CABINET
16TH JANUARY 2007

ITEM NO. ....

RISK MANAGEMENT STRATEGY

Responsible Cabinet Member – Councillor Don Bristow,
Resource Management Portfolio

Responsible Director – Paul Wildsmith, Director of Corporate Services

Purpose of Report

1. To seek Cabinet approval for proposed changes to the Council's Risk Management Strategy.

Information and Analysis

2. The existing Risk Management Strategy and Implementation Plan were approved by Cabinet in September 2002 (Min. Ref. C97/Sept/02).

3. The object of the Strategy was to integrate and embed risk management into the culture of the organisation without significantly increasing workloads by making risk management part of existing processes rather than treating it as a separate function.

4. The Strategy and delivery of the Implementation Plan have underpinned the positive scores received for risk management under CPA auditor scored judgements. The 2006 score for 'the Council manages its significant business risks' within the overall theme of Internal Control was 3 i.e. performing well – consistently above minimum requirements.

5. However, it is considered opportune to refresh the Strategy to reflect both recent Council developments such as Leading Edge and the establishment of the Audit Committee and the fact that the risk management process specifically considers risks in relation to significant partnerships, a Use of Resources requirement. An amended Strategy that incorporates such amendments is **attached** to this Report.

Outcome of Consultation

6. The proposed changes to the Strategy were considered and endorsed by the Audit Committee on 20th December, 2006.

Legal Implications

7. This report has been considered by the Borough Solicitor for legal implications in accordance with the Council's approved procedures. There are no issues which the Borough Solicitor considers need to be brought to the specific attention of Members, other than those highlighted in the report.

Section 17 of the Crime and Disorder Act 1998

8. The contents of this report have been considered in the context of the requirements placed on the Council by Section 17 of the Crime and Disorder Act 1998, namely, the duty on the Council to exercise its functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent, crime and disorder in its area. It is not considered that the contents of this report have any such effect.

Council Policy Framework

9. The issues contained within this report do not represent change to Council policy or the Council's policy framework.

Decision Deadline

10. For the purpose of the 'call-in' procedure this does not represent an urgent matter.

Recommendation

11. It is recommended that Cabinet approve the updated Risk Management Strategy

Reasons

12. The recommendation is supported as the revised Risk Management Strategy now incorporates recent Council developments such as Leading Edge and the establishment of the Audit Committee and reflects Use of Resources requirements in relation to significant Partnerships.

Paul Wildsmith
Director of Corporate Services

Background Papers

Use of Resources Auditor Scored Judgements 2006

Brian James : Extension 2140

Risk Management

Strategy

December 2006

Risk Management Strategy

Contents

1. Policy Statement

The Council will embed risk management into its culture, processes and structure to ensure that opportunities are maximised and will encourage managers to identify, understand and manage risks.

2. Objectives

The objectives of the strategy are to :-

- Develop risk management and raise its profile across the Council
- Integrate risk management into the culture of the organisation
- Embed risk management through the ownership and management of risk as part of all decision making processes
- Manage risk in accordance with best practice
- Create effective processes that will allow the Council to make risk management assurance statements annually

The strategy outlines how the Council is taking on its responsibility to manage risks using a structured and focused approach.

3. What is Risk Management?

Risk Management can be defined as: -

> **"The management of integrated or holistic business risk in a manner consistent with the virtues of economy, efficiency and effectiveness. In essence it is about making the most of opportunities (making the right decisions) and about achieving objectives once those decisions are made. The latter is achieved through controlling, transferring and living with risks"** ***ZMMS/SOLACE, Chance or choice? July 2000.***

Risk Management is a strategic tool and an essential part of effective and efficient management and planning.

The Strategy encompasses all business risks into a robust and consistent process to ensure that the Council can make the most of its opportunities and make informed decisions based on complete information.

4. Why do we need a Risk Management Strategy?

Risk management strengthens the ability of the Council to achieve its objectives and enhance the value of services provided, to make Darlington a place where people want to live, work and are able to enjoy a high quality of life.

Strategic risk management is an integral requirement of the Comprehensive Performance Assessment (CPA) and as such is an important element in demonstrating continuous improvement. Risk Management is also an essential part of the Council's Local Code of Corporate Governance that reflects the requirements of the CIPFA/SOLACE Framework on Corporate Governance.

The Accounts and Audit Regulations require the Council to publish each year a Statement of Internal Control (SIC). The SIC forms part of the overall Statement of Accounts and must be signed by the Leader of the Council and Chief Executive. The effectiveness of the Council's risk management process underpins production of the SIC.

5. What is the Risk Management Process?

Implementing the Strategy involves identifying, analysing, managing and monitoring risks.

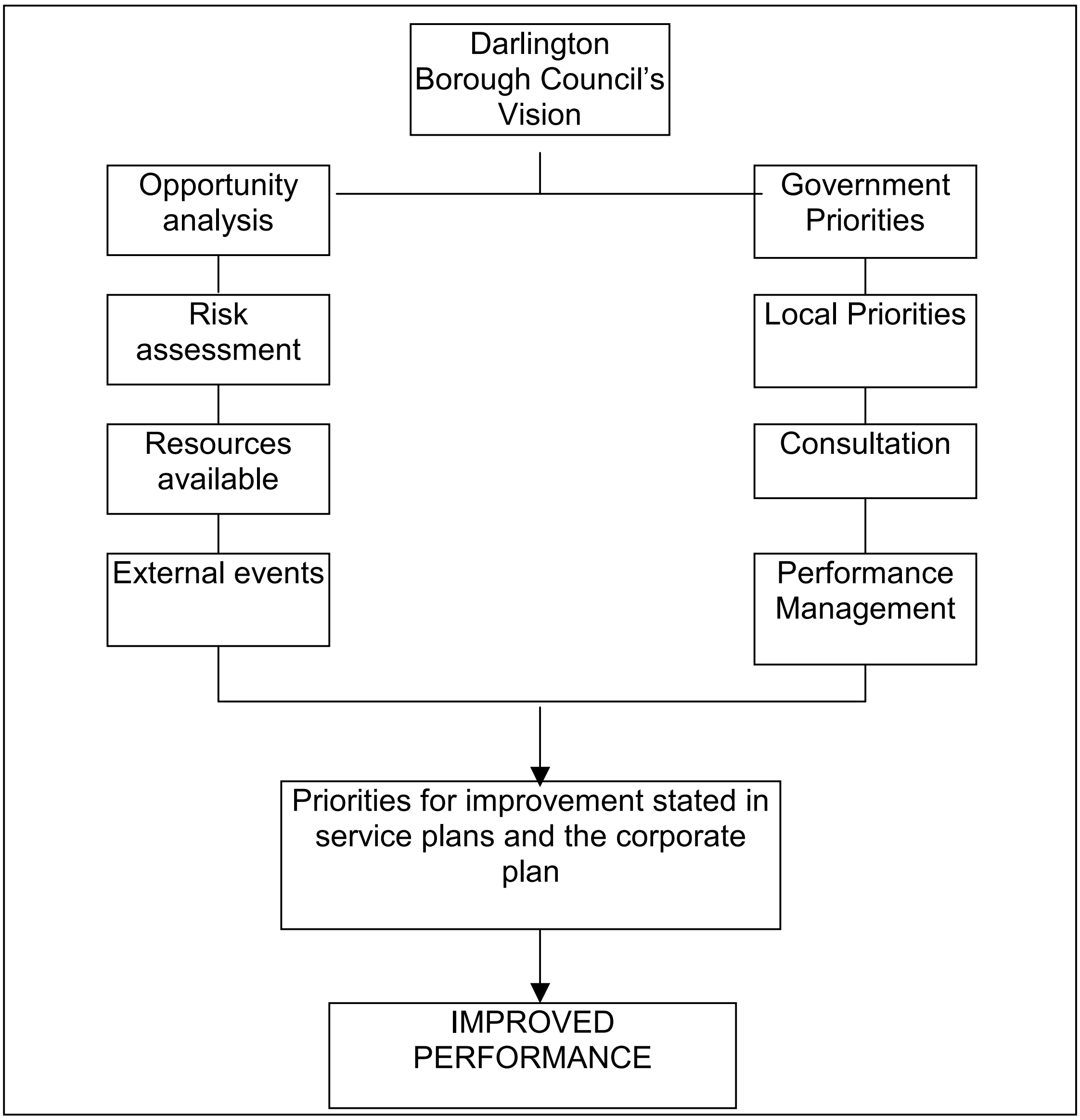
The identification of risks is derived from both a 'top down' (corporate) and a 'bottom up' (departmental) process of risk assessment and analysis resulting in coverage of the whole Council. The process then prioritises the risks resulting in a focus on the key risks and priorities. The risks are then managed through the development of appropriate action plans with relevant PI's which are fed into overall service plans and the Council's Best Value Performance Plan. The relevant PI's identified are then monitored through the performance management framework ensuring that the focus remains on achieving the Council's objectives.

Full details of the Risk Management Methodology are contained within Appendix 1.

6. How does it feed into other processes?

Annual Planning and Budgeting

The risk mangement process is one of eight key pieces of information incorporated into the development of annual service plans and the Best Value Performance Plan that in turn impact on the budgeting process. Risk Management is an essential element to establishing policy, developing plans and enhancing operational management.



Partnerships

The Council recognises both the benefits and the risks of partnership working. Good risk management practice is a key tool in delivering successful partnerships. The risk management process is used by lead officers to specifically consider risks in relation to significant partnerships and provides for assurances to be obtained about the management of those risks.

Leading Edge and Project Management

Leading Edge is the next stage in the Council's organisational development. The previous phase of development, Striving for Excellence consisted of three key strands : people management, performance management and communications. This was reinforced by a best value review programme aimed at ensuring services were effectively challenged according to best value principles.

Through Leading Edge this principle of challenge remains and is reinforced through improved programme and project management, improved reporting and monitoring and effective risk management.

Project Management aims to deliver defined outcomes within time, cost and quality constraints. A key element of this approach is effective risk management. The Council has adopted the MicroP2 methodolgy for change projects. MicroP2 uses the Council's corporate template to identify risks and develop actions, enabling project managers to control their risks as part of the ongoing project. Projects are owned by a senior sponsor and managed by a designated Project Manager, so responsibility for managing project risks is clear. Risk management is also a key part of capital project delivery; capital projects follow a clear procedure which includes the management of risk from inception to completion.

7. Roles and Responsibilities

The following describes the roles and responsibilities that Members and officers will play in embedding and owning the risk management process: -

Members

Elected Members are responsible for governing the delivery of services to the local community. Members have a responsibility to understand the strategic risks that the Council face, and will be made aware of how these risks are being managed through the annual strategic and service planning process. They will also be kept informed on the management of those risks through half yearly reports to the Audit Committee and through the performance management framework. Members should not seek to avoid, or delegate this overall responsibility, as it is key to their stewardship responsibilities.

Member's key tasks are: -

- Cabinet approve the risk management strategy.
- Monitor the Council's risk management and internal control arrangements via a reporting process through the Audit Committee together with using the performance management framework that reports on key Performance Indicators.
- The Audit Committee will approve the annual Statement of Internal Control that reflects the effectiveness of the Council's risk management process.
- Scrutiny members are central to monitoring of the service plans as part of the performance management framework.
- The Cabinet Member with Resource Management Portfolio will be the Council's Member Champion for Corporate Risk Management.

Chief Executive and the Corporate Management Team

The Chief Executive and the Corporate Management Team (CMT) are pivotal in their promotion and support to embed risk management within the Authority.

The Chief Executive and CMT's key tasks are: -

- Support and promoting risk management throughout the Council
- Actively identify and assess strategic risks on a regular basis
- Individual Directors will be responsible for developing relevant action plans for the key risks and establishing relevant PI's to measure their performance through the performance management framework

Directors

Directors will demonstrate their commitment to risk management through: -

- Being actively involved in the identification and assessment of strategic risks.
- Incorporating the risk management process into service planning processes.
- Encouraging staff to be more innovative and recognising their achievements. Encouraging staff to be open and honest in identifying risks or missed opportunities.
- Ensuring that the risk management process is part of all major projects, partnerships and change management initiatives.
- Regular monitoring and reviewing of relevant actions plans and associated PI's to reduce or control the significant risks.

Managers

Managers need to understand their role in the risk management process and why they should be concerned with risk in order to achieve their objectives. They need to know how to evaluate risks and when to accept the right risks in order to pursue an opportunity.

Corporate Risk Management Group

This is an established and effective group that focuses upon the management of operational risks with the aim to reduce the cost of claims against the Council and to minimise the risk of financial losses and disruption to the efficient delivery of services to the community. The Group will report to the Audit Committee half yearly on the progress of risk management initiatives being undertaken.

Information from the departmental risk analysis and the corporate risk analysis will be reported to the risk management group for information. The risk management group will take any patterns in operational risks into account when establishing its annual work plan.

Departmental Planning Network Officers

Departmental Planning Network officers take on the role of risk champions. They promote best practice and drive risk management forward within departments. They are responsible for ensuring that the relevant managers are trained in using the methodology and that the risk management process is applied at the key stages of planning, projects, partnerships and major change initiatives. Risk champions receive support from the Risk Management Co-ordinator.

Risk Management Co-ordinator

The Risk Management Co-ordinator's role, to be undertaken by the Chief Internal Auditor, is responsible for: -

- co-ordinating the adoption of risk management across the Council
- challenging risk identification and evaluation
- annually review the risk management strategy
- act as a link between the departmental planning network officers
- provide guidance and advice to the departmental planning network officers
- act as a link with the risk management group

Audit Services

Internal audit's role is to provide assurance to officers and Members on the effectiveness of controls. Internal Audit reflect on the results of the corporate and departmental risk analysis when developing the annual audit plan.

8. Monitoring and Reporting Framework

A robust review and reporting structure is in place. This framework allows: -

- Quarterly monitoring of the effective management of risks through existing performance management mechanisms including regular reporting on service and corporate performance indicators to CMT and Members.
- Half Yearly Reports to the Audit Committee to monitor that appropriate action is taken to ensure that corporate business risks are actively managed together with details of the work undertaken by the Corporate Risk Management Group to highlight operational risk management issues affecting the Council.
- An annual report to the Audit Committee to approve the Statement of Internal Control.
- An annual report from the Corporate Risk Management Group informing CMT of its activities and highlighting operational risk management issues that will affect the Council.

9. Training

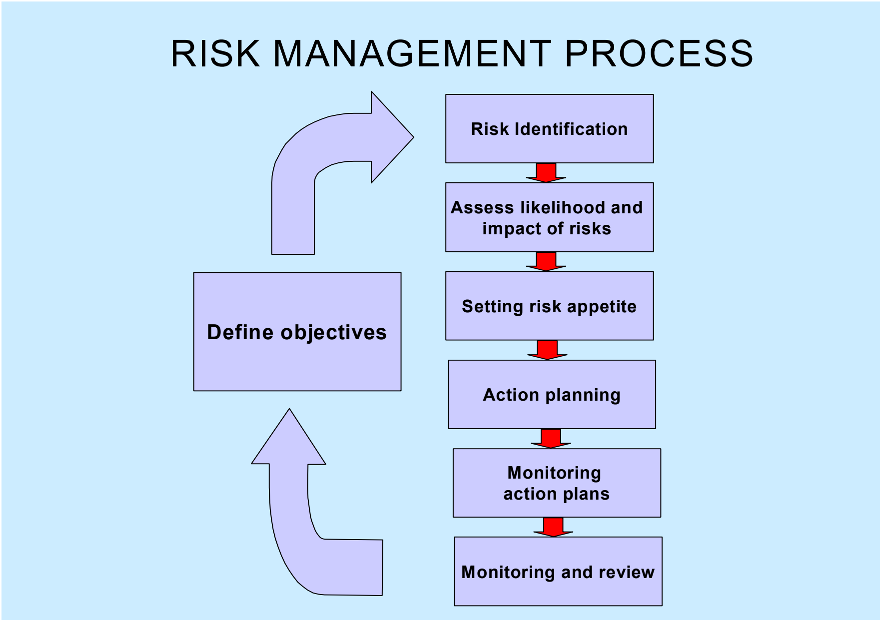
To assist the risk management process and to embed its use within the Authority, risk management awareness training is required for both Members and appropriate staff. A programme of training will be arranged with details incorporated within both half yearly and annual reports to the Audit Committee.

10. Annual Review of Strategy

The Audit Committee will annually review the Council's risk management strategy in light of changing legislation, government initiatives, best practice and experience gained within the Council in adopting the strategy, and recommend changes, as necessary, for approval by Cabinet.

Risk Management Methodology

The Council has adopted the Zurich Municipal Management Services (ZMMS) STORM© methodology to manage risk, a structured systematic approach that identifies, evaluates, prioritises and manages risk at strategic, tactical and operational levels. A key element of STORM © involves embedding a risk management culture in all staff and Members. The process is explained in detail below.

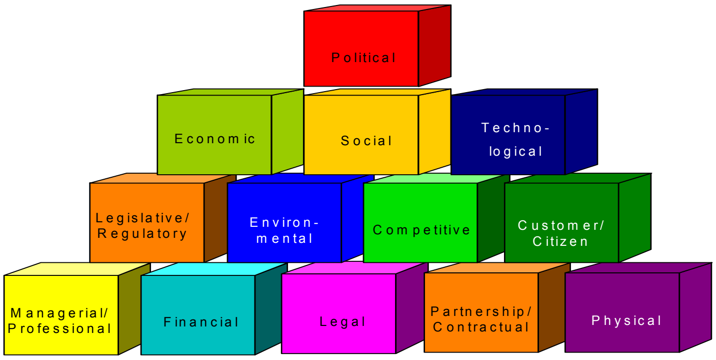


- **Risk Identification**

The identification of risks that affect the achievement of objectives takes place annually both by departments and by CMT. The process involves the identification of new risks and a review of existing.

When identifying risks the following categories are used as a prompt for officers. They ensure that a holistic approach is taken to risk identification. Further information about each category of risk is given at Appendix A.

Risk Areas



The annual process is fed into the following timetable :-

Review

July - September 2003
Assessment of national and local priorities, consultation and performance, skills, resources, opportunities and risk.

Implement
From April 2004

Draft
October - November 2003

Revise
December 2003 - March 2004
In light of :-

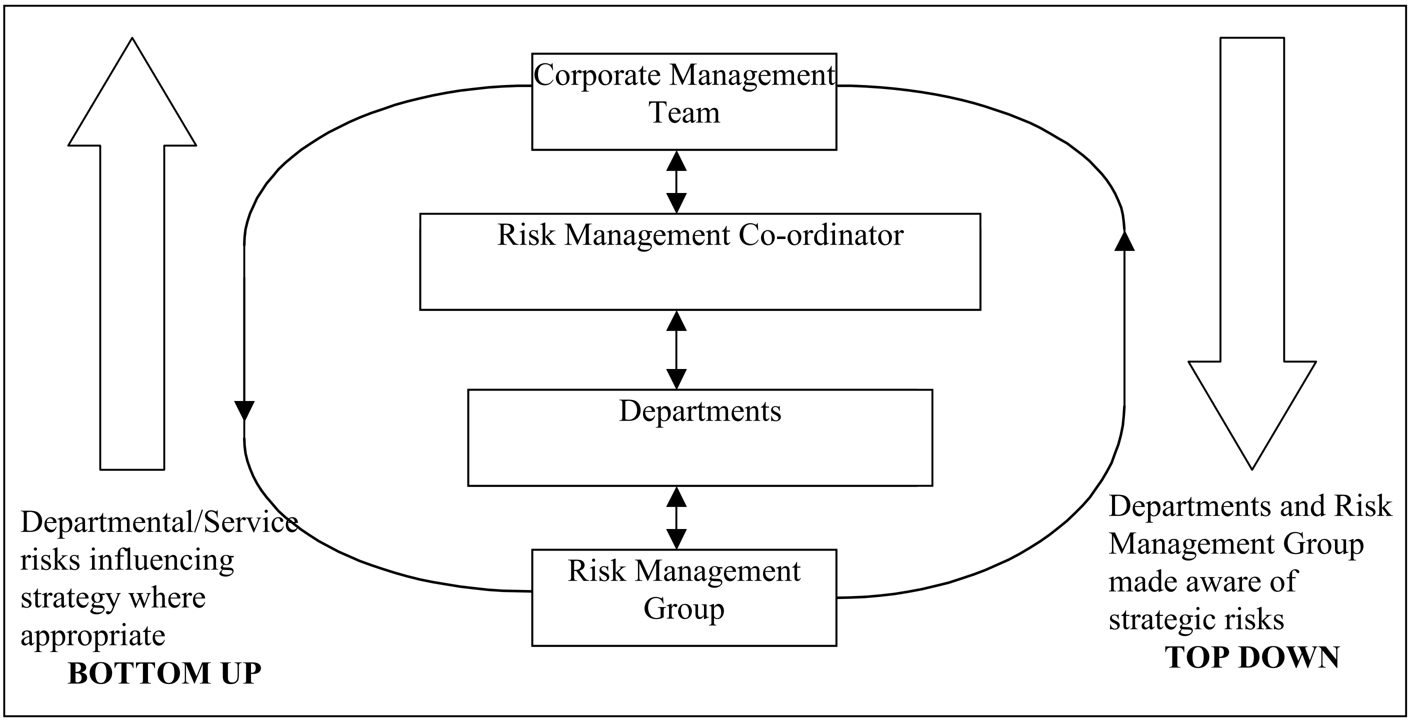
- budget settlement
- projected and comparative performance
- data
- community consultation

The timetable is based on two main principles :-

1. a continuous cycle of improvement linking monitoring and implementation shown schematically above for all plans - strategic, financial and service plans;

2. a balance between top-down (strategic influencing service plans) and bottom-up (an overview of service plans helping to shape strategic priorities).

In departments where risks appear in the 'top four' boxes of the risk matrix – AI, AII, BI or BII – those risks are reported to CMT. CMT then consider whether the departmental risks in those categories are in fact corporate risks and should be managed corporately. This process ensures that CMT are made aware at least annually of the key risks within departments.



CMT and departmental management teams also ensure that any emerging risk, identified after the service planning process, is appropriately profiled and managed. There is a standard item placed on each agenda for meetings to ensure that there is a facility for officers to raise key risks throughout the year. This enables key emerging risks to be effectively managed in a timely manner rather than waiting for the annual process to occur.

- **Risk Analysis**

Areas of potential risk, once identified, need to be analysed and risk scenarios developed. Risk scenarios illustrate the possible consequences of the risk if it should occur, so that its full impact can be assessed. An example of a risk scenario is provided below.

SAMPLE RISK SCENARIO

Vulnerability	Trigger	Consequence
Balances are low and there are insufficient reserves to cover unexpected events	A significant event arises with large financial consequences	• Unable to finance event • Funding of other projects jeopardised • Officers responsibilities questioned • Inability to defend Council's previous spending decisions • Adverse effect on Council Tax • Adverse effect on performance • Censure by audit • Adverse publicity • Image of Council damaged

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- **Risk Profiling and Prioritisation**

Following identification and analysis of potential risks, they are then profiled with reference to documented controls in place and working. This process involves: -

- An assessment of the likelihood of the risk occurring
- An assessment of the potential impact of the consequences, should such an event occur

By assessing the likelihood and impact of risks and using a matrix to plot them, a prioritisation is given to the management of those risks.

Although the process produces a priority for addressing each risk, determining a group's appetite for risk can enhance this. All risks above the appetite line (the shaded area in the matrix below) are considered a priority for improvement and must be managed down, transferred or avoided.

An example risk profile is given below. The numbers correspond to each individual risk identified.

Matrix for Risk Profiling

LIKELIHOOD					
A Very High					
			1, 5	3, 9	
			7	2, 4	6
			10	8	
Almost Impossible					
		IV Negligible	III Marginal	II Critical	I Catastrophic
	IMPACT				

Likelihood

A: Very High
B: High
C: Significant
D: Low
E: Very Low
F: Almost Impossible

Impact

I: Catastrophic
II: Critical
III: Marginal
IV: Negligible

- **Action Planning**

The potential for controlling risks identified is addressed through management action plans. Most risks are capable of being managed – either by managing down the likelihood or impact or both. Relatively few risks have to be avoided or transferred. Action plans identify the resources required to deliver the improvements, key deadline date and critical success factors/KPI's.

These plans are not a separate initiative but are incorporated into the business planning process and included in corporate plans.

An example of a management action plan is provided below: -

<table>
<tr><td colspan="5">Priority for Improvement
Details of Risk Identified</td></tr>
<tr><td colspan="2">Link to Change Driver
Risk</td><td colspan="3">Link to Risk
Departmental and Service Risk</td></tr>
<tr><td colspan="2">Link to Service Plan objective
This has links to all service plan objectives</td><td colspan="3">Link to Departmental objective
This has links to all departmental objectives</td></tr>
<tr><td colspan="2">Link to Corporate objective
This has links to all Corporate Objectives</td><td colspan="3">Link to Community Strategy Themes
This Priority for Improvement supports the Corporate Objectives rather than having direct links to the Community Strategy themes</td></tr>
<tr><td colspan="5"></td></tr>
<tr><th>Actions needed to deliver improvement</th><th>PIs</th><th>Targets</th><th>Lead officer</th><th>Date for completion</th></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="5"></td></tr>
<tr><td colspan="5">Service improvement description</td></tr>
<tr><td colspan="5">Expected outcome</td></tr>
<tr><td colspan="5">Expected efficiency gains (both cashable & non-cashable)</td></tr>
<tr><td colspan="5">Resource required to implement change</td></tr>
<tr><td colspan="5">Implications for Corporate Services</td></tr>
<tr><td colspan="5">Additional information</td></tr>
</table>

- **Risk Monitoring**

The effective management of risks will be monitored through half yearly reports to the Audit Committee and through the performance management framework.

Appendix A

Categories of Risk

Risk	Definition	Examples
Political	Associated with the failure to deliver either local or central government policy or meet the local administration's manifest commitment	New political arrangements, Political personalities, Political make-up
Economic	Affecting the ability of the Council to meet its financial commitments. These include internal budgetary pressures, the failure to purchase adequate insurance cover, external macro level economic changes or consequences proposed investment decisions	Cost of living, changes in interest rates, inflation, poverty indicators
Social	Relating to the effects of changes in demographic, residential or socio-economic trends on the council's ability to meet its objectives	Staff levels from available workforce, ageing population, health statistics
Technological	Associated with the capacity of the Council to deal with the pace/scale of technological change, or its ability to use technology to address changing demands. They may also include the consequences of internal technological failures on the council's ability to deliver its objectives	E-Gov. agenda, IT infrastructure, Staff/client needs, security standards
Legislative	Associated with current or potential changes in national or European law	Human rights, Appliance or non-appliance of TUPE regulations
Environmental	Relating to the environmental consequences of progressing the council's strategic objectives	Land use, recycling, pollution
Professional/ Managerial	Associated with the particular nature of each profession, internal protocols and managerial abilities	Staff restructure, key personalities, internal capacity
Financial	Associated with financial planning and control	Budget overspends, level of Council tax, level of reserves
Legal	Related to possible breaches of legislation	Client brings legal challenge
Physical	Related to fire, security, accident prevention and health and safety	Offices in poor state of repair, use of equipment
Partnership/ Contractual	Associated with failure of contractors and partnership arrangements to deliver services or products to the agreed cost and specification	Contractor fails to deliver, partnership agencies do not have common goals
Competitive	Affecting the competitiveness of the service (in terms of cost or quality) and/or its ability to deliver best value	Fail to win quality accreditation, position in league tables
Customer/ Citizen	Associated with failure to meet the current and changing needs and expectations of customers and citizens	Managing expectations, extent of consultation