Appendix 1

RISK MANAGEMENT STRATEGY
2008-2010

MAY 2008

Contents

1. Introduction

1.1 Background

In 1993, following a number of high profile corporate failures, formalised risk management was introduced in the private sector to strengthen corporate governance. Risk management has since been recognised as a valuable discipline across all sectors of the economy and has been recommended for local authorities by the Audit Commission since 1997. Corporate governance within local authorities has been evolving and a joint CIPFA and SOLACE framework and guidance has recognised that one of the five dimensions though which strong corporate governance need to be reflected is Risk Management and Internal Control

1.2 What is Risk Management?

Risk management is the identification, evaluation and cost effective control of risks to ensure that they are either eliminated or reduced to an acceptable level. Systems are then put in place to track and report upon existing and emerging risks that could cause damage to the Council or its stakeholders.

Managing risk effectively will help the authority achieve its corporate objectives and protect its assets and resources against risk in the most efficient way.

2. Risk Management Aims and Objectives

The purpose of this strategy is to formally set out how the Council's managers and elected members intend to manage risk.

The objectives of this risk management strategy are to:

- Integrate risk management into the culture of the Council.
- Manage risk in accordance with best practice.
- Anticipate and respond to changing social, political, environmental and legislative requirements.
- Assist in achieving the Council's corporate aims and objectives.
- Maximise opportunities and encourage innovation through reassurance on the management of potential risks.
- Prevent or minimise potential loss, disruption, damage and injury and reduce the cost of risk, thereby maximising resources.
- Raise awareness of the need for risk management by all those connected with the Council's delivery of services and objectives.

These objectives will be achieved by:

- Determining the Council's risk appetite and how risk will be financed.
- Establishing clear roles, responsibilities and reporting lines within the Council for risk management.
- Establishing a Risk Management Group.

- Incorporating risk management arrangements for the identification, mitigation, monitoring and reporting of risks into the Council's management and decision making processes.
- Providing risk management training and awareness sessions for Council officers and Members.
- Effective communication with, and the active involvement of, Council officers and Members.
- Annual review of this risk management strategy.

3. Risk Appetite and Financing

Risk Appetite

An organisation's risk appetite is the level of risk that they are prepared to tolerate without putting in place further risk mitigation. Mitigation is the actions taken to control the risk by reducing the impact or the likelihood. Risk management at operational levels should not be overwhelmed by relatively minor operational risks. The Council's approach to risk management is therefore to mainly concentrate on mitigating medium and high scoring risks.

Risk Financing

The total cost of risk includes the costs of putting a risk management framework in place and keeping it under review, the cost of officers carrying out the risk management processes, the cost of control actions that are put in place, and finally the cost of risks occurring.

The cost of the Council's risk management framework is included within the Council's budget framework. The cost of control actions to be put in place will be covered either from existing budgets or, where this is not possible, by a growth bid through the Service and Financial Planning process or through a report to Cabinet.

Risks should be identified and evaluated as early as possible in any project or policy decision so that the costs of managing the risk can be included in the overall project funding.

Risk financing can be retained, i.e. self-funded, or transferred.

The transfer of risk financing is carried out either through the outsourcing of operations or through the purchase of insurance.

Following a review of the Council's insurance arrangements in 2004, the Council's insurance cover is provided by Zurich Municipal via a block policy. The current approach to agreeing premiums shows a low risk appetite, reducing as far as possible the risk of uncertainty.

A further review in 2007 recommended the adoption of a more risk based approach to premium and excess levels to identify where savings could be instigated and the setting up of an insurance fund.

4. Roles and Responsibilities

Cabinet

- Approve the Council's risk management arrangements through its Risk Management Strategy.
- Review the risk management implications of all Cabinet decisions.
- Review the Council's strategic risks.

Audit Task Group/Scrutiny

- Consider the effectiveness of the authority's risk management arrangements.
- Audit Task Group to refer any significant concerns to Scrutiny.

Corporate Management Team

- Review the implementation of the risk management framework, strategy and process.
- Agree the Council's strategic risks.
- Monitor progress on managing risks.

Risk Management Group

- Oversee development of the risk management strategy.
- Monitor and review the Council's strategic and other high level risks.
- Oversee development of the Statement on Internal Control.

Internal Audit

- Use a risk based approach to inform the Internal Audit Plan utilising the Strategic Risk Register as well as its own assessment. This will be carried out annually and reviewed quarterly.
- Carry out independent reviews to assess the effectiveness of risk management and make appropriate recommendations.

Managers

- Ensure that risk is managed in their area of work in accordance with the risk management strategy.
- Promote understanding and good practice amongst their staff.
- Identify and assess emerging risks in their service areas.
- Ensure that every risk identified has an appropriate Risk Owner.

Risk Owners

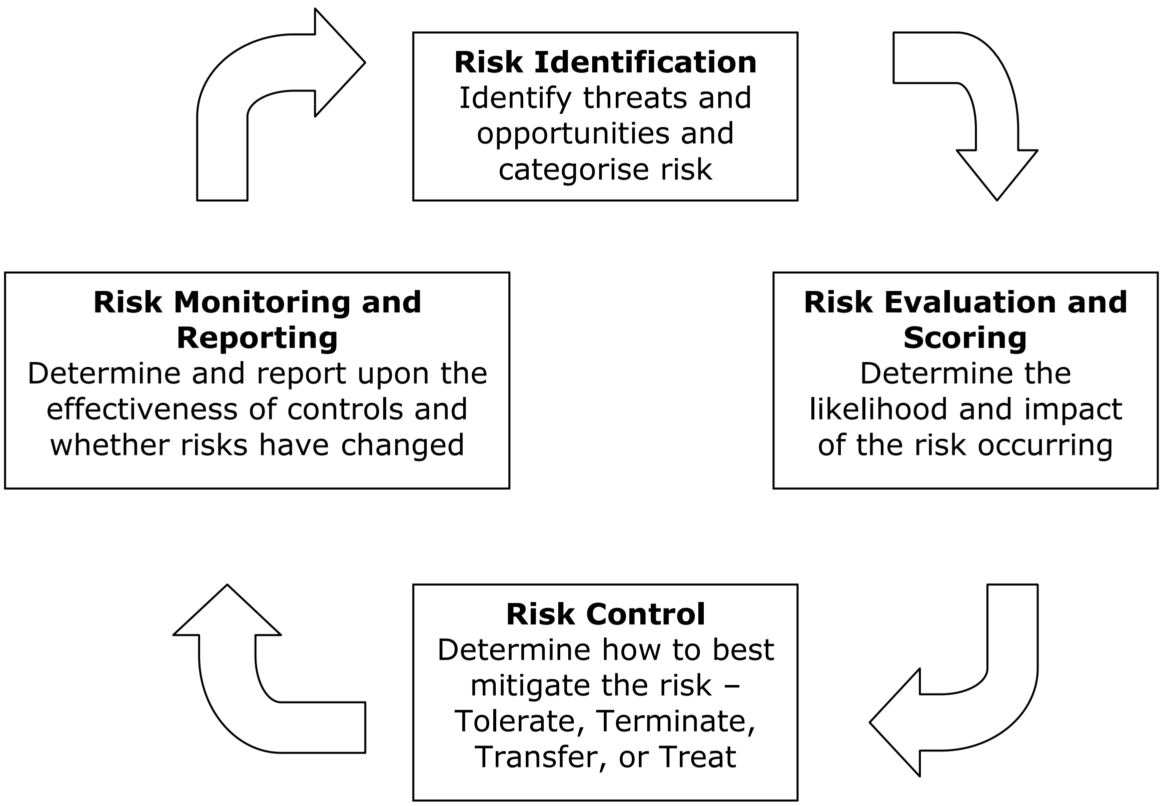
- Evaluate emerging risks.
- Identify and implement mitigation where necessary.
- Monitor effectiveness of the mitigation.
- Maintain and review an accurate risk register for their risks.

All Members and Employees

- Understand that risk management and risk awareness are part of the Council's culture.
- Understand their accountability for individual risks.
- Report promptly to managers any emerging risks or failures in existing controls.
- Assist in the identification and evaluation of risks and opportunities.
- Implement any mitigating actions assigned.
- Comply with control processes introduced.

5 Risk Management Arrangements

To manage risks effectively, they need to be systematically identified, evaluated, controlled and monitored. The four stages in the risk management cycle are illustrated in the diagram below:



5.1 Risk Identification

Any process of risk identification must be carried out in a systematic manner to ensure that all risks to the Council's objectives are identified. It must therefore be integrated into the Council's business processes and holistic in its approach.

For every risk identified, a risk owner will be appointed who will be responsible for the remainder of the risk management process, i.e. evaluation, mitigation, monitoring and reporting of that risk. All risks should be assigned to an individual rather than a group.

Operational Risks

As part of the Service and Financial Planning process, once the service objectives have been determined, the service team will identify the threats and opportunities that could influence the team's ability to achieve those objectives. This will be through the use of individual interviews with managers, workshops, staff surveys or any combination of these.

New risks are constantly emerging, so risk management will feature as a regular process by the service area's management team.

Strategic Risks

The Risk Management Group will meet at least quarterly. They will review the strategic risk register, assess any new high level risks reported to them and where appropriate include them in the strategic risk register.

As well as including new reported risks on an ongoing basis, the Risk Management Group will carry out an annual review of the Council's strategic risks using appropriate risk management techniques.

Project Risks

A project is defined as "A unique process, that has a beginning and an end, which is carried out to achieve a particular purpose, to a set quality, within given constraints of time, cost and resources."

All projects thus defined within the Council are managed under Prince 2 light project management methodology. As such a risk register and action plan is developed at the beginning of each project as part of the Project Initiation Document.

5.2 Risk Categories

When risks have been identified, they will fall into one of two main categories. These are:

Strategic Risks	Risks that may prevent or delay the Council meeting its strategic objectives; or
Operational Risks	Risks that officers face when working to meet their service objectives.

These categories are then further subdivided into:

Political	Risks associated with achievement of central or local policy/ manifesto commitments.
Customer	Risks that could affect the Council's ability to meet its customers' requirements and expectations.
Reputation	Risks that relate to the Council's image, credibility or reputation.
Financial	Risks that relate to losing monetary resources or incurring unacceptable liabilities.
People	Risks that could affect staff, customers and other individual stakeholders.
Environment and Sustainability	Risks that could adversely impact the local environment or the local economy.
Regulatory	Risks associated with the regulatory (or legal) environment.

5.3 Risk Evaluation and Scoring

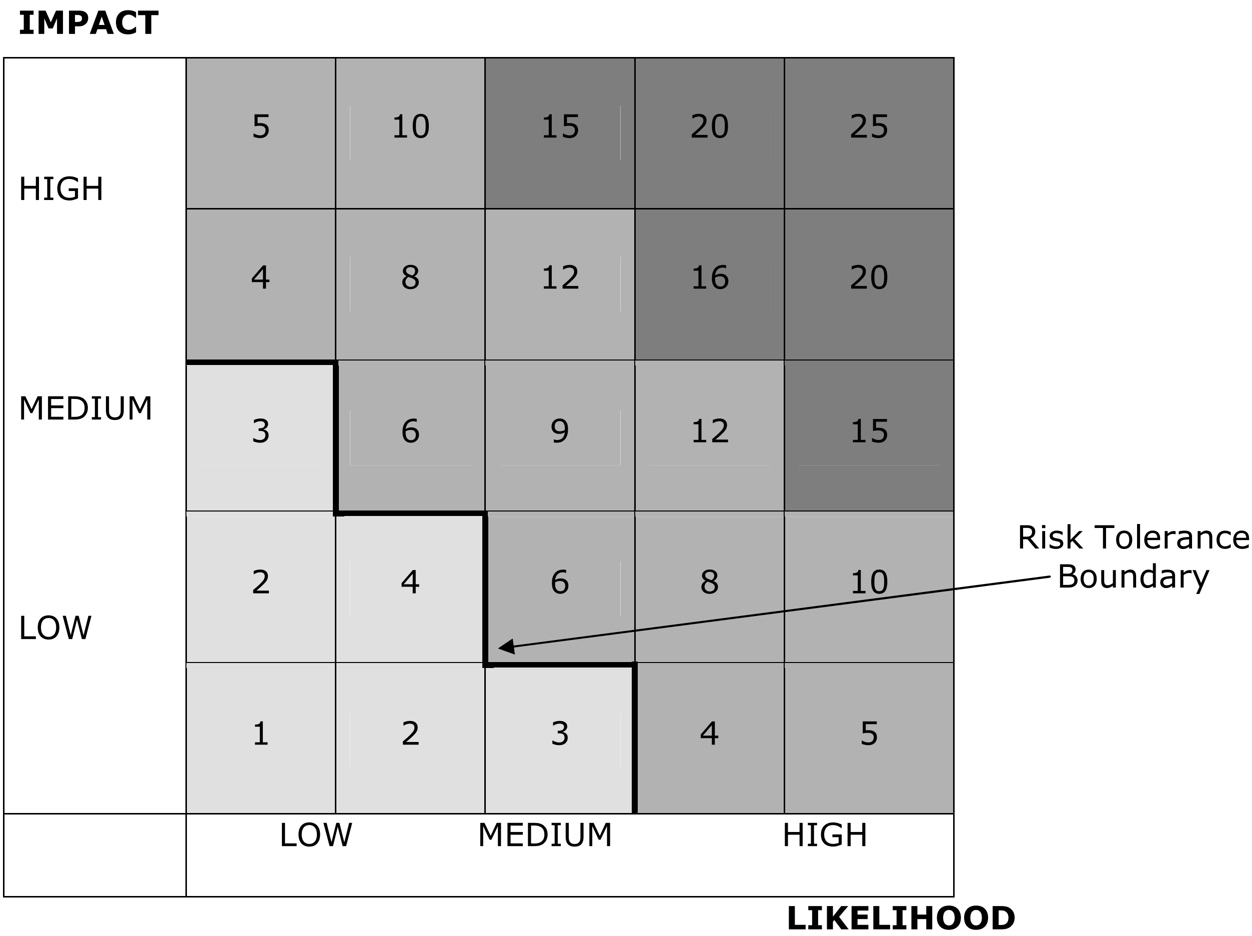
When risks have been identified, they will be scored according to the likelihood of the risk occurring and the impact caused by the consequences of the risk occurring.

The judgement on the likelihood and impact of the risk occurring should be made by those with experience in the relevant service area.

The numerical values of the likelihood and impact are then multiplied together. This facilitates targeting of risk mitigation by ranking the risks.

The subsequent scoring of residual risk shows progress on the success of mitigating controls.

The Council's level of risk appetite is indicated by the Risk Tolerance Boundary shown on the table below. The Council's approach to risk management is therefore to mainly concentrate on mitigating medium and high scoring risks above the Risk Tolerance Boundary.



Key

	Low Risk
	Medium risk
	High risk

5.3.1 Likelihood

The following indicators will be used to assess the likelihood, or probability, of the risk occurring.

Score	Likelihood	Probability
1	Unlikely	< 10%
2	Possible	c 25%
3	Likely	c 50%
4	Highly likely	c 75%
5	Almost certain	> 95%

5.3.2 Impact

The following table will be used to determine the impact score.

Risk Score	1	2	3	4	5
	MINOR	**MODERATE**	**SIGNIFICANT**	**MAJOR**	**CRITICAL**
Political	Delay in delivery of one area of Council's objectives.	Delay in delivery of one or more of the Council's objectives. Delay in meeting a Govt policy.	Major delay in meeting a larger area of the Council's objectives. Delays in meeting Govt policies.	Failure and delays in meeting one or more of the Council's objectives. Significant delay or failure to meet Govt policies.	Failure to deliver local and national government policies.
Customer Satisfaction	Short term, minor service problem. Impact limited to a few customers. Unlikely to cause adverse publicity.	Short term service problem. Impact number of customers. Some adverse local publicity, needs careful PR.	Short to medium term disruption, impact many customers in one group/area. Adverse publicity in local media. Possible damage to credibility.	Long term disruption in one area or med term disruption to wider area affects many customers. Major adverse local publicity, major loss of credibility. Possible effect on CPA	Major disruption with impact on widespread groups. Significant adverse publicity in national media. CPA or Special measures.
Financial	Minor financial loss – accommodated within service area budget	Moderate financial loss – accommodated within divisional budget	Significant financial loss – accommodated within Council's overall budget	Major financial loss - major impact on Council's financial plan	Severe financial loss – critical impact on Council's financial plan, resources unlikely to be available
People	Staff dissatisfaction in localised area.	Dissatisfaction disrupts localised service.	Significant dissatisfaction and disruption to one or more service area.	Short/medium term dissatisfaction and disruption to large area of Council's services.	Long term, widespread dissatisfaction and disruption to Council's services.
Environ-ment & Sustain-ability	No lasting detrimental effect	Short term, localised detrimental effect	Serious short-medium term effect that requires remedial action	Long term detrimental impact	Extensive, long term detrimental impact
Regulation	Breaches of local procedures/ standards. Internal only.	Possible complaints or litigation. Breaches of regulations or standards.	High potential for complaint, litigation possible. Breaches of law punishable by fines or imprisonment.	Litigation likely & may be difficult to defend. Breaches of law punishable by fines or imprisonment.	Litigation certain & difficult to defend. Breaches of law punishable by imprisonment.

5.4 Risk Control

Having identified, analysed and evaluated the risks, it must be decided what actions will be taken to mitigate the risk to an acceptable level. Mitigation is the action taken to control the risk by reducing the impact and/or reducing the likelihood.

There are four options available.

Tolerate the Risk

For some risks, for instance low scoring risks, it may be acceptable to do nothing and accept the risk. These risks should still be monitored to ensure that if the level of risk rises and becomes unacceptable, appropriate action is taken.

Treat the Risk

In most cases it will be possible to put controls in place that will reduce the likelihood of the risk occurring and/or reduce the severity of the consequences should the risk occur. Managers must judge which controls are most appropriate and cost effective. After controls have been put in place, the risks should always be re-evaluated to determine that the residual risk is acceptable.

Transfer the Risk

This involves transferring liability for the consequences of an event to another body. This can be done through transferring liability to another service provider through contractual arrangements for service delivery, or transferring some or all of the financial risk to external insurance company. **NB** it is usually only possible to transfer responsibility for risk control and the financial impact, not the underlying risk itself.

Termination

This is where the Council decides not to undertake an activity or service because the risk is too great. This usually occurs where risk treatment or transfer is not appropriate.

5.5 Risk Monitoring and Reporting

5.5.1 Risk Registers

All risks will be logged in a risk register.

There are separate registers for operational risks, strategic risks and project risks.

The risk registers will contain the following information:

- The risks listed in priority order.
- The category of risk.
- The risk score before mitigation.
- The mitigating action to be taken and where appropriate contingent action should the risk occur.

- The responsible officer.
- The anticipated risk score after mitigation (residual risk).

Operational risk registers are included in all service areas' Service and Financial Plans.

Project risk registers are held by the Project Manager.

The Strategic Risk Register is held by the Strategic Projects Co-ordinator.

Risk registers will be updated at least quarterly.

Strategic and operational risk registers will be available on the Council's intranet.

5.5.2 Risk Monitoring

Risk monitoring and review is an essential and integral part of the risk management process.

When monitoring risks, risk owners will consider the following:

- Is the risk still relevant?
- Are the controls still in place and operating effectively?
- After reviewing the risk, what as happened to the risk score?
- If the risk score is increasing do I need to devise more controls or think of other ways of mitigating the risk?
- If the risk is decreasing can I relax some existing controls?

Operational risks will be reviewed and monitored as a standing item on Management Team meeting agendas.

Project risks will be reviewed at each project team meeting.

Strategic Risks will be reviewed by the risk owners and the Risk Management Group quarterly.

5.5.3 Risk Reporting

Reports on key risks will contain the following information:

- Description of the risks.
- Their impact and likelihood scores.
- Changes to the risk score since the last reporting period and how these have been achieved.
- Any significant control failures or weaknesses that have occurred in the reporting period along with action plans to address them.
- Any new or emerging risks.

<u>Operational Risks</u>

High level risks (risk score >=16) will be reported to the Risk Management Group by relevant Assistant Directors and form part of their onward reporting to Corporate Management Team, Audit Task Group and Cabinet.

Project Risks

Project risks registers are included in each project's Project Initiation Document. Monitoring reports will be presented to each project board meeting. A summary report will be considered the Risk Management Group and form part of their onward reporting to Corporate Management Team, Audit Task Group and Cabinet.

Strategic Risks

All strategic risk reviews are reported to the Risk Management Group by the risk owners. Monitoring reports from the Risk Management Group are presented to the Corporate Management Team and the Audit Task Group quarterly and Cabinet annually.

6. Embedding Risk Management within the Organisation

In order to be effective, risk management must be embedded in the operations of an organisation and form part of the culture of that organisation.

Risk management training and awareness sessions will be delivered to members and officers of the Council.

All senior managers will, in addition to being responsible for managing their risks, be accountable for embedding the process into their areas of responsibility and for promoting understanding and good practice amongst their staff.

Formal risk management processes will form part of the management of all major projects and in the consideration of entering into any new partnership arrangements. The risks inherent in such projects will be clearly defined, managed and reported.

All reports to Council, Cabinet and Committees requiring a key decision will include an assessment and analysis of the risks associated with the requested decision.

7. Updating the Strategy

This strategy will be reviewed and updated every two years.

8. Action Plan

Objective	Action	Owner	Target Date	Output	Progress
Risk financing	Implement actions from review of insurances re risk based approach to risk financing.	AD-ACM	May 2008	Review of insurance premiums	
Improve risk identification and management	Develop the use of risk management techniques within the Risk Management Group	SPC	May 2008	Risk Management Group training day	
Risk Monitoring	Develop a Corporate Project Policy to ensure risk management is in place when appropriate	SPC	March 2009	Corporate Project Policy	
	Co-ordination of risk registers and availability on the Council's Intranet.	SPC	July 2008	Risk registers available on the intranet	
Embedding risk management	Develop and agree programme of risk management training and awareness for members and officers Implement initial training programme	SPC SPC	July 2008 Sept 2008	Risk management training for members and officers	

	Ongoing training	SPC	Ongoing		
	Include risk management as a standard item on Divisional Management Team Meeting agendas	ADs	May 2008	Risk management a standard item on Divisional Management Team Meeting agendas	Agreed by CMT
	Key Decision reports to Cabinet to include risk assessment.	CMT	July 2008	Cabinet reports to include risk assessment	Template being developed for consultation
Continual improvement and development	Review of Risk Management performance	SPC	Dec 2008	Risk management performance monitoring and reporting mechanisms in place	
	Review and update of the Risk Management Strategy	SPC	March 2010	Updated Risk Management Strategy	

<u>Key</u>

AD-ACM – Assistant Director Amenities & Contract Management

ADs – Assistant Directors

PA – Principal Auditor

SPC – Strategic Projects Co-ordinator

CMT – Corporate Management Team