| REPORT TO: | FINANCE AND MANAGEMENT COMMITTEE | AGENDA ITEM: 12 |
|---|---|---|
| DATE OF MEETING: | 13th OCTOBER 2005 | CATEGORY: RECOMMENDED |
| REPORT FROM: | DIRECTOR OF CORPORATE SERVICES | OPEN |
| MEMBERS' CONTACT POINT: | KEVIN STACKHOUSE (595811) | DOC: u/ks/risk mgt/planning and monitoring update |
| SUBJECT: | RISK MANAGEMENT – REVIEW AND MONITORING UPDATE | REF: |
| WARD(S) AFFECTED: | | TERMS OF REFERENCE: FM 14 |

## 1.0 Recommendations

1.1 That the updated risk register is noted.

1.2 That the process of embedding risk management into the culture of the Council is noted.

1.3 That a Member is appointed to the Council's Risk Management Group.

## 2.0 Purpose of Report

2.1 To provide an annual review of risk management and to assist the Council in its day-to-day business by identifying and minimising key risks. This is in accordance with the Council's Risk Management Policy Statement (detailed in Appendix 1).

## 3.0 Executive Summary

3.1 This report gives an update on the Council's main risks following a comprehensive review and update of the risk registers by Heads of Service. This exercise was completed during the recent service planning and risk management review processes to further embed risk management at the Council.

3.2 The process undertaken to update the risk register was as follows:

- Services re-visited their risk catalogues in order to identify and review risks to form the Council's holistic risk register.

- The catalogues were reviewed by the Zurich Municipal (ZM), the Councils insurers and appointed risk management specialists.

- An assessment of higher-level corporate risks by the Corporate Management Team.

3.3 This report is the final stage of the annual review. Having completed the updated risk register, the report presents:

- An updated risk map for the Council covering all services
- The highest rated risks in terms of severity and probability
- Key corporate risks facing the Council

## 4.0 **Detail**

### **Background**

4.1 Increasingly, risk management is no longer seen as synonymous with insurance and it is now recognised that around 80% of risks cannot be insured against. Consequently, it is more closely aligned with systems of internal control and with business planning. Essentially, risk management is:

> "The management of integrated or holistic business risk 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" (ZM/SOLACE JULY 2000)

4.2 Risk management is a key component of the Councils corporate governance arrangements is subject to internal inspection by the Audit Commission and is a significant element of CPA. It applies to all those services we deliver including those where the Council is in partnership with others.

4.3 It is a key element of service planning and the main benefits of having a fully integrated system of risk management are:

- Increased likelihood of achieving objectives by identifying the barriers to achievement.
- Less risk averse in innovation, as there is an understanding of how to mitigate risks.
- Improved business planning through a risk based decision-making process.
- Focus on outcomes not processes.
- Enhanced performance.
- Better governance.

### **Categories of Risk**

4.4 There are essentially two types of risk. Firstly, there is the direct threat or damaging event that could prevent the Council from achieving its objectives. Then, there are the opportunities that present themselves, that if we are to succeed will require risks to be managed.

4.5 In order to ensure all possible risks are covered, whether at service or corporate level, there are 13 categories of risk specifically identified for local authorities as detailed in the following diagram. All these have been considered throughout the process of updating the risk register:

The categories of risk
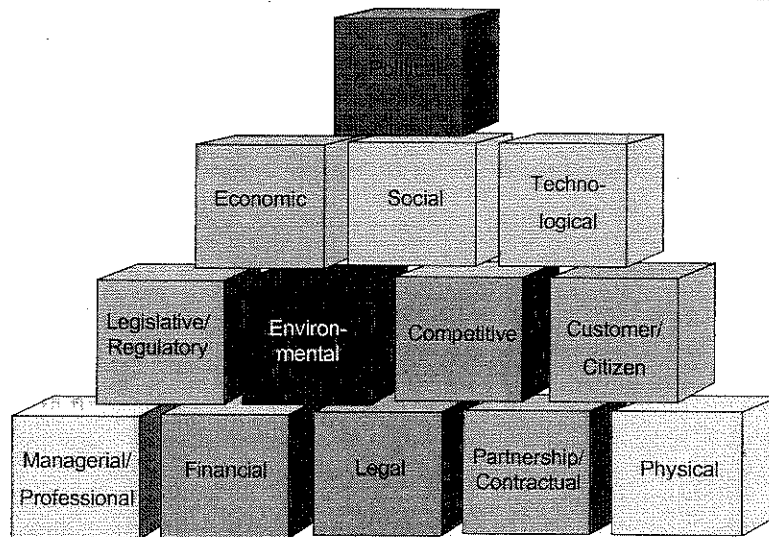
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**Significance of Risk**

4.6   In addition to the above, it is essential to assess the relative significance of the risks identified. The Risk Management Group has previously determined the thresholds and the two variables that determine the level of risk are essentially: -

- The likelihood/**probability** of an occurrence within a time scale, and

- The **severity** (or consequence) of said occurrence against the Councils objectives.

4.7   It is important to note that these do not merely relate to financial loss, but other types of cost such as injury or fatality to individuals or bad publicity.

4.8   The factors to take into account when assessing the significance of risk are detailed in the following tables.

<u>Severity of Risk</u>

| Estimation | Indicators |
|---|---|
| High (I) | Financial impact > £50,000<br>Significant impact on Council's strategy or operational activities<br>Significant stakeholder concern e.g. real risk of fatality / severe injury |
| Medium (II) | Financial impact between £10,000 and £50,000<br>Moderate impact on the Council's strategy or operational activities<br>Moderate stakeholder concern e.g. low risk of injury |
| Low (III – IV) | Financial impact less than £10,000<br>Low impact on the Council's strategy or operational activities<br>Low stakeholder concern |

## Probability of Occurrence

| Estimation | Description | Indicators |
|---|---|---|
| High (Probable – A to B) | Likely to occur each year or > 25% chance of occurrence | Potential of it occurring > 3 times in 10 years;<br>Has occurred in past two years |
| Medium (Possible – C to D) | Likely to occur in a 10 year time period or less than 25% chance of occurrence | Could occur up to 3 times in 10 years.<br>Could be difficult to control due to some external influences.<br>Is there a history of occurrence? |
| Low (Remote – E to F) | Not likely to occur in 10 year time period or less than 2% chance of occurrence | Has not occurred.<br>Unlikely to occur. |

4.9 This process is consistent with the PRINCE2 methodology for project management that the Council has adopted. The main areas of risk, i.e. service risk, corporate and project risk can be integrated into the Council's Risk Register.

**Embedding Risk Management.**

4.10 The broad spectrum of issues and risks facing the Council means that strategic risk management cannot be done in a piecemeal fashion. It affects the whole organisation and needs to be part of the corporate and service planning process.

4.11 The CPA inspection identified that the Council had the appropriate processes in place to manage Risk Management. However, there was a need to further embed risk management into the culture of the Council. As part of this, the following training and awareness sessions have taken place:

- Employee awareness sessions for Heads of Service and Service Managers (8th September 2005) and

- Training for members (28th September 2005)

**Updating the Risk Register.**

4.12 During September, all services (Heads of Service and Senior Managers) re-visited their risk catalogues. This involved an assessment of previous risks that needed to be removed as action has been taken to mitigate the risk, but including new risks that have been identified throughout the service planning process.
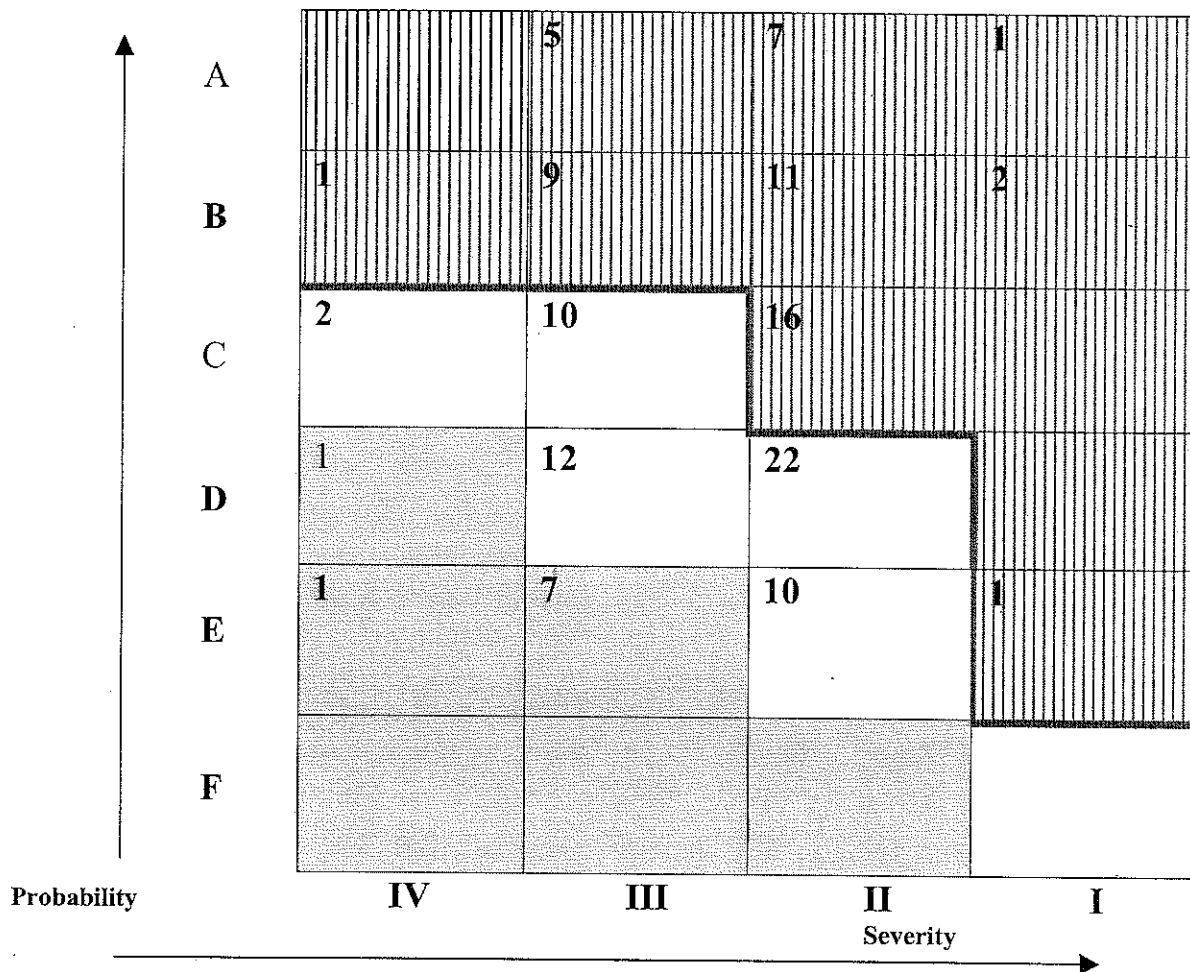
4.13 To provide some external and independent analysis, the review of risk registers was facilitated by ZM to ensure that registers were:

- Robust in definition.
- Had captured all key risks.
- Had prioritised all key risks.
- Actions were being implemented through processes within each service area.

4.14 Corporate Management Team has also undertaken an assessment of high-level corporate risks.

4.15 In total, **118** separate risks were identified in the risk register covering all services, and these are analysed as follows:

**Risk Map for the Council**

| Probability | IV | III | II | I |
|---|---|---|---|---|
| A | | 5 | 7 | 1 |
| B | 1 | 9 | 11 | 2 |
| C | 2 | 10 | 16 | |
| D | 1 | 12 | 22 | |
| E | 1 | 7 | 10 | 1 |
| F | | | | |

Severity →

Key

Horizontal line = high risk
Clear = medium risk
Shaded = low risk

4.16 A review of the risks identified in the risk register reveals the following analysis:

- 44% of risks identified are considered 'high'
- 48% of risks are considered 'medium', and
- 8% of risks identified are considered 'low'

4.17 It is clear, that the Council potentially, faces many risks of a varying nature. The "challenge" process identified over 50 risks considered to be high. However, through the service planning process, these risks are being monitored, managed and being kept under review.

4.18 The most critical risks currently facing the Council are those in the immediate top right of the matrix. This is where it is considered that there is a strong probability of occurrence, with potentially, significant consequences for the Council. Effectively, these are the ones in **A1/2 and B1.**

4.19 From the overall risk analysis and ranking, the most critical risks identified by Heads of services are shown in the following table.

| Risk | Action |
| --- | --- |
| Lack of adequate business continuity planning | • Now being addressed corporately to meet requirements of Civil Contingencies Act. Once plans formulated and approved, this should reduce the risk. |
| Running major events (Festival of Leisure, Christmas Lights) | • Working with other agencies on production of emergency plan. <br> • Management of events kept under review. |
| Implementation of new revenues and benefits system | • Being kept under review. <br> • Regular meetings of the project board to ensure timescales are met. <br> • Risks constantly reviewed. |
| Substantial changes required to maintain existing system, pending above | • This is being done as necessary. <br> • Being kept under review. |
| Reliance on external sources to fund posts in Leisure and Community Development | • Looking to mainstream some posts <br> • Working with partners to secure on-going support. |
| Key person dependency in I.T. | • Training programme in place. <br> • Purchase of packages per I.T. strategy. |
| Covering absence for Legal Services – professional duties | • Staffing structure to be reviewed. <br> • Review of succession planning. <br> • Use of staff rotation. |
| Reliance on partnerships/contracts to provide certain planning services | • Needs to be reviewed in line with corporate objectives. |
| Long term viability of the HRA in accordance with Government targets | • Financial forecasts updated regularly. <br> • Options to relieve pressure on the HRA under review. |
| Amount of affordable housing in the District does not meet Government targets | • Working with other agencies to identify additional funding. <br> • Working with planners to issue further guidance. |

## Common Themes

4.20 Throughout all services, some common issues emerged to varying degrees. These centred around:

- Covering staff absences/shortages
- Capacity to deliver new challenges and Government iniatives, etc.
- Dependency on key staff
- Reliance on partnership funding that is not guaranteed
- Implementing new systems and the increasing reliance on I.T.

## Business Risks identified by Corporate Management Team (CMT)

4.21 Some of these common issues are borne out by looking at the risks identified by CMT. They identified 6 key corporate risks as detailed in the following table.

| Risk | Action |
|---|---|
| The Council has high aspirations and an aspirational corporate plan has been produced. However there are finite resources to work with. Risk of not setting and sticking to clear priorities. | • Prioritise new spending in line with the plan.<br>• Develop mechanism to shift resources from lower to higher priorities.<br>• Make use of specific grants, Section 106 agreements, funding bids, partnership working and effective procurement practices to maximise resources.<br>• Consult local people and service users on a regular basis. |
| The organisation needs to be 'fit for purpose' to be able to deliver plan priorities. However there are capacity issues in terms of numbers and skills (management and change management). Risk that we do not have skills and capacity to deliver. | • Review the structure of the organisation and implement consequential proposals.<br>• Retain 'Investors in People' status.<br>• Implement employee training and development programmes linked to business needs.<br>• Make full and effective use of the Corporate Improvement Group (made up of Senior Managers).<br>• Establish project plans for all major projects and monitor delivery. |
| Much of the organisation's work is dependent on external funding and programmes that eventually end. Risk of being unable to continue externally funded programmes. | • Develop exit strategies.<br>• Look to mainstream posts if possible.<br>• Continue to work with partners to sustain on-going funding. |
| A change in the local and/or national political agenda. | • Monitor the 'drivers' for change and linking this to our corporate and service planning processes.<br>• Maintain flexibility within the organisation to respond.<br>• |
| Reliant on many partnerships as an organisation. Risk of not maintaining good partnership working | • Adopt best practice in terms of partnership working, including evaluation and performance management.<br>• Establish formal structures and processes |

| | for major partnerships. |
|---|---|
| | • Partnership capacity building. |
| The district is expanding which is resulting in demographic change and increasing expectations from the community. Risk of not meeting increasing demands/needs. | • Prioritise new spending.<br>• Develop mechanism to shift resources.<br>• Make use of specific grants, Section 106 agreements, funding bids, partnership working and effective procurement practices to maximise resources.<br>• Consult local people and service users on a regular basis. |

## 5.0 Financial Implications

5.1 None associated directly with this report.

## 6.0 Corporate Implications

6.1 None associated directly with this report.

## 7.0 Community Implications

7.1 None associated directly with this report.

## 8.0 Conclusions and the Next Steps

8.1 Clearly, the Council faces many risks. Although, this needs to be kept in perspective, it is important that risk management continues to play an important part across all aspects of service delivery and in the planning framework. This includes the consideration of service development and new investment.

8.2 By embedding risk management into the culture of the Council, this helps to ensure that risk is considered when reviewing strategies, policies and in project management.

8.3 The Council's revised risk register (using a consistent template) will be incorporated into the corporate plan and individual service plans. This needs to be updated to ensure any outstanding actions are clearly identified.

8.4 In order for Members to be involved more in the process, it is considered best practice that a Member should be part of the corporate Risk Management Group. This is proposed as a recommendation.

8.5 Finally, the Council's risk register will continue to be reviewed in detail on an annual basis. An annual report will be provided to this Committee.

## 9.0 Background Papers

9.1 None