RISK MANAGEMENT REVIEW
(Report by Head of Financial Services)

1.   **INTRODUCTION**

1.1   Risk management is something that managers have always intuitively carried out, to varying degrees, as part of their normal work. However, in recent years, its significance has been widely recognised as critical to the sound management of any organisation that wishes to maximise its chances of achieving the goals and targets which it considers are important. The Council's Code of Corporate Governance, approved by the Panel last year, recognised this by identifying the need for the Council to develop its approach in this area.

1.2   This report explains what progress has been made already and what is intended in the future so that risk management becomes a more robust discipline and is embedded in the everyday work of the Council.

2.   **ACTIONS TAKEN TO DATE**

2.1   In August 2004 the Panel approved a *Code of Corporate Governance,* which identified objectives for risk management.   An extract of the code is attached at Annex A with a summary of what actions have been taken. The more significant developments are also outlined below.

2.2   In 2003 the Authority appointed a consultant to facilitate workshops for key Cabinet Members, Directors and Heads of Service. This was both a training exercise and an opportunity for Members and Officers to begin to identify and record the risks affecting the Council.

2.3   The workshops resulted in the first draft of the risk register, which has been subsequently developed by service managers with support and advice from the Risk Management Advisor. Each Head of Service now has responsibility for the accuracy and review of the portion that affects their services. The register is based on lists of the risks that could stop a service being effectively delivered. Each risk is assessed for likelihood and severity to identify its inherent position in a risk grid (Annex B). The existing controls, or mitigation, to reduce the scale of the risk are also recorded and a second assessment of the scale of the mitigated risk is made on the assumption that the controls are operating effectively. There is also provision to record the intention to introduce further controls if the scale of the mitigated risk is still considered to be too high.

2.4   In formalising its performance management into a Corporate Scorecard the Council has created a set of key targets on which its performance should be judged. It is therefore important to re-focus the individual service-based risks into how they impact on the achievement of the Council's targets. At the same time, by starting from the targets, rather

than the services, it is possible that other risks, not previously identified, will emerge. The Audit Manager and Financial Resources Manager have had discussions with Heads of Service and Activity Managers to start this process. It has also emerged strongly in recent drafts of the standards for the next CPA assessment that best practice is creating this focus on the Council's priorities. There will be a need to redefine the definitions of the impact of risk to take account of the effect on achieving the Council's priority targets.

2.5   The Panel approved a paper on risk appetite at its meeting on 23 March 2005. This provided a framework whereby certain levels of mitigated risk would require formal acceptance by Directors, COMT or the Panel depending on the magnitude.

2.6   The Service Recovery Group has met under the chairmanship of the Head of Administration to produce a corporate service recovery plan. This document identifies the processes that should be followed in order to deal with any significant interruption to the normal delivery of services. It also provides the key data and contacts to assist their task. The plan was first tested in a "desk-top" exercise and subsequently was used for real on 30th June 2005 when there was a loss of power to Pathfinder House. Feedback is being collated and will be used to refine the plan.

2.7   A Risk Management Group, chaired by the Director of Commerce and Technology, has met regularly since January 2004. It has taken responsibility for the development of the risk register and has addressed other issues including:

- Services where the Authority's insurers can assist by investigating and giving recommendations to reduce risk, for example a survey of car parks
- Areas of risk where improved management and controls can contribute to reducing risk, such as work-related driving
- Services where there are incidents and insurance claims, but the cost of increased mitigation is not considered cost-effective, for example subsidence claims relating to trees
- Review of insurance claims to consider if the Authority should take higher excesses on the insurance policy and introduce new controls to reduce the number of claims

3.   RISK MANAGEMENT DEVELOPMENT PLAN

3.1   The Risk Management Development Plan is attached at Annex C and the items are explained below.

3.2   The risk register is in place but needs to be a dynamic document that managers can, and will, refer to and update as part of their everyday work. To achieve this it needs to be more manager friendly and so a procurement process is taking place to obtain some software that will achieve this.

3.3   Some progress has been made on linking risks to the Corporate targets but further work is necessary. The new software will have the facility to link risks to both services and corporate targets.

3.4   Most of the work to date has been related to the processes but the most critical element now is to effect the necessary culture changes so that risk management becomes second nature. It is however not an end in itself but a means to delivering the Council's priorities. It is therefore intended that:

- All reports and proposals at officer or member level should, where relevant, refer to the impact of whatever is being considered on the Council's targets.
- In doing this there must be explicit consideration of the risks of achieving this impact and, if the level of mitigated risk requires it, approval by the appropriate person/body.

3.5   To support this change relevant officers will need further training in:

- Basic risk management
- Its integration with the Council's performance management system
- The new software.

3.6   It is both logical and best practice for there to be an influential member to "champion" corporate themes such as Risk Management. The Panel has a key role in overseeing it but it is also proposed that the Panel recommend to Cabinet that they identify a member of the Cabinet for this role.

3.7   There are some risks that are of particular interest to members, such as the reputation of the authority. It would be appropriate for the Member "champion" to take an interest in such areas on behalf of all members.

3.8   The corporate service recovery plan provides a good starting point for service recovery but extra work needs to be carried out on individual service recovery plans. These particularly need to concentrate on how loss of computing facilities or key personnel could be partially or completely overcome at acceptable cost.

4.   **RECOMMENDATION**

It is recommended that the Panel:

- Note progress to date
- Recommend to Cabinet that a Cabinet member be designated as the Risk Management "Champion"
- Endorse the proposals for future development of Risk Management.

BACKGROUND INFORMATION
Audit Commission's Key lines of enquiry for use of resources
Audit Commission's CPA indicators – auditor's assessment of financial controls
Cipfa's guidance on the Statement on Internal Control
Local Code of Corporate Governance August 2004

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Local Code of Corporate Governance

Risk management and internal control	Key indicator of compliance	Current position
Develop and maintain robust systems for identifying and evaluating all significant risks that involves the participation of all those associated with planning and delivering services	Assurance framework including: • Corporate Plan • Service plans • Risk registers • Self assessment	In place In place In place Under development
	Risk management strategy	Approved by Cabinet in January 2004
	Risk register	In place but in need of updating and linking to service delivery targets
	Risk Management Group	In place from January 2004 and meets regularly
	Control framework	External audit provide an annual statement in their annual report on the systems of control. The Audit Manager also provides an annual opinion
	Internal Audit	Audits are based on an assessment of risks
	Risk Management Advisor	Appointed September 2003
	Project Management	On every significant project the activity charter or the PRINCE 2 process will be used. Both require risks to be considered
	MTP project appraisals	Bids are required to provide a risk assessment. Methodology for improved appraisal and evaluation is nearly complete

Risk matrix

Likelihood / Frequency	Almost Certain	5					
	Likely	4					
	Occasional	3					
	Unlikely	2					
	Improbable	1					
			1	2	3	4	5
			Trivial	Minor	Significant	Major	Critical
			Impact				

RISK APPETITE LEVELS

Very High	*The consequences of a risk materialising would have a disastrous impact on the Council, its reputation or business continuity.* **Inherent**: Risk requires to be mitigated. **Residual**: Unacceptable level of risk exposure which requires immediate corrective action OR acceptance of the risk by the Corporate Governance Panel.	
High	*The consequences of a risk materialising would be severe although not disastrous.* **Inherent**: Risk requires to be mitigated. **Residual**: Unacceptable level of risk exposure which requires measures to be put in place to reduce exposure OR acceptance of risk by COMT.	
Medium	*The consequences of a risk materialising would be detrimental although not severe. There would be an impact on the day-to-day delivery of services.* **Inherent**: Mitigation should be considered. **Residual**: Acceptable level of risk exposure subject to endorsement of the appropriate Director	
Low	*There would be consequences if the risk materialised but they would not be detrimental. There would be some minor impact on the day-to-day delivery of services.* **Inherent**: Risk accepted. No additional mitigation required. **Residual**: Acceptable level of risk exposure.	

Risk Management Development Plan 2005/6

		Officer responsible	Date
1.	Procure software to link risks to service delivery targets and to enable Managers to regularly review and update their risks	Eleanor Smith, Financial Resources Manager	August 2005
2.	Where relevant, all reports to Cabinet to include a comment on: • The impact of the proposal on achieving the Council's targets • An explicit consideration of the risks of achieving this impact and, if the level of mitigated risk requires it, approval by the appropriate person/body.	Steve Couper, Head of Financial Services	Corporate Governance Panel 27 July 2005
3.	Arrange training for staff through formal or informal means to include: • Basic risk management • Its integration with the Council's performance management system • The new software for managing risks and linking them to service targets	Chris East, Risk Management Advisor	October 2005
4.	The Cabinet appoints a Cabinet member to be a Risk Management 'Champion'	Steve Couper, Head of Financial Services	Cabinet September 2005
5.	Identify the risks that are of particular interest to members and for the Risk Management 'Champion' to take an interest on behalf of all members	Chris East, Risk Management Advisor	Cabinet September 2005
6.	Develop detailed service recovery plans for individual services	Heads of Service	October 2004
7.	Develop the definitions of the impact of a risk to include the effect on the delivery of services and achieving the Council's priority targets	Steve Couper, Head of Financial Services	Corporate Governance Panel December 2005