Report to	Audit committee 17 January 2012	**10**
Report of	Head of finance	
Subject	Risk management strategy	

Purpose

To update members on the review of the council's risk management strategy

Recommendations

That members note the council's updated risk management strategy

Financial Consequences

The financial consequences of this report are none directly

Risk Management

The report deals with the council's risk management processes

Strategic Priority and Outcome/Service Priorities

The report helps to meet the strategic priority "One council:
- customer focus – putting customers at the heart of everything we do;
- continuous improvement of our services; and
- cost conscious – efficient and effective service delivery **"**

Contact Officers

Bridget Buttinger   01603 212066
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Background Documents

Report

Background

1. The council's original risk management strategy was approved by executive in May 2007. The strategy stated that executive was responsible for overseeing effective risk management and agreeing the council's risk management strategy.

2. The overall insurance premium paid to Zurich Municipal includes a small sum to be used each year for training, consultancy, etc. There have been a number of significant changes, both internally and externally, affecting the council since the last risk management strategy was approved. Therefore it was felt to be appropriate to ask Zurich to review and update our strategy as part of the council's continual improvement of its governance arrangements.

3. The corporate leadership team reviewed and agreed the updated strategy on 23 November 2011 and asked for it to be submitted to cabinet for approval.

4. The strategy was approved by cabinet on 14 December 2011 and the covering report and the strategy are attached at **Annex 1**.

5. Since its approval, the strategy has been circulated to all departmental management teams for reference when assessing corporate and service risks as part of the current round of service planning.

Audit committee responsibility for risk management

6. Appendix B of the updated strategy shows the following responsibilities for audit committee in relation to risk management:

    *   Reviewing the adequacy of arrangements for identifying and managing the council's business risks

    *   Receive and consider regular reports on the risk environment and associated management action

Summary

7. Members are asked to note the updated risk management strategy which has been drafted in line with best practice and which will be regularly reviewed.

Report for Resolution

Report to	Cabinet	
	14 December 2011	**Item**
Report of	Head of finance	7
Subject	Review of risk management strategy	

Purpose

To review the council's updated risk management strategy.

Recommendations

To approve the council's updated risk management strategy

Financial Consequences

There are no financial consequences of this report

Risk Management

The report deals with the council's risk management processes

Strategic Priority and Outcome/Service Priorities

The report helps to meet the strategic priority "One council:
- customer focus – putting customers at the heart of everything we do;
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Background Documents

Report

Background

1. Risk management is considered to be a key component in the corporate governance of local authorities. This has been recognised in the CIPFA – SOLACE framework 'Delivering Good Governance in Local Government'.

2. In the Accounts and Audit Regulations 2011 this importance is given statutory status. Regulation 4(1) states that 'The relevant body is responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk'.

3. Risk management is part of the council's system of internal control and its effectiveness is included in the annual governance statement which accompanies the annual statement of accounts.

4. In line with the above, having an effective system of risk management is also included as one of the supporting principles under principle 4 of the council's code of governance (appendix 19 of the council's constitution).

5. The council's original risk management strategy was approved by executive in May 2007. Since then the council has successfully engaged with Zurich Municipal on a regular basis to improve our risk management processes, including training for members and senior managers.

6. The overall insurance premium paid to Zurich includes a small sum to be used each year for training, consultancy, etc. There have been a number of significant changes, both internally and externally, affecting the council since the last risk management strategy was approved. Therefore it was felt to be appropriate to ask Zurich to review and update our strategy as part of the council's continual improvement of its governance arrangements.

Updated risk management strategy and cabinet role

7. The proposed updated version of the strategy is attached at **annex 1**. The strategy contains a number of appendices, including an updated risk template for managers to capture service risks and mitigating actions.

8. Section three of the strategy states that cabinet should be responsible for ensuring effective risk management across the council, as this is closely linked to achievement of the council's priorities.

9. Specifically, cabinet should regularly review the risk strategy and receive annual reports on corporate risks (see separate item on today's agenda).

Summary

10. The updated strategy has been drafted in line with best practice and is recommended to cabinet for approval.

Risk Management Strategy

Foreword by Chief Executive

It is a fact of life that we face risks in all activities across the council. This strategy is not about preventing all risks, but about understanding the risks we are taking. Risk management has never been more important given the many challenges that face local government currently.

One interesting change over the past few years is the extent to which the public sector relies on other organisations to achieve our corporate goals. To this end, good risk management is not just about our own organisation but ensuring that our partners and other key organisations also have in place robust risk management processes.

This risk management strategy sets out in a practical manner how this council is going to ensure that we can make risk management work for us. Risk identification and management is a process that should produce benefit for the council as it seeks to achieve its objectives.

Effective risk management I am convinced will allow us to:

- have increased confidence in achieving our priorities and our outcomes
- constrain threats to acceptable levels
- take informed decisions about exploiting opportunities and innovation
- ensure that we get the right balance between rewards and risks
- improve our partnership working arrangements and corporate governance

As well as this risk strategy

- There is help and support available if required: risk and insurance section; head of finance; internal audit; the council's insurer (currently Zurich Municipal)
- There is a two page risk management summary toolkit to accompany this strategy

In Norwich City Council risk management is about improving our ability to deliver our strategic objectives by managing our threats, enhancing our opportunities and creating an environment that adds value to ongoing operational activities.

I am committed to the effective management of risk at all levels of this council. This strategy is an important part of ensuring that effective risk management takes place.

Laura McGillivray
Chief Executive

Contents

<u>Appendices</u>

Section 1 - What is Risk Management?

1. The following is the Audit Commission's definition:

   - "**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."

2. Risk management should be a continuous and developing process. Risk management is not a perfect tool as it seeks to examine potential events.

3. As with any process there needs to be clear benefits and success measures. The key measures of success for managers are:

   - **Consensus** – there is one view of the main risks at a service level and corporate level within the council

   - **Confidence** – we understand the risk mitigation measures being taken and have confidence in these at a corporate and service level

   - **Communication** – all employees have the chance to raise risk issues for consideration

4. Some further benefits that result from successful risk management include:

   - Key risks and mitigation measures are clearly identified
   - Increased focus on what needs to be done to meet our objectives
   - Improved financial performance and human resources management
   - Improved corporate governance and compliance systems
   - Better management of change
   - Fewer complaints
   - Protection of the council's reputation
   - Improved insurance management

Risks must be managed but not avoided to the extent that flair and innovation is choked.

Section 2 – Our Five Step Risk Management Process

5. The council's risk management process consists of five steps:

STEP 1 - STRATEGIC PRIORITIES

The starting point for risk management is a clear understanding of what the council is trying to achieve. Risk management is about managing the threats that may hinder delivery of our priorities and maximising the opportunities that will help to deliver them.

STEP 2 - IDENTIFYING AND ASSESSING RISKS

Identifying risks involves the analysis of the potential vulnerabilities and their causes which realistically may threaten the council's objectives. **Appendix E** provides risk prompts for considering risks. **Appendix A** sets out the standard Norwich City Council risk matrix for assessing risks.

STEP 3- COMPILING A RISK REGISTER

Those risks requiring action need to be included in the risk register. The risk register provides details of who is responsible for managing the risk and how. **[Appendix F].** This is part of the service planning process.

STEP 4- RISK TREATMENT

The risk register contains all risks that require treatment. There are four general approaches to treating risk.

- ***Terminate the risk*** – ceasing activity likely to trigger the risk.
- ***Treat the risk*** – control the likelihood or the impact of the risk [1].
- ***Transfer the risk*** – either totally or in part e.g. through insurance.
- ***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 benefits gained.

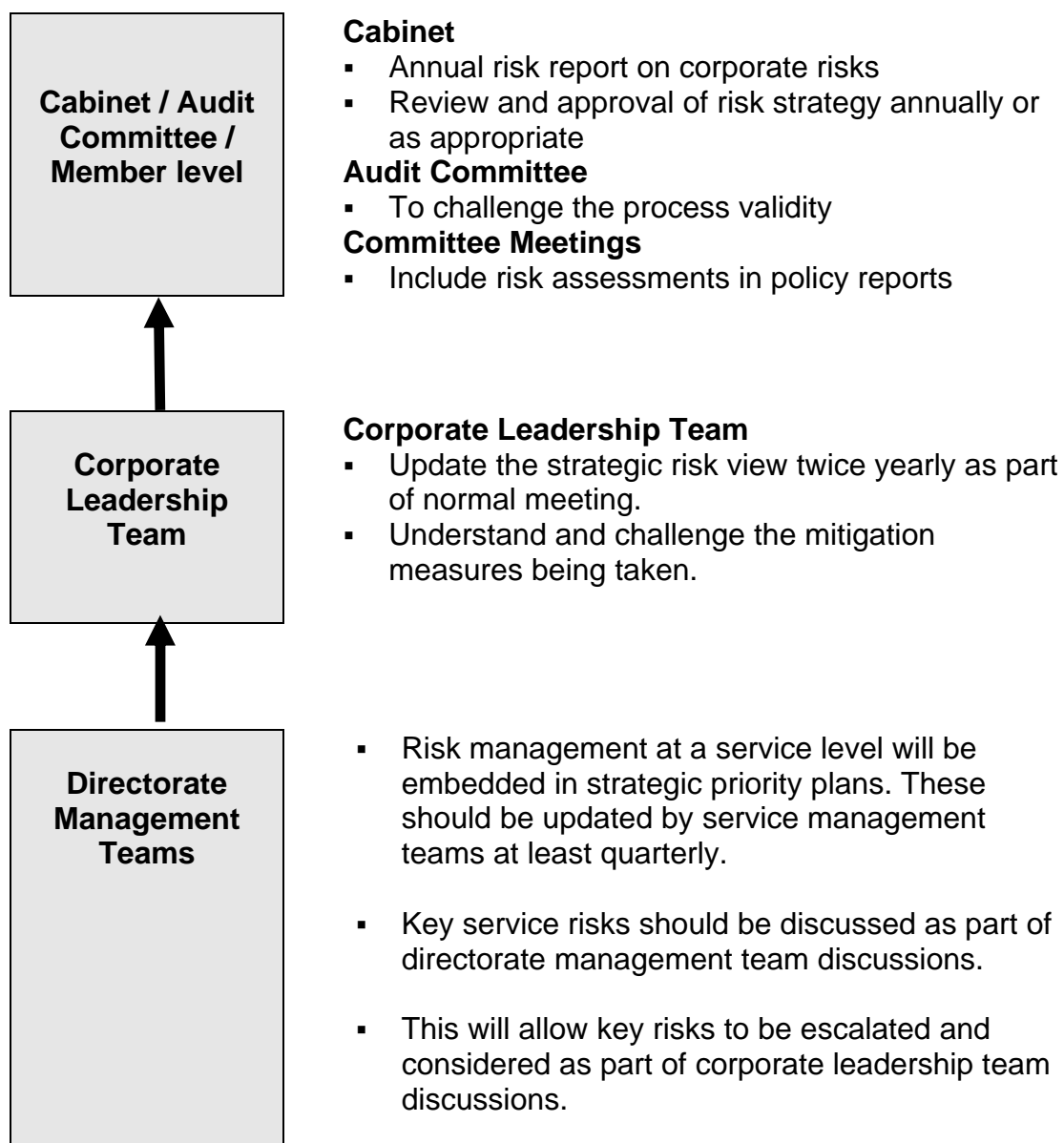## STEP 5 – MONITORING, REVIEW AND REPORTING

Managers are responsible for the continuous assessment of service risk registers and amendments where necessary, which should be discussed and updated at DMTs on a quarterly basis. The top three risks from each DMT will be collated and reported to CLT on a half yearly basis and will also be reported annually to cabinet.

The risk management strategy and process will be reviewed annually by the audit committee to ensure emerging risks are identified and managed and reflected in the corporate risk register. This review will be reported to cabinet and also fed into the following year's service planning process.

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[1] Controls should be proportionate, practical, suitable and sufficient. Risk treatment concerns retained risks (not wholly terminated or transferred)

Section 3 - Our Framework for managing risk

6. It is the council's policy to adopt a single risk management process to be utilised at all levels throughout the council. Our approach seeks to embed risk management at the heart of our organisation without creating a bureaucracy that stifles meaningful risk management conversations.

7. This approach will help to ensure that risks are considered consistently between strategic and operational tiers of management. It will enable the escalation, when appropriate, of risks encountered at the operational levels to strategic management.

8. In order for risk management to be fully embedded in the council's management process it is essential that it is considered as an integral part of the strategic and service planning processes. The diagram below sets out how risk management activity will take place.

Cabinet / Audit Committee / Member level

Cabinet
- Annual risk report on corporate risks
- Review and approval of risk strategy annually or as appropriate

Audit Committee
- To challenge the process validity

Committee Meetings
- Include risk assessments in policy reports

Corporate Leadership Team

Corporate Leadership Team
- Update the strategic risk view twice yearly as part of normal meeting.
- Understand and challenge the mitigation measures being taken.

Directorate Management Teams

- Risk management at a service level will be embedded in strategic priority plans. These should be updated by service management teams at least quarterly.

- Key service risks should be discussed as part of directorate management team discussions.

- This will allow key risks to be escalated and considered as part of corporate leadership team discussions.

Section 4 - Risk Attitude

9. Risk attitude can be thought of as the council's approach to "assess and eventually pursue, retain, take or turn away from risk" (see *ISO31000: Risk Management – Principles and Guidelines*). Part of the attitude is clarifying risk appetite, which is defined as the level of risk that the council is prepared to accept in order to achieve our goals.

10. All organisations must
    - Accept some degree of risk,
    - Set boundaries as to what is an appropriate level of risk,
    - Be mindful of differing perspectives of reasonable risk appetite e.g the public, the courts, inspectors and members.

11. Consequently, articulating risk appetite can be a complex task requiring the balancing of many views. Some elements can be quantified but ultimately it is a question of judgment. This opinion may vary from time to time and is dependent on current circumstances.

12. There are two key messages

    - The risk matrix adopted by the council sets broad boundaries as to what is acceptable. The risk matrix provides a scoring for risks. Risks that score "7" or above should have regular director visibility.
    - This may not always provide enough clarity - **"If in doubt about a particular risk– consult"**

13. The table below sets out a clear summary of the levels of risk appetite. Clearly the higher the risk then there is a requirement that this risk is known about at director or CLT level.

Level of Risk	Level of Concern	Potential Conse-quences	Action Required	Level of visibility required	Risk Treatment Option(s) Available
Very High 20 – 35	Very concerned	Disastrous Impact	Comprehensive action is required immediately	CLT	Transfer Terminate Treat
High 7 – 15	Concerned	Severe impact	Action is required within 3 months	Director	Transfer Terminate Treat
Medium 4 – 6	Uneasy	Medium impact	Action plans to be developed within 6 months	Head of Service	Transfer/ terminate/ treat/ tolerate /contingency plan
Low 1 – 3	Content	Relatively light impact	The council is prepared to accept this risk	-	Tolerate/ treat if cost effective

Section 5 - Risk Management in our key partners

14. Norwich City Council increasingly delivers its services through partnerships with other public bodies, third sector groups and private sector organisations.

15. There are two aspects to our risk strategy involving risk in key partners

   a) **Assessing the risks involved prior to entering into a new arrangement** as part of the policy decision. Decisions to enter into partnerships should be based on a sound understanding of the risks and challenges as well as the opportunities and anticipated benefits.

   b) Ensuring there is **an ongoing risk view for key partnerships** at any point in time. Officers involved with key partnerships and contracts that are ongoing should specifically consider and log the associated risks to the council and manage them in accordance with this strategy.

   OR

   c) **Challenging key partners** as to how they manage their key risks. Key questions will include
      - Do they have a strategy or approach to managing risks?
      - Can they demonstrate an assessment of their main risks?
      - Can they provide confidence around the mitigation measures?

16. It is also necessary to clarify the governance arrangements, the legal status and the extent to which the council may be bound by decisions made by the partnership.

17. Some partnerships will have already adopted an approach to risk management which can be relied on. When this is not the case the council's standard approach should be followed.

18. The council has produced a Corporate Governance Framework and Toolkit for Working in Partnerships and this must be used when joining a new partnership or reviewing an existing one.

APPENDIX A

Norwich City Council risk matrix and scoring guide

			Impact / Consequences				
			Insignificant	Minor	Moderate	Major	Catastrophic
	Score/ definition	Probability	1	2	3	5	7
Likelihood / probability	5 Very high	More than 90%	Medium (5)	High (10)	High (15)	Very High (25)	Very High (35)
	4 Likely	50% - 90%	Low (4)	High (8)	High (12)	Very High (20)	Very High (28)
	3 Possible	30% - 49%	Low (3)	Medium (6)	High (15)	High (15)	Very High (21)
	2 Unlikely	10% - 29%	Low (2)	Low (4)	Medium (6)	High (10)	High (14)
	1 Rare	Less than 10%	Low (1)	Low (2)	Low (3)	Medium (5)	High (7)

Example impact levels

Impact	Service Delivery	Human	Financial	Project	Reputation
7 Catastrophic	Disruption of more than one core service for more than 14 days	Death	Financial impact greater than £500k	Project Failure	National & international publicity
5 Major	Disruption of core services up to 14 days	Life threatening injuries or illness	Financial impact of up to £500k	Project significantly overruns or over budget	Regional or local media coverage
3 Moderate	Disruption of core services up to 7 days	Major non life threatening injuries or illness	Financial impact of up to £100k	Project overruns or over budget affecting service delivery	Local media coverage
2 Minor	Disruption of services up to 3 days	Minor injuries or illness	Financial impact of up to £50k	Project overruns or over budget	Media enquiries
1 Insignificant	Disruption of services up to 24 hours	Slight injury or illness	Financial impact of up to £25k	Minimal affect on budget or overrun	Minimal or no media interest

APPENDIX B

Roles and Responsibilities

The ultimate responsibility for managing risk lies with both the Executive and the chief executive and corporate management team (CMT). However everyone in the Council has a responsibility with regard to risk management.

ROLE	RESPONSIBILITIES
Cabinet	▪ Overseeing and ensuring effective risk management across the Council
	• Ensuring that the risk strategy and corporate risk register are reviewed at least annually
	• Ensuring robust, appropriate and ongoing risk mitigation is undertaken.
	• Approving an annual statement on the risk management processes in place, their effectiveness, and details of any improvements required
Audit Committee	• Reviewing the adequacy of arrangements for identifying and managing the council's business risks
	• Receive and consider regular reports on the risk environment and associated management action
Chief Executive and Corporate Leadership Team (CLT)	• Risk management across the council is led by the chief executive who is the designated CLT lead on risk.
	• Formulating and reviewing on a six monthly basis the corporate risk view of the council. Developing risk mitigation plans to deal with the key risks.
	• Advising members on effective risk management and ensuring that members receive regular monitoring reports.
	• Recommending to members a risk management strategy. Ensuring effective implementation, monitoring, and review of the council's risk management strategy.
	• Being responsible for ensuring that the council fully complies with all corporate governance requirements, including the annual governance statement.
	• Coordinating specialist risk management activity across the council including training e.g. risk assessment techniques.

ROLE	RESPONSIBILITIES
Directors and Heads of Service (act as risk champions)	• Ensuring the risk management within their area of responsibility is implemented in line with the council's risk management strategy. • Identifying, analysing and profiling of risks arising from their areas of responsibility within the directorate risk registers, and prioritizing and initiating action on them. • Director: reporting the key risks from the directorate to the CLT. • Heads of service: reporting systematically and promptly, to the director, any perceived new risks or failures of existing control measures. • Communicating the corporate approach to risk management to staff. • Identifying training needs of staff and reporting these to the head of service. • Ensuring key partners manage risk appropriately.
All Staff	• Understanding their accountability for individual risks. • Reporting systematically and promptly to their manager any perceived new risks or failures of existing control measures.
Internal Audit	• Auditing the key elements of the risk management process. • Using the results of the council's risk management process to focus and inform the overall internal audit plan. • Ensuring that internal controls are robust and operating correctly.
Risk and Insurance Section	• Providing the council with specialist guidance, advice and support on risk management.

APPENDIX C

Links to Corporate Governance

Governance is the system by which councils direct and control their functions and relate to their communities. In other words, the way, in which they manage their business, determine strategy and objectives, and go about achieving those objectives. The fundamental principles are openness, integrity and accountability.

Note: This Risk Management Strategy forms part of Norwich City Council's corporate governance arrangements.

INTERNAL CONTROL

Internal controls are those elements of an organisation (including resources, systems, processes, culture, structure and tasks) that, taken together, support people in the achievement of objectives. Internal financial control systems form part of the wider system of internal controls.

A council's system of internal control is part of its risk management process and has a key role to play in the management of significant risks to the fulfillment of its business objectives.

Note: The council's policy and decision making processes require all cabinet reports to include an option appraisal / risk assessment. Certain risks and actions are also included in the council's annual governance statement.

PERFORMANCE MANAGEMENT

Risk management is closely aligned to performance management and this is reflected in the need to mirror the requirements between the risk management strategy and the standard for performance management.

Note: Risk management is embedded within service planning.

HEALTH AND SAFETY

The council's health and safety policy is also a key component of the council's structure of controls contributing to the management and effective control of risks affecting staff, contractors and the general public.

INTERNAL AUDIT

The internal audit function is a component of the council's system of controls protecting its financial and other physical assets. The risk management process in turn serves the internal audit function by enabling it to identify areas of higher risk, and so target its resources more effectively.

APPENDIX D

Monitoring and Key Indicators of Success

The ultimate measure of effective risk management is that the Council:

- ✓ has resilience to deliver its services and core objectives
- ✓ is protected from the possibility of being impacted by an unforeseen risk
- ✓ is protected from the possibility of a foreseen risk having significantly greater impact than anticipated
- ✓ is able to take cost-effective measures to reduce or eliminate the effects of negative risk
- ✓ is able to identify, and take maximum advantage of, the occurrence of positive risks

Norwich City Council will use both outcome and process based risk performance indicators to monitor the success of risk management.

Process measurements

- ☑ Norwich City Council's Risk Management Strategy is reviewed annually
- ☑ There is an up to date corporate risk register (undertaken twice per year)
- ☑ All directorates have regular risks discussions (involving the latest risk view)
- ☑ Key actions to manage corporate risks are taking place. Progress against the actions identified to mitigate risks will be monitored half yearly.
- ☑ Key partnerships and projects have risks management embedded
- ☑ The majority of appropriate reports to cabinet include an effective option appraisal / risk assessment
- ☑ That all staff receive appropriate risk awareness training or information.

The outcome based risk management performance indicators are:

- ☑ no major unforeseen disasters, and foreseen risks should not have significantly greater impact than predicted and accepted
- ☑ members agree that they are sufficiently informed about risk management to ensure they can undertake their role
- ☑ all risk forum members and risk champions agree that they are sufficiently informed about risk management to ensure they can undertake their role minimising of the cost of risk e.g. claims costs, uninsured losses, insurance premiums, and levels of reserves necessary

APPENDIX E

Risk Prompts

Risks can be considered under major headings of 'Strategic', 'Operational', 'Partnership', and 'Project'. Generally, strategic level risks are likely to affect the medium to long-term priorities of the Council, and require longer term planning in order to address. Under these heading there are a number of categories such as Political, Social, and Legislative which will be of greater concern at the strategic level, while Professional, Technological, and Physical risks are of more concern at operational levels. **The table below provides a number of prompts to assist risk identification.**

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	Changes to the wider economy and trends.	Cost of living, changes in interest rates, inflation, poverty indicators
Social	Relating to the effects of changes in demographic, residential or socio-economic trends.	Ageing population, health statistics, migration.
Technological	The pace/scale of technological change, or the ability to use technology to address changing demands. Can also include the consequences of technological failures.	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. These include internal budgetary pressures	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

APPENDIX F – RISK TEMPLATE

Service: **Risk Profile Date:**

		Impact / Consequences				
Insert risk numbers into this matrix		Insig-nificant	Minor	Moderate	Major	Cata-strophic
		1	2	3	5	7
Likelihood / Probability	5 Very High					
	4 Likely					
	3 Possible					
	2 Unlikely					
	1 Rare					

Service Risk Description

Risk No	Risk description and explanation of changes[1]	Likelihood	Impact	Score/Grade	Move-ment[2]	Owner[3]	Mitigation measures
1	Example	3	5	**15**	⇔		
2							
etc.	Add rows to table as required						

[2] Movement: ⇔ (no change); ⇧ (getting worse); ⇩ (getting better); **New**. (copy and paste as necessary)

[1] Be specific about the issue that could potentially hit the service and/or the council, and explain any changes in scoring since last review
[2] Movement equates to movement on the matrix since last review e.g. up arrow means getting worse (moving up the matrix)
[3] All risks require a manager who owns the problem and is responsible for mitigation measures.