

STANDARDS AND AUDIT COMMITTEE

16 September 2003

Supplementary Agenda Item

By reason of special circumstances, namely the need to have a policy in place before the Comprehensive Performance Assessment on 8 December and to enable the consultants to commence work, the Chairman is of the opinion that this item should be considered as a matter of urgency.

RISK MANAGEMENT STRATEGY (DF)

1. Purpose of Report

1.1 To propose a revised Risk Management Strategy for the Council.

2. Background information

2.1 The Council's record in managing risk is generally good. However, it lacks a structured and documented process by which it evaluates significant risks facing the organisation.

2.2 The Council approved a Risk Management Strategy in 1998 which deals solely with operational risks. However, it is acknowledged that this is no longer sufficient to guide the organisation's approach to risk and consultants have been appointed to develop a corporate approach to risk management.

2.3 The existence of a Risk Management Strategy is one of the criteria that the Comprehensive Performance Assessment inspectors will be assessing when they score the Council.

3. Report

3.1 The Risk Management Strategy reproduced at Appendix '1' sets out to provide a corporate framework and is put forward for adoption by the Committee.

3.2 In summary, the strategy requires the organisation to:

- identify the risk of events occurring that will threaten the achievement of desired objectives;
- put controls in place to prevent these risks occurring or to mitigate the impact of these risks;
- document and prioritise the residual risks;
- produce an action plan to address any residual risks that are unacceptable;
- review the controls that are being operated;
- report to Committee at least annually on key risks and the way in which the strategy has been implemented.

3.3 The outcome of the consultants' work will be reported to a future meeting. They have been asked to comment on the draft strategy and are satisfied that this will provide a suitable basis for the work that they plan to undertake.

OFFICERS' RECOMMENDATION that

the Risk Management Strategy set out in Appendix '1' be adopted.

(TO RECOMMEND)

Background Papers

None

RUNNYMEDE BOROUGH COUNCIL

APPENDIX '1'



RISK MANAGEMENT STRATEGY

October 2003

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Business continuity plan

A series of arrangements that will be put in place to ensure that standards of service are maintained during a planned period of disruption.

Contingency

An action or arrangement that can be put in place to minimise the impact of a risk that has gone wrong.

Countermeasure

An action or process that is currently in place to contain a risk to an acceptable level or to reduce the threat.

Impact

The effect that a risk would have if it happens.

Risk

Something happening that may have an impact on the achievement of objectives. It includes risk as an opportunity as well as a threat.

Risk assessment

The approach and process used to prioritise and determine the likelihood of risks occurring and their potential impact on the achievement of objectives.

Risk management

A corporate and systematic process for assessing and addressing the impact of risks in a cost-effective way and having staff with the appropriate skills to identify and assess the potential for risks to arise

Risk rating

The classification (High, Medium or Low) given to a risk, based on its likelihood and potential impact.

Risk register

A framework for documenting important information about each risk – e.g., a brief description, the objective it affects, its likelihood, impact and rating, and how it is being controlled.

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- 1.1 Risk management has been defined as a process whereby organisations methodically address the risks attaching to their activities with the goal of achieving sustained benefit within each activity and across the portfolio of all activities (*A Risk Management Standard* © AIRMIC, ALARM, IRM: 2002). As such, risk management is as much about identifying opportunities as avoiding or mitigating losses.
 - 1.2 Management of risk is an integral part of management. Learning how to manage risk effectively enables managers to achieve improved outcomes by identifying and analysing the wider range of issues and providing a systematic way to make informed decisions.
 - 1.3 The Council's record in managing risk is generally good. The Council has a strategic approach to service delivery, it codifies procedures and follows project management disciplines for major initiatives. However, it lacks a structured and documented process by which it evaluates significant risks facing the organisation which would help to inform and prioritise decisions.
 - 1.4 A risk management strategy should be seen as part of strategic planning. The Council has aims and targets and needs to know how it plans to achieve them. The risk management strategy informs this process.
 - 1.5 This document describes the processes that will be established to identify, assess, address and review and report on the Council's risks, and describes the principles underlying this approach.
 - 1.6 Further useful information on risk management can be found in the following publications:-

A Risk Management Standard © AIRMIC, ALARM, IRM: 2002
http://theirm.org/New_pdfs/risk_management_standard.pdf

DEFRA, "Risk Management Strategy", 2002:
<http://www.defra.gov.uk/corporate/busplan/riskmanage/riskmanage.pdf>

National Audit Office, "Supporting Innovation: Managing Risks in Government Departments", 1999: http://www.nao.gov.uk/publications/nao_reports/9900864es.pdf

Standards Australia International, "Risk Management AS/NZS 4360:1999".



4360.pdf

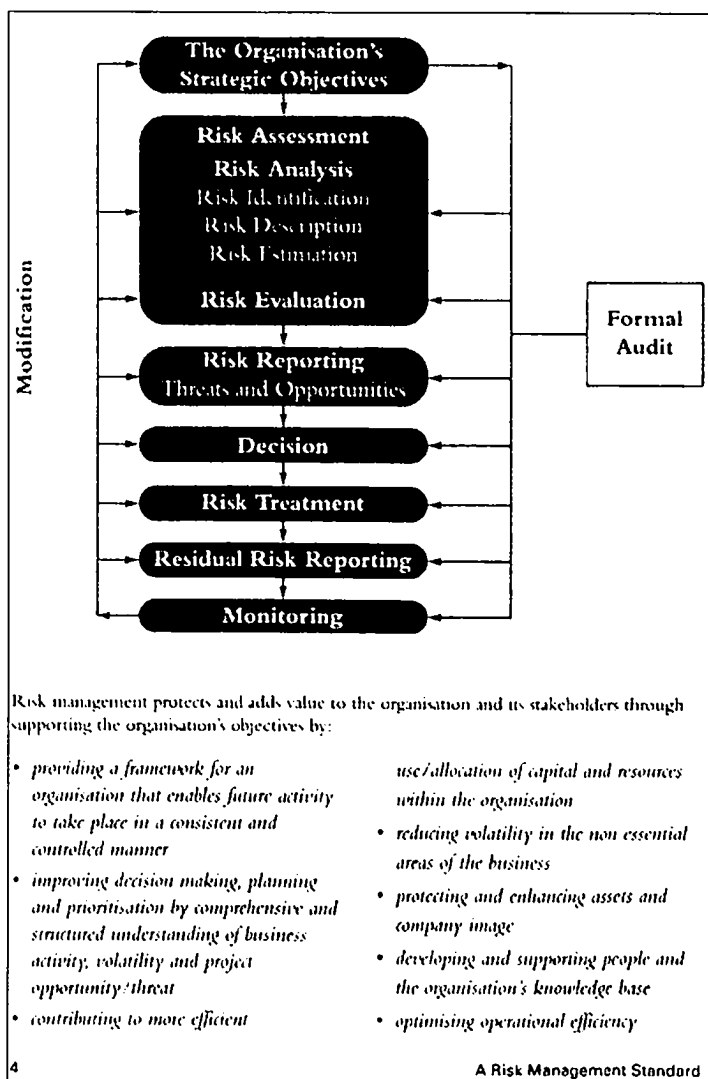
SOLACE, "Chance or Choice: Risk Management".

Why have a risk management strategy?

- 2.1 The Council is implementing this Risk Management Strategy for the following reasons:-
- To provide a measure of assurance that it will **achieve its objectives**.
 - To ensure that there is **consistency of approach** towards the identification and management of risk throughout the organisation
 - To demonstrate that its practices achieve high standards of **corporate governance**.
 - To ensure that **responsibility** for actions is clearly identified.

Aim

- 2.2 The Council wishes to be seen as an organisation embodying good practice and to have respect from the public and its partners, striking a balance between risk and opportunity.
- 2.3 This strategy outlines how this aim will be delivered. The Risk Management Standard produced jointly by the Institute of Risk Management (IRM), the Association of Insurance and Risk Managers (AIRMIC) and ALARM (the National Forum for Risk Management in the Public Sector) includes the following diagram to illustrate the process that will be adopted.



Implementation

- 2.4 The Council will be invited to approve a Risk Management Policy that will provide the overall context in which risk management will be conducted throughout the organisation. This will include a policy on the Council's attitude to risk.
- 2.5 COMT will establish a Project Group to co-ordinate the approach to risk management across the organisation and disseminate best practice
- 2.6 A risk site on the intranet will be created to maintain guidance on risk management, to contain the Council's risk register data and point to other sources of information.
- 2.7 Training will be undertaken to promote the awareness of risk throughout the Council.

Roles and responsibilities

- 2.8 These are set out in the table below.

Council will	<ul style="list-style-type: none">- approve a risk management policy- approve the Council's appetite for risk e.g. values that define the categorisation of each risk.- approve a risk management strategy.- receive a report at least annually identifying the key risks facing the Council.- approve risk treatment measures.
COMT will	<ul style="list-style-type: none">- establish a Project Group to co-ordinate the approach to risk management across the organisation and disseminate best practice.- advise the Council on its key risks and risk appetite.- determine action on key risks.- monitor key risks.
Risk Project Group will	<ul style="list-style-type: none">- provide advice and support.- disseminate best practice.- co-ordinate the compilation of the risk register.- co-ordinate the monitoring of risks.
Managers will	<ul style="list-style-type: none">- identify risks faced by their service.- compile an entry to the risk register for each risk based on the corporate template.

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- 3.1 The Council's objectives are derived from the Leader's Position Statement. This sets out the Council's core objectives and forms the basis of the detailed aims and targets for all services.
 - 3.2 The Council's approach to risk management will be based on an analysis of risks that affect the achievement of its objectives.
 - 3.3 The aim will be for risk assessments to be treated as an integral part of management. Proposals for new initiatives will include a risk assessment statement.
 - 3.4 The main types of risk faced by the Council will be described in terms of the categories identified in the SOLACE publication "Chance or Choice", reproduced at Appendix A.
 - 3.5 For each risk that is identified, a risk scenario form will be completed to describe the risk.

Risk Scenario

- 1. Vulnerability Identify each activity which exposes the Council to risk.
- 2. Trigger Define the action which precipitates a risk event occurring.
- 3. Consequences Assess the consequences if the risk event were to occur, analysed in terms of the definitions in Appendix A

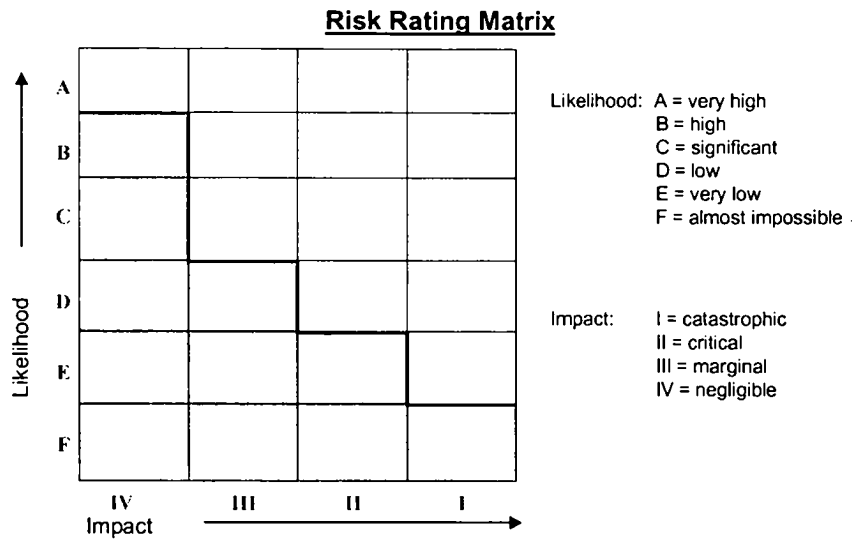
- 4.1 The risk assessment will involve identifying the consequences of a risk materialising and assigning a risk rating on the basis of this assessment.

Consequences

- 4.2 The consequences of the risks that the Council will encounter will be grouped into one or more of the categories described in Appendix A.

Risk Rating

- 4.3 Priority needs to be given to those risks that are the most important. Each risk will be given a relative score, depending on a combination of its likelihood and its impact, as shown below.



Likelihood

- 4.5 The probability of the threat being realised will be expressed in terms of six descriptions from Very High (A) through to Almost Impossible (F) and in the context of existing controls being in place:

Impact

- 4.6 The effect of the hazard or threat being realised will be expressed in terms of Catastrophic (I), Critical (II), Marginal (III) or Negligible (IV).

Risk Profiling

- 4.7 The Council's appetite for risk will be assessed and depicted on the risk rating matrix. Each risk will be plotted on the matrix. All risks that are identified above the Council's risk appetite will require some form of action.

5.1 The response to a risk will be one of the following general approaches.

- **Transfer the risk:** this might be done through such things as conventional insurance or by asking a third party to take on the risk in another way;
- **Tolerate the risk:** the ability to take effective action against some risks may be limited, or the cost of taking action may be disproportionate to the potential benefit gained. In this instance, the only management action required is to monitor the risk to ensure that its likelihood or impact does not change. If new management options arise, it may become appropriate to treat this risk in the future;
- **Treat the risk:** most risks will be in this category. The purpose of treatment is not necessarily to terminate the risk but, more likely, to set in train a planned series of mitigation actions to contain the risk to an acceptable level; and,
- **Terminate the risk:** this is a variation of the 'treat' approach, and involves quick and decisive action to eliminate a risk altogether.

5.2 The risk register will describe existing and additional activities to address the risk as well as outlining what action should be taken if the risk becomes an issue (i.e. contingency planning).

Countermeasures

5.3 The risk register will draw the actions together into a co-ordinated package and allow others to review the adequacy of existing controls, given the stated likelihood, impact and consequences.

Contingencies

5.4 The Council already has an Emergency Plan. This strategy is not a substitute for the Emergency Plan which must be followed in the event of an emergency.

5.5 Contingency plans will be drawn up for all risks which have been assessed as having a potentially High impact.

5.6 Business continuity plans will be prepared to help keep the Council running during times of change or disruption. These will usually be for relatively isolated events, such as office moves or organisational change.

5.7 Disaster recovery plans will be prepared for serious events such as terrorist activity or a catastrophe. These will plan the Council's response to a major disruption to services, and how to deal with the potential additional demands that these events will cause.

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- 6.1 Appropriate and effective review and reporting arrangements will reinforce and support the Council's risk management activities. This will allow up-to-date and accurate performance information to be passed to managers along with information on other performance measures.
 - 6.2 Risk management is a dynamic process. New risks will be identified, while some will be terminated. Contingency plans and countermeasures will need to be updated in response to changing internal and external events, and the assessment of likelihood and impact will also need to be reviewed, particularly in the light of management actions.
 - 6.3 The Chief Officers' Management Team will keep the main risks under regular strategic review through the reporting of the Risk Project Group. High-level information on risk will be integrated with other key performance data and presented to Committee with the service targets. This data will be collated by the Risk Project Group. The Group will develop key indicators to monitor the effectiveness of the internal controls that have been adopted.

Risk Register

- 6.4 A Risk Register will be compiled and progress will be monitored against the register to ensure that management interventions are having the desired outcome on risks. Departments will review their service risks regularly and report significant change. This updating process will be monitored by asking the following questions:
 - how regularly is it happening in each department?
 - what level of input is the Chief Officer or Chief Executive having to this review?
 - how static is the register? Do the changes appear cosmetic and presentational or are they substantial, involving the identification of new countermeasures or additional actions? Are the additional actions being tackled?
 - is there an audit trail outlining the actions that have been taken and indicating their relative success?
 - is the Council register being made available to staff and is each department amending and refining their individual register entries in the light of risks and actions elsewhere?
 - what is the turnover in terms of new risks being identified and existing risks being terminated? What is the general trend in the rating of the risks that have been registered? Is the number of High and H-star risks decreasing?
- 6.5 This information along with the existing data will feed into the quarterly reviews of performance that are presented to Committee. It will also form the core of risk information that will feed into future business plans and Financial Forecasts.

Sharing good practice

- 6.6 A Risk Project Group will be established. This will provide the opportunity for departmental representatives to discuss the implementation of new ideas, the handling of particular aspects of risk management and will offer a co-ordinated opportunity to review the lessons learnt from recent incidents or crises. The intention is for the Risk Project Group to act as one of the main vehicles for disseminating good practice across the Department.
- 6.7 Where appropriate, the Risk Project Group will review performance and practice in other organisations in order to learn from best practice elsewhere.

Achieving a risk management culture

6.8 The National Audit Office publication, "*Supporting Innovation: Managing Risks in Government Departments*", includes a series of detailed questions to be consider when reviewing the organisation's approach to risk management. These are grouped under the following six key headings:

- Do Councillors and Chief Officers support and promote risk management?
- Does the Council's culture support well thought through risk taking and innovation?
- Are risk management policies and the benefits of effective risk management clearly communicated to all staff?
- Is risk management fully embedded in the Council's management processes?
- Is risk management closely linked to the achievement of objectives?
- Are the risks associated with working with other organisations assessed and managed?

6.9 This will be kept under review by the Risk Project Group and conclusions reported at least annually to Committee.

STRATEGIC

Risks which need to be taken into account in judgements about the medium to long term goals and objectives of the council. These may be:

Political

associated with failure to deliver either local or central government policy, or meet the local administration's manifesto commitments.

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 the consequences of proposed investment decisions.

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. They may also include the consequences of internal technological failures on the council's ability to deliver its objectives.

Legislative

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

Environmental

relating to the environmental consequences of progressing the council's strategic objectives (e.g. in terms of 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 Best Value.

Customer/Citizen

associated with failure to meet the current and changing needs and expectations of customers and citizens.

OPERATIONAL

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. social work service concerns over children at risk; 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.

Physical

related to fire, security, accident prevention and health and safety (e.g. hazards/risks 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 (e.g. IT systems or equipment and machinery).

Environmental

relating to pollution, noise or energy efficiency of ongoing service operation.

Source: SOLACE, "Chance or Choice" page 14.