



**PORTFOLIO AREA: CROSS CUTTING**

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Date of Meeting: 19th December 2002

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Public

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Key Decision: Yes

Recorded in Forward Plan: Yes

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Inside Policy Framework

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**Title: RISK MANAGEMENT**

**Report of: HEAD OF COMMERCIAL & TECHNICAL SERVICES**

**Report reference: CTS 002/02**

**Summary:**

This report presents one of the major improvements emerging from the Best Value review of Risk and Health & Safety management. It presents a risk management policy statement and a strategy for embracing a proactive culture to strengthen corporate governance and performance management within the Authority.

The report was considered and endorsed by the Corporate Resources Overview & Scrutiny Committee on 28<sup>th</sup> November 2002.

**Recommendations:**

It is recommended that:

1. The risk management strategy be endorsed for adoption by the Council.
2. The Executive note their attendance at the workshops to be held on 15<sup>th</sup> or 16<sup>th</sup> January 2003.

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Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers: EN 134/02

## **1. BACKGROUND INFORMATION AND OPTIONS**

1.1 This report presents one of the major improvements emerging from the Best Value review of Risk and Health & Safety management. It presents a risk management policy statement and a strategy for embracing a proactive culture to strengthen corporate governance and performance management within the Authority.

The report was considered and endorsed by the Corporate Resources Overview & Scrutiny Committee on 28<sup>th</sup> November 2002.

## **2. CONSULTATION**

2.1 Consultation to Date. District Audit, Overview & Scrutiny Corporate Resources Committee, Business Unit Heads, BV Review team.

2.2 Consultation proposed.

## **3. STAFFING/RESOURCES COMMENTS**

No additional staff are envisaged. One post, Procurement and Project Co-ordination Officer, has been allocated responsibility for providing best practice within the Authority. The consultant's costs are funded from the balance of the allocated BV budget and the existing risk management budget.

## **4. HEAD OF FINANCIAL SERVICES COMMENTS**

Not applicable.

## **5. LEGAL COMMENTS**

Not applicable.

## **6. CORPORATE COMMENTS**

Included within this report.

## **7. RISK MANAGEMENT ASSESSMENT**

See above.

## **8. EQUALITY ISSUES**

Not applicable.

**9. ENVIRONMENTAL IMPLICATIONS**

Not applicable.

**10. CRIME AND DISORDER IMPLICATIONS**

Not applicable.

**11. RECOMMENDATIONS**

It is recommended that:

1. The risk management strategy be endorsed for adoption by the Council.
2. The Executive note their attendance at the workshops to be held on 15<sup>th</sup> and 16<sup>th</sup> January 2003.

**12. REASONS FOR RECOMMENDATIONS**

See above.



## RISK MANAGEMENT

### 1.0 BACKGROUND

- 1.1 The Best Value Review of Risk and Health & Safety Management is substantially complete and all the outstanding elements should come together shortly to enable an Implementation Plan to be presented for consideration in January 2003. Previous reports to this committee have identified the need to define a risk management policy and strategy and this can progress ahead of the completion of the BV report.
- 1.2 Whilst the organisational review has created a challenge in the priority and demand for resources it also presents a great opportunity to introduce risk management as part of the corporate governance framework and to strengthen current performance management arrangements.
- 1.3 This report brings forward the risk management policy and a strategy for delivery. The aim has been to try and keep this simple and understandable and also to integrate this culture within the way the Authority works – it is not an extra requirement, it should be how the Authority operates. There are some good examples of risk management in practice within the Council but this needs to be extended to cover all activities, embraced at a strategic level and effectively monitored.
- 1.4 A commission has been awarded to Marsh UK to facilitate the preparation of both operational and risk registers. A copy of their brief is appended and a series of workshops are being arranged. Members of this Committee will be invited to participate in this process, particularly contributing to the compilation of the strategic risk register. Once the format of these registers has been defined the relevant section of strategy can be developed further.

### 2.0 WHAT IS RISK MANAGEMENT?

- 2.1 Risk management is the process of identifying risks, evaluating their probability and potential consequences and determining the most effective methods of treating them. It is an integral part of a management culture which maximises opportunity and minimises the disruption caused by undesired events. It informs judgements and decisions about strategic planning and operational management.

- 2.2 This process is not a 'bolt-on' to existing practices, it is an integral part of the corporate planning process which will ensure priorities and objectives are defined and achieved.

### 2.3 Objectives of Risk Management

The overall aim of risk management is not just to reduce risk to the Authority but to more clearly understand key issues which influence its operations and apply the desired controls. The objectives are:

1. To improve strategic management by enabling informed development of objectives and improve the ability to achieve targets.
2. To provide a framework for continuous improvement.
3. To ensure better financial decision making and enable an effective use of resources including the minimisation of waste.
4. To improve managerial control both in directly provided services and within partnerships.
5. To ensure more effective project management.
6. To create a 'no surprises' environment which encourages innovation.
7. To improve the health and well-being of employees by engaging effective practices and procedures.
8. To reduce the potential for service disruption to the overall benefit of the community.

- 2.4 A proposed Corporate Risk Management Policy is included as Appendix A.



### **3.0 WHAT IS A RISK?**

- 3.1 Risk is the chance that damage or an adverse outcome which will occur as a result of an event or situation.

For an organisation like Carlisle City Council there are two main categories of risk:

#### **3.2 Strategic**

Risks which need to be taken into account in any judgement about the medium/long term goals and objectives of the Council.

#### **3.3 Operational**

These are risks that managers and staff will encounter in their normal activities within Business Units.

- 3.4 Examples of both Strategic and Operational risks in a Local Government environment are included in Appendix B. It should be emphasised that these lists are not exhaustive but they provide an indication of the nature of risks. In some cases the same issue may have both strategic and operational implications but the impact and how they are dealt with may vary.

- 3.5 Only the organisation itself can identify the risks it faces, others such as District Audit can advise on common themes that the Council needs to consider, particularly emerging issues. The risks need to be identified and prioritised in relation to their likelihood of occurring and the scale of any potential impact which may subsequently arise. The outcome of this process produces a comprehensive series of risk registers which address corporate/strategic areas and a series of operational registers for each Business Unit.

### **4.0 RISK REGISTER**

- 4.1 A big element in the risk management process is the development and maintenance of risk registers which define the main risks, prioritises these, examines the mitigation and control measures which can be applied to manage/reduce the impact of these risks or eliminate them, and defines an action plan to deliver these.

There are a number of proposals to compile risk registers:

1. **Strategic Risk**

The Joint Management Team (comprising the Corporate Management Team and Executive Members) will produce a strategic risk register and this will be fundamentally reviewed on an annual basis as part of the Corporate planning process.

2. **Operational Risk**

As part of the process of preparing annual Business Plans each Business Unit will produce an operational risk register for their area of activity.

3. **Specific Risk Assessments**

As part of the Capital Strategy, major projects and other defined initiatives will be required to produce a project specific risk assessment.

## 4.2 **Implementation**

It is considered essential that the initial risk registers are in place by the end of the financial year for 2003/4 and can be updated each subsequent year. This will compliment the roll forward of the Corporate Plan, contribute to the preparation of Unit Business Plans (which in turn will feed into the Corporate Plan process) and will be required for the CPA.

Consultants have been engaged to assist in developing the risk management culture, identifying risks, prioritising these and advising on mitigation and control measures. A series of workshops have been arranged for December 2002/January 2003 to progress the production of risk registers.

Only the Council can prepare these, with the appropriate advice, and inevitably the registers will be refined and improved over time. Similarly, further training needs will be identified both in the general area of performance management and some specifically skills related to identifying and managing risks in individual Business Units.



## **5. ROLES AND RESPONSIBILITIES**

### **5.1 Chief Executive/Leader**

Risk management is such an integral part of corporate governance that the appropriate culture and emphasis is required at the highest level.

The Town Clerk and Chief Executive and Corporate Management Team will ensure that appropriate policies are in place to monitor performance to enable policy review and preparation. One of the Executive Directors will be defined as the 'risk champion'.

Political ownership is also crucial and the Leader will define an Executive Member as the political 'champion'.

### **5.2 Risk Management Group**

This group, chaired by the Executive Director, will provide a corporate overview of the relevant registers and ensure that these are regularly monitored and reviewed. Key issues arising from this process and subsequent action plans will be reported to the CMT and Executive as appropriate.

Within the Council, the Procurement and Project Co-ordination Officer post (within the Strategy and Performance Services Business Unit) has specific responsibility for ensuring a positive approach to risk management and monitoring the implementation of systems and procedures.

A suggested membership and terms of reference for the Risk Management Group are included in Appendix C. It may well be that sub groups from this group are defined to deal with key issues, insurance and Health and Safety.

### **5.3 Business Unit Heads**

Within the various Business Units the relevant Heads are responsible for ensuring that operational risk registers are embraced within the business planning process and that adequate systems are in place to record, analyse and report on subsequent performance. Any issues which arise through the process will be taken to the Executive.



#### 5.4 Internal Audit

The internal audit team is responsible for reviewing and verifying the adequacy and application of the relevant control systems. Particular emphasis will be given to those risks with the higher priorities/impacts.

#### 5.5 Overview and Scrutiny

The Overview and Scrutiny Committee (Corporate Resources) is responsible for monitoring the relevant risk registers and associated performance from each of the Business Units together with the corporate strategic risk register.

The Committee will also approve the annual audit plan and receive reports from the Internal Audit Manager.

The outcomes of this monitoring will be fed back to the Business Units, Risk Management Group and the Executive. It is recommended that the Business Unit risk registers be monitored over the duration of the year (with emphasis on those with the higher priority risks), the strategic risk register monitored every three months and the Internal Audit reviews every six months. Specific issues or exceptions will be reported as necessary.

It is suggested that the content and framework of the monitoring reports evolve over the first six months of 2003/4.

## RISK MANAGEMENT POLICY STATEMENT

The Council provides a diverse range of services to the community. It is essential that the ability to continue to provide and continuously improve these services is not prejudiced. To achieve this the Council is committed to the implementation of a risk management culture which controls and minimises the potential disruption to services financially and operationally.

The Council firmly supports the view that risk management is a key element of corporate governance, embracing both its own strategic service objectives and those delivered by partners as set out in the Corporate Plan and City Vision.

In implementing this policy the Council will:

1. Identify and understand the hazards and risks which may impact on the Council's assets, budgets, employees and members of the public.
2. Assess the impact of identified risks, in terms of probability and severity.
3. Take all reasonable decisions, physical and financial measures to avoid or reduce the impact of potential losses.
4. Regularly monitor and review risks and hazards and control systems.

This policy has the full support of the Council which recognises that any reduction in injury, illness, loss or damage benefits the whole community.

## APPENDIX B (i)

## EXAMPLES OF STRATEGIC RISK

**Political:**

- Wrong strategic priorities
- Failure to deliver the Government agenda, too slow to modernise
- Unfulfilled promises to electorate
- Flawed community planning

**Economic:**

- General economic climate and trends
- Treasury risk
- Lost business and service opportunities

**Social:**

- Failing to meet the needs of disadvantaged communities
- Impact of demographic change
- Employment challenges
- Crime and disorder/civil unrest

**Technological:**

- Obsolescence of technology
- Security policies
- Breach of confidentiality
- Failure in communication systems

**Legislative:**

- Judicial review
- Breaches of Human Rights Act
- Inadequate response to new legislation
- Intervention of regulatory bodies/inspectors

**Environmental:**

- LA21 policies
- Noise, contamination, pollution
- Waste minimisation
- Impact of planning/transportation policies

**Competitive:**

- Take over of services by Government
- Failure to show Best Value
- Failure of funding bids

**Customer/Citizen:**

- Lack of or inadequate consultation
- Impact of policies
- Poor media public relations



## APPENDIX B (ii)

**EXAMPLES OF OPERATIONAL RISKS****Professional:**

- Staff retention/recruitment problems
- Inadequate training
- Unsuitable management processes
- Inability to implement change
- Over reliance on key officers
- Employee motivation
- Inadequate management of partnership working

**Financial:**

- Failure of major projects/initiatives
- Financial planning and controls
- Adequacy of insurance cover

**Legal:**

- Failure to meet statutory duties
- Breach of Data Protection Act
- Compliance with European Directives such as procurement
- Failure to meet legislative change

**Physical:**

- Breach of Health and Safety legislation/policies
- Loss or damage to assets
- Abuse and attacks on employees

**Contractual:**

- Over reliance on key suppliers/contractors
- Failure of outsourced provider
- Quality issues
- Failure to comply with procurement policies

**Technological:**

- Failure of IT projects and operational systems
- Poor management of intranet/ web sites
- Breaches of security of networks and data.

**Environmental:**

- Impact of LA21 policies
- Crime and Disorder Act implications

**Information:**

- Inadequate systems and management data
- Ineffective prediction of trends

## APPENDIX C

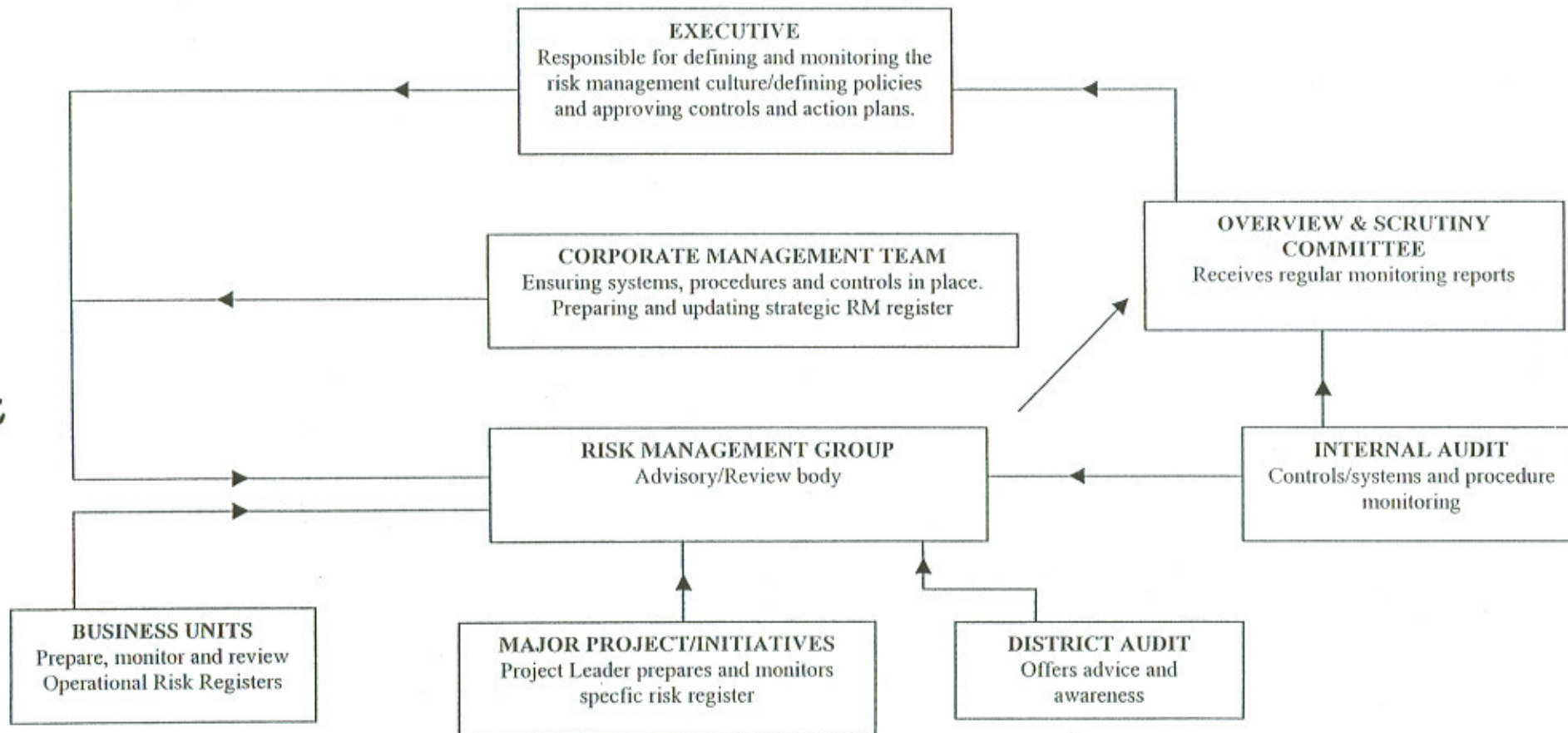
**RISK MANAGEMENT GROUP  
TERMS OF REFERENCE**

1. To disseminate best practice and assist/support Business Units in the preparation, monitoring and implementation of action plans associated with operational risk registers.
2. To advise the Executive/CMT on the compilation of a strategic risk register, to monitor this register and report to CMT on a regular basis.
3. To identify new and emerging risks and propose arrangements for managing these.
4. To allocate the risk management budget to fund risk mitigation and control measures.
5. To identify and progress training plans associated with risk management.
6. To liaise with District Audit on the development, management and monitoring of risk registers.
7. To report to Overview & Scrutiny Corporate Resources Committee on monitoring/management information and key issues on a regular basis.
8. To disseminate information to employees and Members.

**Membership**

Executive Director (Chair)  
Executive Member Champion  
Head of Finance  
Head of Strategic & Performance Services  
Procurement & Project Co-ordination Officer  
Health & Safety Manager

Business Unit Heads as required.





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**EXCERPT FROM THE MINUTES OF THE  
CORPORATE RESOURCES  
OVERVIEW AND SCRUTINY COMMITTEE  
HELD ON 28 NOVEMBER 2002**

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CROS.152/02      RISK MANAGEMENT

The Director of Environment and Development presented report EN.134/02 enclosing a draft Risk Management Policy and a strategy for delivery which had been identified as key elements within the Best Value Review of Risk and Health & Safety Management.

The aim was to try to ensure that the Strategy was understandable and also to integrate that culture within the way the Authority worked. A commission had been awarded to Marsh UK to facilitate the preparation of both operational and Risk Registers, and a copy of their brief was submitted. A series of workshops were being arranged and Members of the Committee were invited to participate in the process, particularly as regards the compilation of the Strategic Risk Register. To that end the Director sought guidance as to a suitable date upon which such a workshop for Members could be held. It was agreed that arrangements be made for a workshop to take place on Thursday 16 January 2003 commencing at 9.00 am. The Director indicated that he would write to Members confirming arrangements.

He provided an explanation of the definition of risk management, together with the objectives thereof. For the City Council there were two main categories of risk:

Strategic – risks which required to be taken into account in any judgement about the medium/long term goals and objectives of the Council; and

Operational – risks which Managers and staff would encounter in their normal activities within Business Units.

Examples of both Strategic and Operational risks in a Local Government environment were provided at Appendix B to the report.

A major element in the risk management process was the development and maintenance of Risk Registers which defined and prioritised the main risks, examined the mitigation and control measures which could be applied to manage/reduce their impact or eliminate them, and defined an Action Plan for their delivery.

There were a number of proposals for the compilation of Risk Registers:

1. Strategic Risk  
JMT (comprising CMT and Executive Members) would produce a Strategic Risk

Register which would be fundamentally reviewed on an annual basis as part of the Corporate Planning process.

2. Operational Risk

As part of the process of preparing annual Business Plans, each Business Unit would produce an Operational Risk Register for their area of activity.

3. Specific Risk Assessments

As part of the Capital Strategy, major projects and other defined initiatives would be required to produce a project specific Risk Assessment.

It was considered essential that the initial Risk Registers were in place by the end of the financial year 2003/04 and subsequently updated. That would complement the roll forward of the Corporate Plan, contribute to the preparation of Unit Business Plans and would be required for the CPA.

Details of the roles and responsibilities of the Chief Executive/Leader, Risk Management Group, Business Unit Heads and Internal Audit were provided. This Committee was responsible for monitoring the relevant Risk Registers and associated performance from each of the Business Units, together with the Corporate Strategic Risk Register. In addition, the Committee would approve the annual Audit Plan and receive reports from the Internal Audit Manager.

It was suggested that the content and framework of the monitoring reports evolve over the first six months of 2003/04.

Members congratulated the Director on his report and commended the process outlined therein. They also stressed the importance of training.

The Director stressed that it was about the creation of a 'no surprises' environment which encouraged innovation.

A Member commented that a culture change was required and the Director responded that now was an opportune time to embed that within the new Business Plans.

RESOLVED – (1) That the Director of Environment and Development be requested to make arrangements for a Members' workshop to take place on Thursday 16 January 2003 commencing at 9.00 am.

(2) That the contribution of Members to the development of a strategic Risk Register be noted.