AUDIT COMMITTEE   **AGENDA ITEM: 8**
19TH MARCH 2013:

RISK MANAGEMENT STRATEGY

Cabinet Member   Cllr Neal Davey
Responsible Officer   Head of Communities & Governance

Reason for Report: To present the Committee with the Risk Management Strategy for the 2013/14 financial year

RECOMMENDATION: The Committee approve the Risk Management Strategy (Appendix A) for the 2013/14 financial year

Relationship to Corporate Plan: Having effective Risk Management arrangements in place is crucial for identifying and mitigating the Council's risks and is a fundamental element of being a well-managed Council

Financial Implications: Failure to mitigate risks could result in financial loss to the Council

Legal Implications: Failure to mitigate risks could result in a number of legal implications for the Council

Risk Assessment: Failure to mitigate business risks is a major risk to the Council and could impact on the Council's ability to deliver its strategic objectives. Failure to regularly review and update the Risk Management Strategy could have an adverse impact on the Council's Annual Governance Statement

1.0   Introduction

1.1   Put simply risk is the probability of something happening whether the outcome is good or bad.

1.2   The purpose of this report is to complete the annual update of the Council's Risk Management Strategy (attached as Appendix A). The Strategy was last reviewed and approved by the Audit Committee at its meeting on 20th March 2012.

1.3   Risk Management forms an integral part of the Annual Governance Statement which is concerned with demonstrating that the Council has adequate and effective internal control arrangements in place for dealing with key business risks.

1.4   For ease of reference the changes to the document have been highlighted in ***Bold Italics***.

2.0   Conclusion

2.1   Risk Management is not a separate initiative, but is the demonstration of good management practice. The Council has an obligation to provide assurance to

Members and the Community that the principles of good governance, including Risk Management, are reflected in the activities of the Council. The Council also has a legal obligation to comply with the requirements placed upon it by the Accounts and Audit Regulations and the publication of an Annual Governance Statement.

2.2 Approval of the Risk Management Strategy (Appendix A) will assist with the Council embedding Risk Management and demonstrating good Governance principles.

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Circulation of the Report: Cllr Neal Davey and Management Team

Risk Management Strategy

1.0 BACKGROUND

1.1 Mid Devon District Council has adopted the Audit Commission's definition of risk and risk management as contained in its Management Paper, 'Worth the risk: improving risk management in local government':

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 process by which risks are identified, evaluated and controlled. It is a key element of the framework of governance together with community focus, structures and processes, standards of conduct and service delivery arrangements.

1.2 The ISO 31000 (2009) Guide definition of risk is the 'effect of uncertainty on objectives'. In this definition, uncertainties include events (which may or not happen) and uncertainties caused by ambiguity or a lack of information. It also includes both negative and positive impacts on objectives.

1.3 The overall process of managing risk can be divided into:

❑ Risk analysis, or assessment, which includes the identification, estimations and evaluation of the risks and
❑ Risk management, which encompasses the planning, monitoring and controlling activities based on the information derived from risk analysis.

2.0 PURPOSE, AIMS AND OBJECTIVES

2.1 The purpose of the strategy is to embed risk management in the Authority by establishing a risk management framework, which provides:

❑ An efficient control environment
❑ The overt allocation of accountability for risk management throughout the organisation
❑ A well established risk assessment process which ensures that risks are considered and managed as part of the decision making process
❑ Performance monitoring of risk management activity
❑ Communications process to support risk management
❑ A robust opinion for the Annual Governance Statement which comments of the adequacy of the Council's risk management arrangements

2.2 The aim of the Mid Devon District Council Risk Management Strategy is to adopt best practices in the identification, evaluation and cost-effective control of risks to ensure that they are reduced to an acceptable level.

2.3 It is acknowledged that some risks will always exist and will never be eliminated. All employees must understand the nature of risk and accept responsibility for risks associated with their area of authority. The necessary support, assistance and commitment of senior management will be provided.

2.4 The risk management objectives of the Council are to:

❑ Embed risk management into the culture of the Council

❑ Fully incorporate risk management as an integral part of corporate planning, business planning, project management and performance management

❑ Manage risk in accordance with best practice and in particular in accordance with the requirements of the Annual Governance Statement

❑ Consider legal compliance as a minimum

❑ Prevent injury and damage and reduce the cost of risk

❑ Raise awareness of the need for risk management

2.5   These objectives will be achieved by:

❑ Establishing a clear risk management process that is communicated to all officers and Members

❑ Clearly define roles and responsibilities for risk management

❑ Developing an action plan for embedding risk management with tasks and milestones for monitoring progress against targets

❑ Providing risk management training to officers and members

❑ Completing corporate and operational risk management workshops to identify risks

❑ Conducting risk management workshops to identify the risks of any major projects

❑ Maintaining and reviewing a register of corporate and operational risks and assigning ownership for each risk

❑ Ensuring that reports to the Cabinet, Scrutiny Committee, Audit Committee, Policy Development Groups and Regulatory Committees include a risk assessment

❑ Identifying risks in relation to working in partnerships

❑ Ensuring that the Cabinet, Audit Committee, Scrutiny Committee and Policy Development Groups receive quarterly reports on the key business risks and takes action to ensure that business risks are being actively managed

2.6   The following sections consider how the Council will implement the above objectives.

3.0   ROLES AND RESPONSIBILITIES

3.1   The following groups and individuals have the following roles and responsibilities for risk management within the Council.

3.2   The **Audit Committee** will approve this risk management strategy and any subsequent revisions.   They will also monitor the effective development and operation of risk management within the Council by receiving quarterly progress reports on the Council's key business risks, takes appropriate action to ensure that they are being actively managed and will consider the adequacy of the Council's risk management arrangements as part of the Annual Governance Statement.

3.3   The **Management Team** is primarily responsible for identifying corporate strategic risks, as well as being responsible for determining action on these risks and delegating responsibility for the control of the risks. The Management Team will also be responsible for monitoring the progress of managing risks and will review quarterly reports to the Audit Committee, Cabinet, Scrutiny Committee and the three Policy Development Groups.

3.4   The **Cabinet** will also monitor the effective development and operation of risk management within the Council by receiving quarterly progress reports on the Council's key business risks through the performance and risk report.

3.5   The Scrutiny Committee *and* **PDGs** will also receive quarterly progress reports on the risks through the performance and risk report. Any concerns or issues will be reported to the Cabinet and/or Audit Committee

3.6   The **Finance Cabinet Member** will:

- ❑ Communicate the importance of risk management to other Members
- ❑ Support the implementation of the proposed annual work programme
- ❑ Act as a sounding board and provide a critical friend challenge to the risk management process

3.7   *Heads of Service*/**Service Managers** will be responsible for:

- ❑ Leading the risk management process within their services and ensuring that business plans include an annual assessment of key risks
- ❑ Identifying and managing significant operational risks by carrying out risk assessments with their teams as and when this becomes appropriate i.e. if making a significant change to service or undertaking a project
- ❑ Developing actions to mitigate the risks identified, assigning responsibility for implementing controls and set realistic target dates for implementation
- ❑ Regularly reviewing risks associated with their service area, ensuring that the agreed deadlines have been met
- ❑ Ensure that any briefing papers/ reports that they produce to make changes to their services will consider the associated risks of any proposed course of action

3.8   The Head of Communities and Governance is responsible for providing assurance to the Council through monitoring the implementation and effectiveness of this risk management strategy and for reviewing compliance with mitigating controls introduced by the Service Managers to manage risks. The Head of Communities and Governance will comment upon the effectiveness of the risk management process in work undertaken to support the Annual Governance Statement.   The Head of Communities and Governance will also chair the Council's Health & Safety Committee to ensure that any risks arising from the work of this group will be incorporated into the Corporate Risk Register.

3.9   All **employees** are responsible for ensuring that they manage risk effectively in their jobs and report hazards and risks to their Head of Service/Service Manager.

4.0   STRATEGIC AND OPERATIONAL RISKS

4.1   Broadly speaking risks can be divided into two categories:

- ❑ **Strategic** – risks which need to be taken into account in judgements about the medium to long term goals and objectives of the Council; and

- ❑ **Operational** – risks which managers will encounter in the daily course of their work.

4.2 Strategic Risks

4.2.1 The management of strategic risks is a core responsibility of the Management Team. Strategic risk assessments should be factored in to corporate and service planning.

4.2.2 The major categories of strategic risk are:

- **Political** – associated with failure to deliver either local or central government policy. The Council could also potentially be at risk from the actions of other agencies, other Councils, partner organisations, etc.

- **Economic** – affecting the ability of the council to meet its financial commitments. These include internal budgetary pressures as well as external factors affecting the economy as a whole.

- **Social** – relating to the effects of changes in demographic, residential or socio-economic trends on the council's ability to deliver its objectives.

- **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.

- **Data Protection/Information Security** – this includes the consequences of data/information transfer between the Council and other Bodies i.e. Government Connect, Partnership working, etc.

- **Legislative** – associated with current or potential changes in national or European Law (e.g. the appliance or non-appliance of TUPE Regulations).

- **Health and Safety** – This includes all aspects of Health & Safety as well as the Corporate Manslaughter legislation

- **Environmental** – relating to the environmental consequences of progressing the council's strategic objectives (e.g. in terms of climate change including energy efficiency, pollution, recycling, landfill requirements, emissions, etc).

- **Competitive** – affecting the competitiveness of the service (in terms of cost or quality) and/or its ability to deliver Value for Money.

- **Customer/Citizen** – associated with failure to meet the current and changing needs and expectations of customers and citizens.

4.3 Operational Risks

4.3.1 Risks which managers and staff will encounter in the daily course of their work. These may be:

- **Professional** – associated with the particular nature of each profession (e.g. housing service concerns as to the welfare of tenants).

- **Financial** – associated with financial planning and control and the adequacy of insurance cover.

- **Legal** – related to possible breaches of legislation.

❑ **Personal Safety** – related to lone working and the potential to encounter aggressive or confrontational people whilst carrying out their duties.

❑ **Physical** – related to fire, security, accident prevention and health and safety (e.g. hazards/risk associated with buildings, vehicles, plant and equipment, etc).

❑ **Contractual** – associated with the failure of contractors to deliver services or products to the agreed cost and specification.

❑ **Technological** – relating to reliance on operational equipment and the potential for technological failure (e.g. IT systems or equipment and machinery)

4.4 The categories are neither prescriptive nor exhaustive. However, they should provide a framework for identifying and categorising a broad range of risks facing the Council as a whole, as well as service areas.

5.0 RISK MANAGEMENT PROCESS

5.1 The *six*-step process below will cover all areas of risk management including making strategic decisions, managing corporate risks, managing departmental risks, or managing project, team or operational risks.

Step 1 – Identifying Risk
All risks need to be identified. These should include both corporate, operational and project risks.

Step 2 – Analysing Risk
The likelihood of any risk arising needs to be assessed as well as the consequences or impact of the risk if it does arise. The assessment process uses a 5x5 scoring matrix (see below) where the scores of impact x likelihood equal the total risk score. Risks scoring between 15 and 25 would be classed as high risk (red) with 25 being the biggest risk. Risks scoring between 5 and 12 would be classed as medium risk (amber) and risks scoring between 1 and 4 would be low risk (green). Risks that score 15 or above (as well as those that score a 5 on impact irrespective of their overall score) will be classed as the Council's key business risks and will be reported to the Audit Committee, Cabinet, Scrutiny Committee and PDGs on a quarterly basis.

Impact					
	5	10	15	20	25
	4	8	12	16	20
	3	6	9	12	15
	2	4	6	8	10
	1	2	3	4	5

Likelihood

Step 3 – Ranking and Prioritising Risk
Once analysed the risks need to be ranked and prioritised according to their likelihood and severity i.e. those scoring 25 will be at the top of the list and those scoring 1 will be at the bottom of the list.

Step 4 – Decide on Action

Determine the best course of action for the Council. There are 5 key action strategies to managing risk:

Strategy	Action
Prevention	Terminate the risk*
Reduction	Treat the risk
Transference	Pass risk to a third party e.g. Insurance
Acceptance	Tolerate the risk
Contingency	Action plan implemented

* This can include carrying on the activity but modified so that the risk ends, or stopping the activity to end the risk.

Step 5 – Control the Risks

This involves taking action to minimise the likelihood of a risk occurring and/or reducing the severity of the consequences should the risk occur. Actions need to be allocated to responsible officers along with a realistic target date for implementation.

Step 6 – Monitor and Report Progress

Progress in managing risks should be monitored and reported so that losses are minimised and intended actions are achieved. Risk Management is an on-going process that should be constantly revisited and reviewed to ensure that new and emerging risks are picked up and acted upon.

5.2   It is important to recognise these seven steps as part of a cycle. Risk Management is dynamic and so the identification phase needs to be done continuously. It is also important to consider whether the nature of the risk has changed over time – thereby completing the cycle.

6.0   KEY ACTIONS FOR THE 2013/2014 FINANCIAL YEAR

6.1   The following risk management actions will be undertaken during the 2013/14 financial year:

- *Regularly review the Corporate Risk Register to ensure that all risks are being adequately controlled and that new and emerging risks are included*

- *Review the risk registers completed by Service areas as part of their business planning process and incorporate these into the Corporate Risk Register*

- *Continue to report the Key Business Risks i.e. those scoring a 15 or greater (as well as those that score a 5 on impact irrespective of their overall score) will be reported to the Cabinet, Audit Committee, Scrutiny Committee and PDG's on a quarterly basis*

- *Work with the Health & Safety Officer to ensure that all Health & Safety risks are incorporated within the Corporate Risk Register*

Risk Management Strategy

- *Ensure that all project risks are incorporated within the Corporate Risk Register*

- *Ensure that all partnership risks are incorporated within the Corporate Risk Register*

- *Where requested, facilitate risk workshops with service areas and for corporate projects*

- *Continue to provide risk awareness training for officers and members to embed risk management within the Council*

- *Review the Risk Management Strategy for the 2014/15 financial year before the end of March 2014*