

EAST AYRSHIRE COUNCIL

CORPORATE GOVERNANCE COMMITTEE – 16 NOVEMBER 2004

RISK MANAGEMENT STRATEGY

Report by the Executive Head of Finance

1 PURPOSE

- 1.1 To propose a Risk Management Strategy with a view to ensuring that key risks to the achievement of the Council's strategic objectives are identified and minimised.

2 BACKGROUND

- 2.1 Whilst risk management is part of normal day to day activities for all managers and staff, best practice in this area recommended by CIPFA, Audit Scotland and the Council's External Auditors indicates that there should be a formal framework for managing risk. This is designed to ensure that the process of risk identification and mitigation is as comprehensive as possible and is an integral part of the Council's corporate governance arrangements.
- 2.2 Since 1998 the Council has followed the guidance and suggested strategy for operational risk management contained in the CIPFA publication "Shorten the Odds" and indeed the arrangements which are in place and the results achieved have attracted very favourable comment from a number of organisations including Zurich, the Council's insurers..

3 RISK MANAGEMENT

- 3.1 The society of Local Authority Chief Executives (SOLACE) has defined Risk Management as;

"The management of integrated or holistic business risks in a manner consistent with the virtues of economy, efficiency and effectiveness. In essence it is about making the most of opportunities (making the right decisions) and about achieving objectives once those decisions are made. This is achieved through;

- *Controlling risks*
- *Transferring risks*
- *Living with risks"*

- 3.2 This definition highlights the need for Risk management to be integrated into normal business processes and to be concerned with the whole range of risks faced by the Council not just the traditional areas of insurance risk and asset protection.
- 3.3 It also makes clear that risk management is not necessarily a negative concept but rather a positive opportunity. For example there may be considerable risks in making changes to deliver services in an innovative and more efficient way. Identifying and managing these risks effectively will make a positive contribution to service improvement. Risk considerations should therefore form an integral part of the Council's business planning processes.

4 PROGRESS TO DATE

- 4.1 In 2003, Zurich Municipal Management Services (ZMMS) were commissioned to carry out an assessment of strategic risk and opportunity. This takes the theory of risk management to a much higher level within the operation of the authority. It is far removed from the concept of managing only “*insurable risk*”. That work has been used as a basis for the proposed strategy. It is the case however that a number of changes have occurred since the work was done and it is clear that risk identification needs to be a continuous and dynamic process requiring periodic monitoring and review.
- 4.2 It is important to recognise the concept of “Risk Tolerance” that is those risks which are acknowledged but are not considered significant enough to log and track. This should avoid unnecessary bureaucracy in recording relatively minor operational risks whilst ensuring that those issues which could impact significantly on the council’s objectives are highlighted and dealt with appropriately.

5 RISK MANAGEMENT FRAMEWORK

- 5.1 In implementing a framework for risk identification and mitigation it is important that roles and responsibilities are clear. As indicated above, however, Risk Management is not a new responsibility. Every elected member and employee has always had a responsibility for managing risks and the strategy being proposed does not change this but is simply a formalisation of good working practices.

RESPONSIBILITY	ROLES
Elected Members	Approve a Risk Management Strategy. Monitor compliance with the strategy on an annual basis.
Chief Executive	Promote the culture of risk management throughout the organisation. Ensure that corporate and cross-cutting risks are identified and appropriately dealt with. Present a report to the Corporate Governance Committee on compliance with the Risk Management Strategy on an annual basis.
Corporate Management Team	Review corporate and cross-cutting risks on a regular basis. Review departmental Risk Management activity on an annual basis.
Executive Directors	Identify, record and manage risks on an ongoing basis in line with the Council's Risk Management Strategy. Report on departmental risk management activity to the Corporate Management Team on an annual basis.
Corporate Risk Management Group	Report on Operational Risk Management activity to the Corporate Management Team on an annual basis

6 PROCESS

- 6.1 It is important that the process involved in identifying, assessing and monitoring risks is seen as an integral part of service planning rather than an obstacle or bureaucratic addition to it. Essentially, the process proposed is one of looking at the five or six key corporate or departmental service objectives and identifying the risks which might prevent their optimum achievement. Training on Risk Management generally and the specific processes expected would be required for all staff who may be involved in these areas.
- 6.2 It is proposed that the Risk Register is established on a corporate and departmental basis to record risks identified which are evaluated as being above the tolerance level. The Risk Register will include a description of the risk and its impact, a risk score based on the traffic lights system to indicate its significance in terms of effect, proposed action and the named officer with responsibility for the action. It will also include a review date.
- 6.3 Guidance available indicates that risks can be categorised to assist identification. The proposed categories of Risk to be included in the Register are;

6.4 STRATEGIC RISKS

Political	Those associated with the need to deliver either Council or central government policy.
Economic	Those affecting the Council's ability to meet its financial commitments. These include internal budgetary pressures, the level of insurance cover, external economic changes and the consequences of investment decisions.
Social	Those relating to the effects of changes in demographic, residential or socio-economic trends on the organisation's ability to delivery its objectives.
Technological	Those associated with the capacity of the Council to deal with the pace and scale of technological change or its ability to use technology to address changing demands, the consequences of reliance on technology to enable the organisation to deliver its objectives.
Legislative	Those associated with current or potential changes in national or European Law.
Environmental	Those relating to the environmental consequences of progressing the Council's strategic objectives including energy efficiency, pollution, recycling, landfill requirements and emissions.
Competitive	Those affecting the competitiveness of the service in terms of cost or quality and/or its ability to delivery Best Value.
Customer/Citizen	Those associated with the need to meet the current and changing needs and expectations of customers and citizens.

6.5 OPERATIONAL RISKS

Professional	Those associated with the particular nature of each profession. For example social work service issues over children at risk.
Legal	Those related to legislative including contractual terms and conditions, leases and legal titles.
Financial	Those associated with financial planning and control and internal funds.
Physical	Those related to physical land and property including fire and security.
Health and Safety	Those related to the health and safety of individuals including accident prevention, hazards/risks associated with buildings, vehicles, plant and equipment.
Contractual	Those associated with the need for contractors to deliver services or products to the agreed cost and specification. Remaining alert to the possible affect of punitive/restrictive contractual terms and conditions.
Reputational	Those relating to the Council's reputation and the public perception of the organisation's efficiency and effectiveness.
Technological	Those relating to reliance on operational equipment for example IT systems or equipment and machinery or the risk of not making full and efficient use of technological advances.
Environmental	Those relating to pollution, noise or energy efficiency of ongoing service operation.

7 ACTION PLAN

7.1 The action plan shown below is designed to ensure that the proposed strategy is implemented effectively and that the groups and individuals involved are equipped with the necessary skills.

ACTION	RESPONSIBILITY	DUE DATE
Endorsement of the strategy by the Corporate management Team	Chief Executive	October 2004
Endorsement of the strategy by Corporate Governance Committee	Chief Executive	November 2004
Training for Corporate Management Team, Head of Service and other key individuals	Director of Corporate Support	November 2004 – April 2005
Inclusion of Risk Management Framework in strategic and operational planning	Executive Directors	From November 2004
Finalisation of initial Strategic Risk Register	Corporate Management Team	April 2005

8 RECOMMENDATION

It is recommended that Members,

- (i) Agree the proposed Risk Management Strategy; and
- (ii) Instruct the Chief Executive to take the necessary steps to implement this and the associated action plan.

LIST OF BACKGROUND PAPERS

Nil

For further information in any matter contained within this report please contact, Alex McPhee, Executive Head of Finance. Telephone (01563) 576300.

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AMcP/JP
18 October 2004