management objectives will be to:-

- **ensure risk management is part of strategic and operational management decision making, planning and implementation;**
 - **manage risks in accordance with best practice, as part of good corporate governance;**
 - **take account of internal and external changes that may impact on the organisation's risk profile;**
 - **respond to risk in a balanced way, mindful of the risk level, risk reduction potential, cost/benefit, and relationship to resource constraints and limitations;**
 - **raise awareness for the need for risk management.**
-

These objectives will be met by:-

- **establishing clear roles and responsibilities;**
- **providing training and support for those under-taking risk management activities;**
- **ensuring the identified risks are monitored and reviewed on a continuous basis in line with COUNCIL's processes of accountability;**
- **reviewing the effectiveness of the risk management policy and strategy regularly.**

Appendix B

Risk Categories

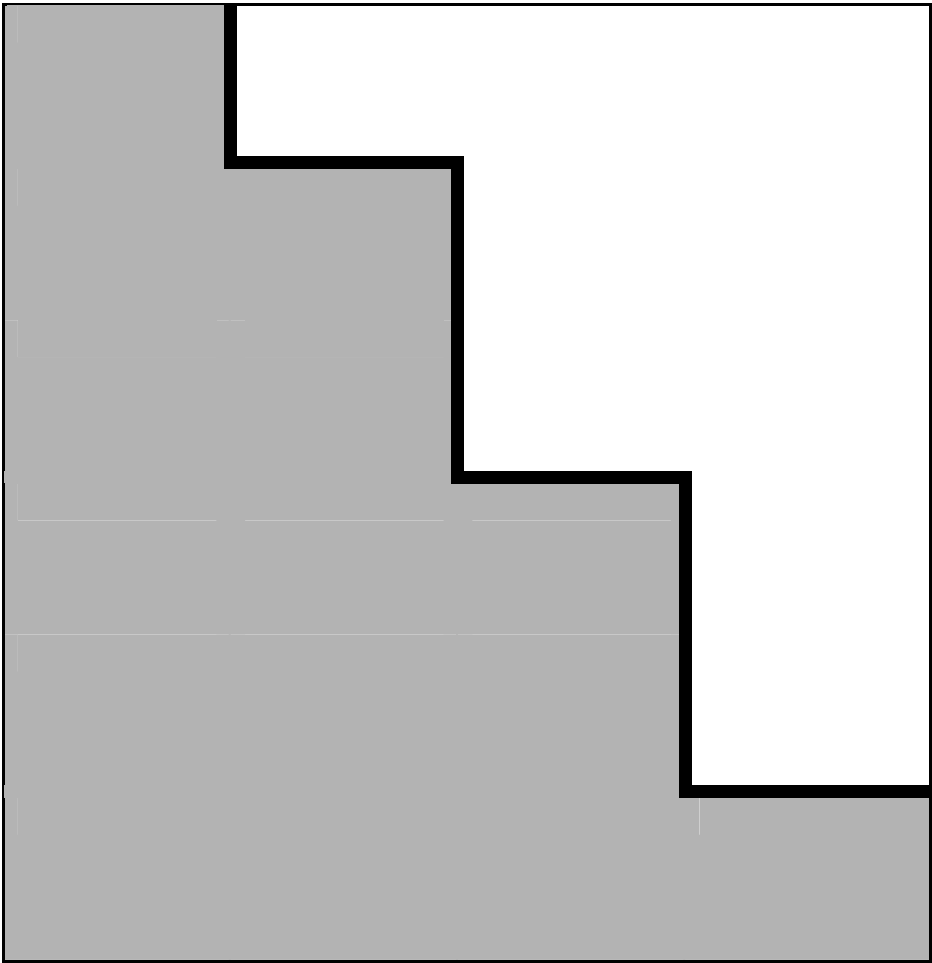
Strategic Risks	Operational Risks
Political – failure to deliver local or central government policy	Professional – related to particular nature of each profession
Economic – affecting ability to meet financial commitments, including budget pressure, external macro economic changes, or the consequences of investment decisions.	Financial – financial planning and control and adequacy of counter fraud and corruption arrangements
Social – relating to the effects of demographic, residential or socio-economic changes on ability to deliver objectives.	Legal – related to possible breaches of legislation
Technological – capacity to use and deal with technological change, including consequences of technological failure.	Physical – related to fire, security, accident prevention and health and safety
Legislative – current or potential changes in National/European law.	Contractual – failure of contractors to deliver goods/services to agreed cost and specification
Environmental – consequences of objectives in terms of energy efficiency, pollution, recycling, landfill requirements, emissions, etc.	Technological – relating to reliance on operational equipment, including machinery and IT systems
Competitive – affecting competitiveness of service (in terms of cost and quality) and ability to deliver value for money.	Environmental – relating to pollution, noise or energy efficiency of ongoing service operation.
Stakeholders – failure to meet current and changing needs/expectations of stakeholders.	

Appendix C

Risk Categories

LIKELIHOOD

- (A) VERY HIGH
- (B) HIGH
- (C) SIGNIFICANT
- (D) LOW
- (E) VERY LOW
- (F) ALMOST IMPOSSIBLE



IMPACT

- (4) NEGLIGIBLE
- (3) MARGINAL
- (2) CRITICAL
- (1) CATASTROPHIC

KEY

Acceptable risk level	Unacceptable risk level
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Appendix D

Control Menu

A control can be described as “any method, procedure, equipment or other things that provide additional assurance that objectives will be achieved”. Controls may take different forms, some examples are given below.

Purpose: Definition and Communication <ul style="list-style-type: none"> • Clearly defined mission, vision • Clearly defined values • Clear service objectives • Clear personal objectives • Clear policies • Communication of objectives throughout the organisation • Policy on corporate conduct, values and standards 	Direct Controls <ul style="list-style-type: none"> • Physical safeguarding of assets • Reconciliations • Segregation of duties • Restricted access • Internal checks • Supervision
Commitment <ul style="list-style-type: none"> • Job descriptions • Performance contracts • Performance appraisal system • Promotion/advancement policies • Clear accountability lines • Disciplinary and reward policies 	Indicator/measurement <ul style="list-style-type: none"> • Customer surveys • Benchmarking • Complaints systems • Audit results • Internal complaint/query systems • Supervisor measurement
Planning and risk assessment <ul style="list-style-type: none"> • Short, medium and long term planning • Contingency planning • Disaster recovery plans • Corporate risk management process • Corporate approach to continuous improvement 	Employee well-being morale <ul style="list-style-type: none"> • Employee surveys • Team meetings • Personal and career planning • Management feedback systems
Capability/Continuous learning <ul style="list-style-type: none"> • Recruitment and selection procedures • Training methods and strategy • Career planning • Performance evaluation 	Process Oversight <ul style="list-style-type: none"> • Internal audit reviews • External audit reviews • Committee reporting • Management monitoring/supervision

Appendix E

Core 'risk management' systems

A control can be described as “any method, procedure, equipment or other things that provide additional assurance that objectives will be achieved”. *Council* has a number of core systems in place which are continuously developing and are designed to manage significant risk. In effect, these are risk management systems although they may not be known as such by staff operating them on a daily basis. A brief description of some of the key systems is given below:

Financial Management

The Council operates in accordance with a financial framework underpinned by financial regulations and procedures. Guidance is available to all staff on processes to follow for key financial activities such as purchasing and procurement and budgeting. There are a range of checks and balances in place to ensure that these procedures are observed thus minimising the risk of fraud, corruption or misappropriation of assets.

Corporate planning and performance management

The Best Value Performance Plan sets out *Council's* objectives and targets explains how these will be met over the period of the plan. In deriving the plan, a consultation process is undertaken to engage all stakeholders and secure their commitment to helping the District achieve its targets.

Once the plan is in place, monitoring against targets is undertaken by the CMT to assess progress made and remedial action is taken where performance is behind target.

Staff management

The Human Resources strategy sets out how the Council monitors risk within the staffing arena.

Service plans

All services are currently producing business plans that will highlight the main issues of risk at operational level.

Appendix F - Risk Register

No	Profile/Owner/Coordinator		Cluster	Vulnerability	Trigger	Consequences
1	D2 Low/Critical CHRIS SHARP	*	Staffing	The Council experiences difficulty in replacing knowledge in specialist areas	Key posts remain unfilled/take unacceptable lengths of time to fill	<ul style="list-style-type: none"> • Pressures on existing staff • Activities are ineffectively carried out • Appoint staff regardless that aren't suitable • Reliance on agency/temporary staff • Escalating staff costs • Gaps appear in structures • Adverse impact on service delivery • Service failure • Adverse publicity • Image of Council damaged

Appendix G - Risk Management Action Plan

Gross Risk Score As per Appendix A	Risk/Vulnerability As described in Appendix F	Consequences As described in Appendix F
Net Risk Score What is the net risk score considering mitigations and their effectiveness?		
Current actions to mitigate risk What do we do to manage the risk i.e. prevent it occurring or managing it if it does?		Assessment of effectiveness (1 Very – 5 Not at all) How effective are the mitigations. If they prevent the risk occurring then they may be considered strong.
Current monitoring action Are we aware whether the risk has materialised?		Risk management decision (tolerate, treat, transfer, terminate) How do we feel about the risk given the net score? Can we tolerate the net risk, or do we need to take additional action i.e. treat it.
Action Plan, Officer responsible, Implementation dates What action needs to be taken, by whom and by when		Responsibility for review / Frequency Who is responsible for the overall risk? How often should they revisit the Management Action Plan to make sure it is still complete relevant and accurate.

Appendix H - Risk Registers in Service Planning

Each Service plan should be accompanied by a risk register highlighting a maximum top 10 risks facing the service. The following officers are responsible for service level risk registers in their area.

Service	Senior Manager	CMT lead
Revenues	Legg	Blair
Planning	Edwards	Marshall
Environmental Health	Hadfield	Marshall
Housing	Doughty	Marshall
Care Services	Cullington	Pell
Waste Management/Contracts	Knighton	Yates
DWO	Ball	Yates
Legal	Youles	Goddard
Human Resources	Collingwood	Sharp
IT	Pantling	Yates
Finance	Wyatt	Blair
Leisure & Cultural	Slater	Pell
Economic Development	Lloyd	Pell
Property Services	Stokes	Yates