

EAST AYRSHIRE COUNCIL

CORPORATE GOVERNANCE – 23 NOVEMBER 2006

RISK MANAGEMENT STRATEGY

Report by Executive Head of Finance

1 PURPOSE OF REPORT

- 1.1 To present for consideration and approval an updated Risk Management Strategy

2 BACKGROUND

- 2.1 The Corporate Governance Committee of 16 November 2004 considered and agreed a Risk Management Strategy the purpose of which was to ensure the identification of key risks facing the Council, and a methodology for containing these within accepted levels of tolerance. The Strategy is subject to regular review to take account of new developments and best practice and the attached updated document is presented for consideration and approval.

3 ACTION PLAN

- 3.1 The following action plan was included in the strategy approved in November 2004 and all actions have been achieved.

ACTION	RESPONSIBILITY	ACHIEVED
Endorsement of the strategy by the Corporate management Team	Chief Executive	YES
Endorsement of the strategy by Corporate Governance Committee	Chief Executive	YES
Training for Corporate Management Team, Head of Service and other key individuals	Director of Corporate Support	YES
Inclusion of Risk Management Framework in strategic and operational planning	Executive Directors	YES
Finalisation of initial Strategic Risk Register	Corporate Management Team	YES

4 STRATEGY

- 4.1** Although the strategy has been updated as part of the regular review to ensure we continue to follow best practice there is no change to the fundamental principal that risk management should be integrated into the daily activities of the organisation allowing the council to minimise risks and maximise opportunities.
- 4.2** The document defines risk management outlining roles and responsibilities, the reporting framework, the methodology in place and upcoming challenges.

5 RECOMMENDATIONS

It is recommended that Members:

- 5.1** approve the updated Risk Management Strategy; and
- 5.2** otherwise note the contents of this report

Alex McPhee
Executive Head of Finance

LS 30 Oct 2006

LIST OF BACKGROUND PAPERS

Nil

For further information in any matter contained within this report please contact, Lorna Service, Exchequer Manager. Telephone (01563) 576405.



East Ayrshire
COUNCIL

East Ayrshire Council
Risk Management Strategy

Updated November 2006

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Risk Management Strategy

1. INTRODUCTION

- 1.1** 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.
- 1.2** The Council recognises that risk management is part of normal day-to-day activities for all managers and employees and actively promotes the positive role that it plays in service delivery and improvement and consequently, in the achievement of its key strategic objectives. As such the Council's ethos, demonstrated through action is one of being 'risk aware', with good risk assessment in place and continuous review and improvement as part of our embedded management arrangements.
- 1.3** The use of risk management is becoming an ever-increasing requirement of daily strategic and operational management. The council recognises the importance of being in a position to support its decisions and plans by ensuring that the risks have been clearly thought out and appropriately addressed or tolerated.
- 1.4** 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. The Shorten the Odds guidance on developing a strategic approach to managing risk states that the strategy should:
- clearly identify objectives, roles and responsibilities for managing risk;
 - improve co-ordination of risk management activity throughout the Council;
 - reduce duplication between departments in managing overlapping risks;
 - provide opportunities for shared learning on risk management;
 - offer a framework for allocating resources to identified priority risk areas;
 - re-inforce the importance of effective risk management as part of the every day work of Council employees.
- 1.5** This document updates and replaces the Council's Risk Management Strategy which was approved by the Corporate Governance committee in November 2004 and will be subject to regular review.
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2. DEFINITION

2.1 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”*

2.2 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.

2.3 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.

3. ROLES AND RESPONSIBILITIES

The key roles and responsibilities of stakeholders within the Risk Management Structure are as follows:

3.1 **The Corporate Governance Committee** is responsible for ensuring the adequacy and effectiveness of the Council’s systems, processes and documentation identified within the Local Code of Corporate Governance, including risk management activity and arrangements. The committee has approved the Risk Management Strategy of the Council which sets out the roles and responsibilities of Elected Members and Senior Officers.

3.2 **The Risk and Audit Scrutiny Group** has specific responsibility for ensuring the existence of and compliance with, an appropriate Corporate Risk Management Strategy.

3.3 **The Corporate Management Team** provides a forum for the review of strategic business risks that could impact on the delivery of the key corporate objectives of the Council. This ensures that risks are considered across traditional departmental boundaries, allowing clear corporate and cross cutting decisions to be reached.

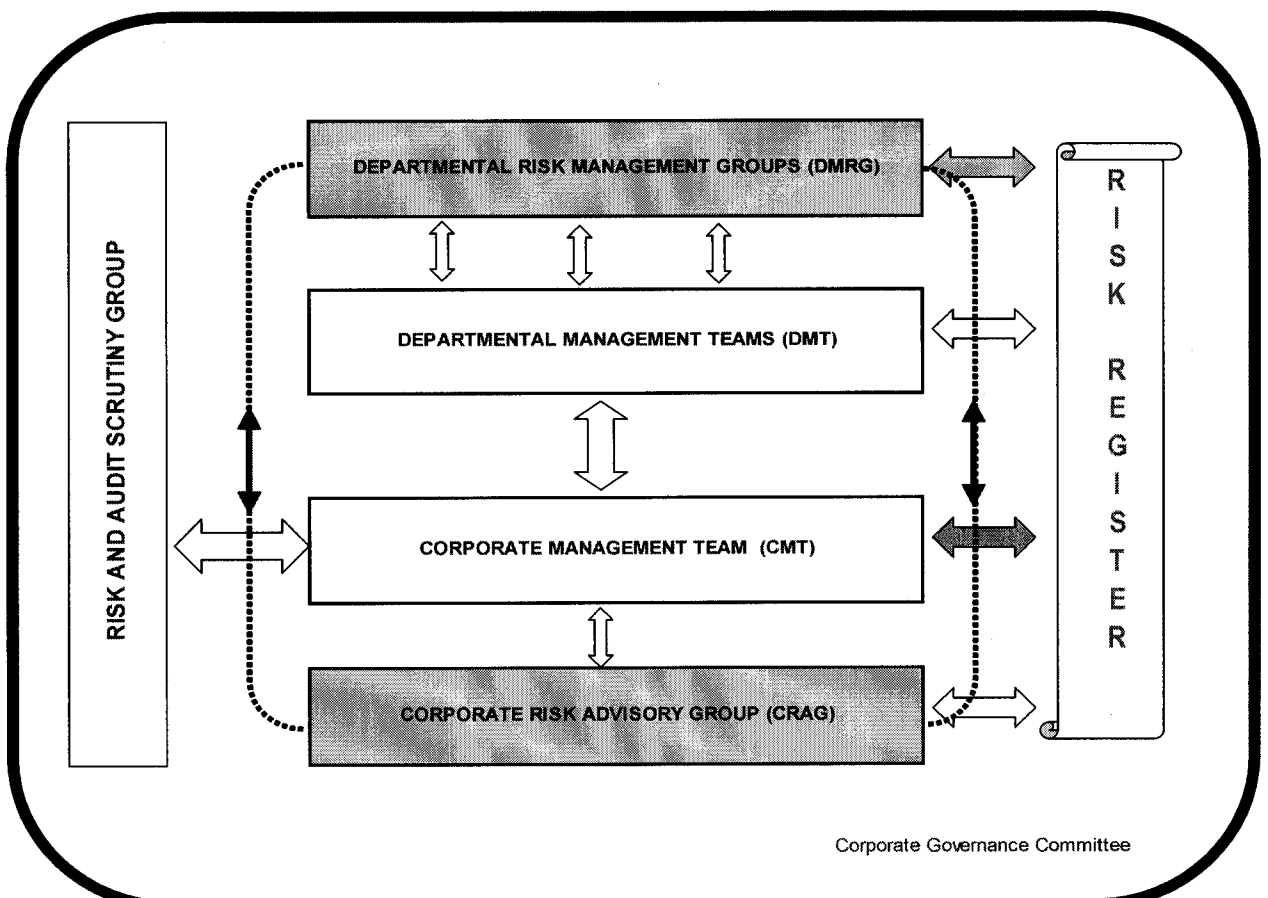
Risk Management Strategy

- 3.4 Departmental Management Teams** assist Executive directors in being able to identify, record and manage operational risks that impact on service delivery and planning and provide early identification of strategic risks with subsequent reporting to the Corporate Management Team as appropriate.
- 3.5 The Corporate Risk Advisory Group** acts as a focus for all Council risk groups. This group is tasked with reporting regularly to the Corporate Management Team on an annual basis.
- 3.6 Departmental Risk Management Groups** monitor operational risks and their impact on service delivery and planning. The Corporate Risk Advisory Group then provides a forum to identify and share best practice across the Council.
- 3.7 All Staff** have a responsibility for identifying opportunities as well as hazards/risks in performing their day to day duties and taking appropriate action to take advantage of opportunities or limit the likelihood and impact of risks.

4. REPORTING FRAMEWORK

- 4.1** The following diagram illustrates the risk management operational framework and the interrelationship between the stakeholders.

RISK MANAGEMENT STRUCTURE



4.2 Within this framework the key contributions can be summarised as follows:

Elected Members	<ul style="list-style-type: none"> ▪ Approve a Risk Management Strategy. ▪ Monitor compliance with the strategy.
Chief Executive	<ul style="list-style-type: none"> ▪ Promotes the culture of risk management throughout the organisation. ▪ Ensures that corporate and cross-cutting risks are identified and appropriately dealt with. ▪ Reports to the Corporate Governance Committee on compliance with the Risk Management Strategy.
Corporate Management Team	<ul style="list-style-type: none"> ▪ Review corporate and cross-cutting risks on a regular basis. ▪ Review departmental Risk Management activity on regular basis.
Departmental Management Teams	<ul style="list-style-type: none"> ▪ Identify, record and manage risks on an ongoing basis in line with the Council's Risk Management Strategy. ▪ Report on departmental risk management activity on a regular basis.
Corporate Risk Advisory Group	<ul style="list-style-type: none"> ▪ Promote best practice and increase awareness of risk management across the council. ▪ Report on Operational Risk Management activity to the Corporate Management Team on a regular basis
Departmental Risk Management Groups	<ul style="list-style-type: none"> ▪ Facilitate risk management through the identification and economic control of risk. ▪ Report on risk activity to Departmental Management Teams

4.3 The Corporate Risk Advisory Group and the Departmental Risk Management Groups have been established specifically to promote risk management activity and the composition and terms of reference of these groups are given in Appendices 1 and 2.

4.4 A risk management good practice guide is available for reference by all staff on the Council intranet site.

5. METHODOLOGY

The following key elements are designed to facilitate the embedding of a risk management culture within the Council.

5.1 Risk Register

The Council's Risk Register system is the recognised recording system used by the Council through the medium of the Departmental Risk Management Groups to monitor and record all significant risks to the Council. A "significant" risk is one that would be of such importance as to prevent the Council from performing its Statutory functions, its maximising opportunity and or/meeting the challenges presented by Community Planning/Business Planning agendas.

Each risk is assessed separately for its Impact, Consequences, Likelihood and Adequacy of existing control measures before arriving at an overall rating. The Council's methodology utilises a traffic light system to rate "risk" within each of these categories with

Red = Major risks exist that could threaten life, property, the reputation of, or Corporate/Departmental aims/objectives of the Council. Urgent action may be considered necessary to improve the risk status to **Amber** or **Green**.

Amber = Risks generally under control but some risk improvement actions need to be taken to improve the risk status to **Green**.

Green = No major hazards exist that could threaten life, property, the reputation of, or Corporate/Departmental aims/objectives of the Council.

It is accepted that retention of all or some risk may be unavoidable, and may even be considered positive, but it is important that the extent to which risk is retained is known and understood. The register also requires the justification of each rating to be recorded.

Each department will maintain its own register, which will feed into the Corporate Management Team arena as well as the Risk Management Advisory Group. Each risk will require to have an identified "risk owner" who will be responsible for ensuring that the risk details recorded remain up to date and are reviewed as at the stated review date.

"Risk Register Review" will be a standard heading in each of the Departmental Risk Management groups, the Risk Management Advisory Group and the Departmental and Corporate Management Teams will routinely review and manage the identified risks to minimise any significant risk exposure.

Previously risk registers were held manually but an integrated corporate electronic Risk Management System has now been developed internally. The responsibility for the ongoing development of the utilisation of the system lies with the Corporate Risk Advisory Group and the responsibility for operational guidance on the system lies with the Risk & Insurance Section within the Finance Service.

5.2 Risk Management Challenge Fund

Resources have been made available both by the council and its insurers to be used through the Risk Management Challenge Fund for risk and loss control improvements. A £50,000 Council budget is supplemented by a £150,000 premium reduction which is provided by the insurers on condition that it is spent in this way. An annual process is in place where the Corporate Risk Advisory Group considers and presents recommendations on the relative priorities being put forward by departments.

As well as providing funding for risk management initiatives the operation of this fund is important in encouraging the development of a risk management ethos as the opportunity to bid for funds is available across the council.

5.3 Risk Management Centre

The Council is committed to the building of a Risk Management Centre to facilitate the monitoring of fire and security protection systems including CCTV monitoring, lone worker monitoring systems and community alarms with a view to reducing the overall cost of risk.

5.4 Business Continuity Planning

The Council is legally obliged to prepare Business Continuity plans and training has been provided by external consultants to officers throughout the Council. These officers have been tasked with preparing plans for their respective areas. This process of ownership will enhance awareness of risk management principles at all levels in the council.

5.5 Committee Reporting of Risk Implications

To demonstrate that strategic decision making includes a full consideration of the associated risk factors the guidance to officers on reporting to committees will ensure that consideration of risk is undertaken and highlighted within reports where necessary. This approach will ensure that any strengths, weaknesses, opportunities, and threats had been fully considered within the appraisal process.

5.6 Performance Templates

The Performance templates completed by Executive Directors will include confirmation of the date of the last review of the departmental risk register and a note of any actions on the register not completed by the previously agreed date.

5.7 Annual Statements of Assurance

The Annual Statements of Assurance from Executive Directors and Heads of Service as well as covering the effective operation of risk management will indicate any actions taken to further consolidate their corporate governance arrangements. This will include any risk management initiatives.

6. KEY CHALLENGES

6.1 The following opportunities have been identified to further advance risk management.

Challenge	Responsibility	Review
Promote the effective utilisation of the new electronic risk management system in the embedding of a risk management culture.	Executive Head of Finance	August 2007
Re-tendering of the insurance portfolio including options with regard to the level of self -insurance.	Executive Head of Finance	September 2007
Ensure an effective risk management partnership is established with the new insurance provider.	Executive Head of Finance	September 2007
Maximise the benefits and opportunities arising from the establishment of the Risk Management Centre.	Executive Head of Finance	September 2007

Composition: -

The following Officers:-

- Chairs of the departmental risk management groups:
 - Development & Property Services RMG
 - Neighbourhood Services RMG
 - Education RMG
 - Social Work RMG
 - Corporate Support RMG
- Executive Head of Finance
- Exchequer Manager / Risk Manager / Health & Safety Manager / Emergency Planning Officer / Legal representative
- The following Agencies should be invited to be represented:-
 - Strathclyde Police; Strathclyde Fire & Rescue
- any other officers the group may choose to invite from time to time.

Terms of Reference: -

- To review and monitor on a continuous basis risk management performance across the Council, to ensure the sharing of best practice and dissemination of risk management information.
- To ensure a consistent and cross cutting approach is taken to manage and control risks that have been identified as impacting on the overall operation of the Council. Including the formation of focus groups where considered necessary to consider specific risk issues.
- To recommend to the Corporate Management Team the annual programme in respect of the Risk Management Challenge Fund. To monitor and report on the progress of projects on an ongoing basis.
- To monitor the content of the risk register system and ensure its effective operation.
- To support the development of Risk Management within East Ayrshire Council and advise the corporate management team as appropriate.

Meetings: -

The Group should meet at least quarterly.

The following risk management groups will be established:

- **Development & Property Services RMG**
- **Neighbourhood Services RMG**
- **Education RMG**
- **Social Work RMG**
- **Corporate Support RMG**

Composition: -

- The group should comprise an appropriate cross section of officers who can adequately represent the services provided across the department
- The group should request support from the council's Risk Manager and other specialist officers who can provide advice as the group considers appropriate.

Terms of Reference: -

- To review and monitor on a continuous basis risk management performance across the Department, to ensure the sharing of best practice and dissemination of risk management information.
- To interact with the Departmental Management Team in the management of key threats and opportunities for Risk Improvement.
- To identify and analyse all risks affecting the department's operations and update the corporate risk register.
- To provide a forum for the discussion of such risks.
- To support Corporate Risk Management initiatives as appropriate.
- The chair of each Group will represent the Department on the Corporate Risk Advisory Group (GRAG)
- To submit recommendations to the Corporate Risk Advisory Group for the annual Management Challenge Fund programme. To monitor and report on the progress of approved projects on an ongoing basis.

Meetings : -

The Group should meet at least quarterly.