

AUDIT COMMITTEE

25 SEPTEMBER 2014

REVIEW OF RISK MANAGEMENT

Report from: Robin Cooper, Director of Regeneration, Community & Culture
and Chair of Strategic Risk Management Group

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Summary

This report updates to Committee on the progress of the Council's risk management activities.

1. Budget and Policy Framework

- 1.1 Good corporate governance requires that local authorities identify all their significant strategic and operational risks, and put effective risk management and internal control systems in place. All local authorities are now obliged to publish an annual statement on their systems of governance, which include risk management and internal control.
- 1.2 The Risk Management Strategy underpins all aspects of Council work and is fundamental to the Performance Plan in terms of "giving value for money".

2. Background

- 2.1 In February 2006, the Council recognised that the existing risk strategy and risk management arrangements would not meet the criteria for the then CPA assessments. A number of measures were agreed that would affect a culture change and ensure that risk management processes were robust and embedded into the organisation. These were incorporated into a new Risk Management Strategy.
- 2.2 The Council uses a risk management methodology and model that was developed by an external consultant. Each year Internal Audit carries out an annual review of the Council's arrangements to identify and manage risk.
- 2.3 The Council's risk management activities continue to be co-ordinated by the Strategic Risk Management Group (SRMG), which is chaired by the Director of Regeneration, Community & Culture and includes a representative from each directorate.

3. Advice and Analysis

- 3.1 **Risk Management Strategy** - The 2013-2014 audit review of risk management arrangements assessed compliance with the Council's risk management strategy and compared the strategy against recognised good practice. The audit opinion found this to be 'satisfactory'.
- 3.2 The Strategic Risk Management Group and Extended Management Team has reviewed the Risk Strategy, (Appendix A) and recommend that no significant changes need to be made at this time.
- 3.3 **The Risk Management Audit 2013/2014** – whilst the audit confirmed that risk management arrangements are satisfactory, it identified three medium priority recommendations which were outstanding from the previous audit.
- 3.3.1 The first recommendation related to a lack of evidence on Covalent as to whether service / divisional risks were being identified as part of the planning process or monitored effectively as part of AD quarterly reporting. This has been addressed through Performance and Intelligence Managers for directorates issuing new service planning guidance including the need to identify risks as part of the annual service planning and the requirement to conduct service manager and AD quarterly reviews, with this information to be recorded on Covalent.
- 3.3.2 Auditors recognised that ongoing discussions about how risk is recorded contributed to the lack of progress on recommendation two. No further work has taken place on developing directorate risk registers due to potential changes to the way risk is recorded.
- 3.3.3 Directorate Management Teams are responsible for the identification and management of risk to aid performance of directorate priorities. Resources and processes need to be identified and implemented to develop and maintain Directorate Risk Registers.
- 3.3.4 The third recommendation identified that the risk management process has not been rolled out and developed to reflect changes within the organisation e.g.
- i) no awareness training provided to service managers; and
 - ii) no representative from Public Health on the SRMG.
- 3.3.5 Following attendance at risk management training by the Performance and Intelligence Manager (RCC) –
- i.a) a full review on the current Strategic Risk Management Framework to be completed to align Medway's Framework with current industry standards;
 - i.b) senior and service managers to be provided with training on risk. This should ensure that service plans and risk registers are completed and uploaded to Covalent.
 - ii) A representative from Public Health Directorate on the Strategic Risk Management Group has been implemented.

4. Financial, legal and risk implications

- 4.1 This report brings forward the six monthly review of the Council's risk register which is integral to the Council's approach to risk management.
- 4.2 There are no direct financial or legal implications arising from this report although clearly the inability to control or mitigate risks could have a financial or legal impact. Risk rating for this report is E3 (Likelihood: very low, Impact: Marginal).

5. Recommendation

- 5.1 Members are asked to note progress on the Council's risk management activities.

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Appendices: Appendix A - Risk Management Strategy

Background papers

None

Medway Council Risk Management Strategy

1. Introduction

1.1 Risk management is an integral part of good governance. The Council recognises that it has a responsibility to identify and manage the barriers to achieve its strategic objectives and enhance the value of services it provides to the community.

1.2 This strategy incorporates and:

- promotes a common understanding of risk;
- outlines roles and responsibilities across the Council;
- proposes a methodology that identifies and manages risk in accordance with best practice thereby seeking to prevent injury, damage, loss and reducing the cost of risk.

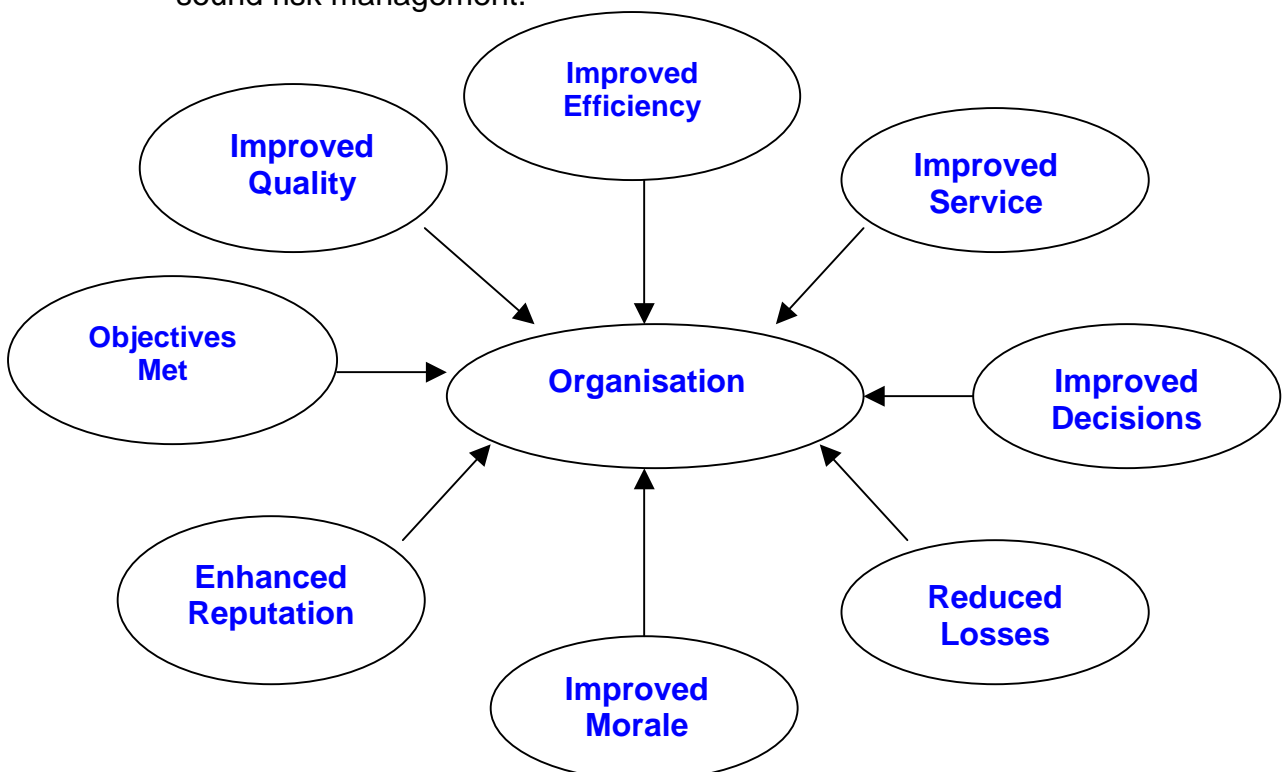
1.3 The strategy sets out:

- a definition of risk and what is meant by risk management.
- actions that need to be taken.
- roles and responsibilities.

1.4 The strategy will be reviewed annually to ensure that it remains up-to-date and continues to reflect the Council's approach to risk management.

2. The Benefits of Risk Management

2.1 The following diagram sets out the benefits that are associated with sound risk management.

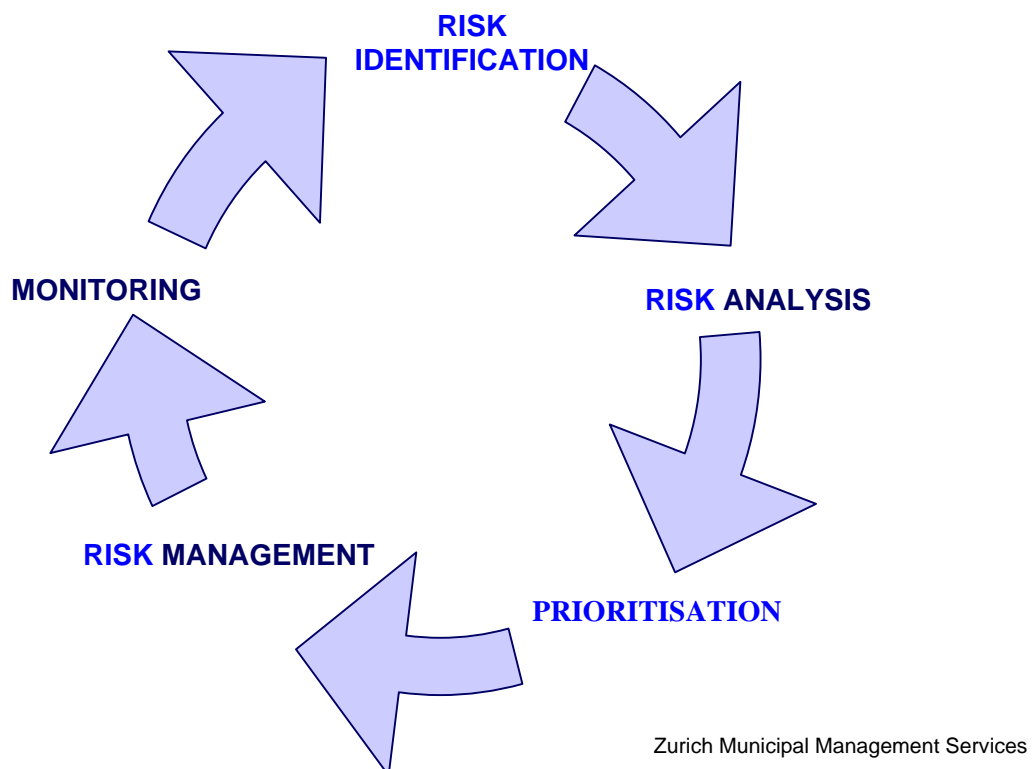


Medway Council Risk Management Strategy

3. What is Risk Management?

3.1 Risk management is a focus on the risks facing the Council, making the most of opportunities (making the right decisions) and achieving objectives once those decisions are made.

3.1.1 The process of risk management can be illustrated through the risk management cycle:



3.2 Risk helps to deliver performance improvement and is at the core of decision-making, business planning, managing change and innovation. It needs to be practised at both management and service delivery level. It enables the effective use of resources, secures the assets of the organisation and its continued financial and organisational well-being.

3.3 There are two types of risks:

direct threats (damaging events/issues) which could lead to a failure to achieve objectives. An example might be severe flooding in Strood affecting the local economy and residential properties.

Medway Council Risk Management Strategy

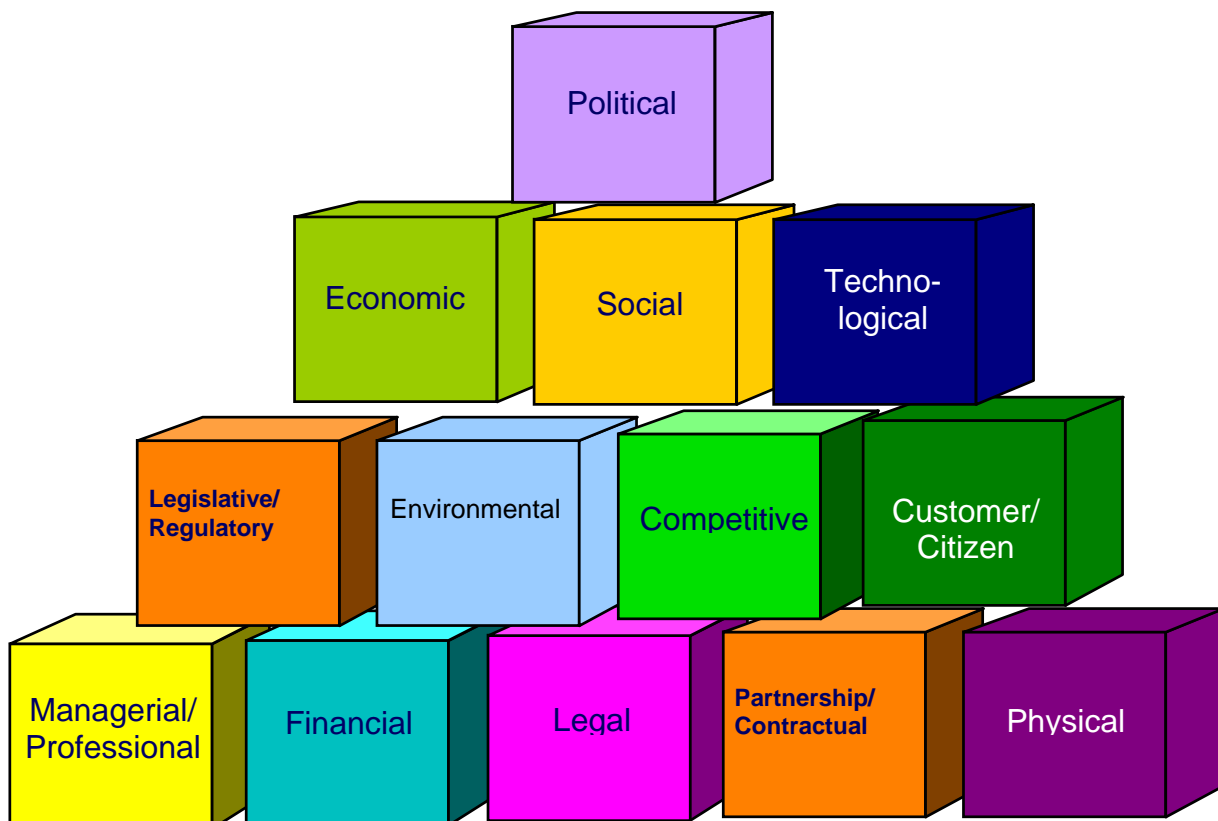
opportunities (constructive events/issues) which if exploited could offer an improved way of achieving objectives, but which are surrounded by threats. An example was the move to the new Corporate HQ with all ICT in one building. Having established a potential risk there is a need to work on a strategy to mitigate the risk. This particular risk has been successfully dealt with.

3.4 Business v Operation risks

Business/service risks: Those which have been identified as potentially damaging to the achievement of the Council's objectives and departmental/ service business plans. An example might be a major fire in a Council School.

Operational risks: Risks which managers and staff are likely to encounter in the day-to-day work situations. An example might be a loss of key staff.

3.5 Risk is a condition, an act, situation or event with the ability or potential to impact on customers, units/departments by either enhancing or inhibiting corporate/departmental performance, attainment of corporate/departmental objectives or meeting customers and stakeholders' expectations. The Scope of Business Risk model below shows the number of areas that can be affected.



**Medway Council
Risk Management Strategy**

3.6 Risk are benchmarked against corporate goals:

a) Impact: To what extent the issue, assuming it were to manifest itself to the degree defined in the consequences, would impact on the organisation’s ability to achieve its vision, aims and priorities? These are measured as:

- I Catastrophic (Showstopper)
- II Critical
- III Marginal
- IV Negligible

b) Likelihood: (resource allocation): Taking into account existing measures to manage issue (not those planned or not yet in operation), how likely is the ‘impact’ to occur within the timeframe of the corporate plan. These are measured as:

- A Very high
- B High
- C Significant
- D Low
- E Very low
- F Almost impossible

3.7

It may not be cost-effective to manage all risks – even significant ones. In these circumstances the Council may decide to tolerate the risk.

To help the Council make that decision, all risks will be categorised using the measures detailed at 3.6 and plotted against the Council’s Strategic Risk Profile shown below:

A				
B				
C				
D				
E				
F				
	IV	III	II	I

**Medway Council
Risk Management Strategy**

The Council have agreed the tolerance line be drawn at CII (Significant & Critical). The Council will then decide what action to take to monitor such risks.

- 3.8 Risks will be regularly monitored using service planning and AD Quarterly Reports and the Council’s performance management system (Covalent). Risks above the tolerance line (CII) will be escalated to the next management level as detailed in Appendix 1.
- 3.9 Effective risk management includes regularly reviewing our emergency planning programmes and service continuity management to maintain a high standard in our response to potential crises. This means developing, implementing and maintaining an action oriented process for responding to any emergency, managing major incidents and recovering the service level to the local community.

4. Roles & Responsibilities

- 4.1 The following details the roles and responsibilities for delivering risk management.

Who	Roles & Responsibilities
Members	<ul style="list-style-type: none"> • commit to the Risk Management Strategy. • review risks through the 6 monthly reports on key strategic risks and information contained in the Council Plan, Cabinet reports and AD Quarterly Reports.
Management Team (MT)	<ul style="list-style-type: none"> • review and manage the Council’s key strategic risks every 6 months. • provide leadership and support to promote a culture in which risks are managed with confidence at the lowest appropriate level.
Strategic Risk Management Group (Membership shall be: A chairman who is a nominated director and appropriate representation from each Directorate with an overall responsibility for risk issues.)	<ul style="list-style-type: none"> • chair of group to sponsor risk management at MT (currently Director of Regeneration, Community and Culture). • ensure the Council’s key strategic risks are reviewed, updated and presented to MT every 6 months. • regularly review the risk management and control process employed across the Council.

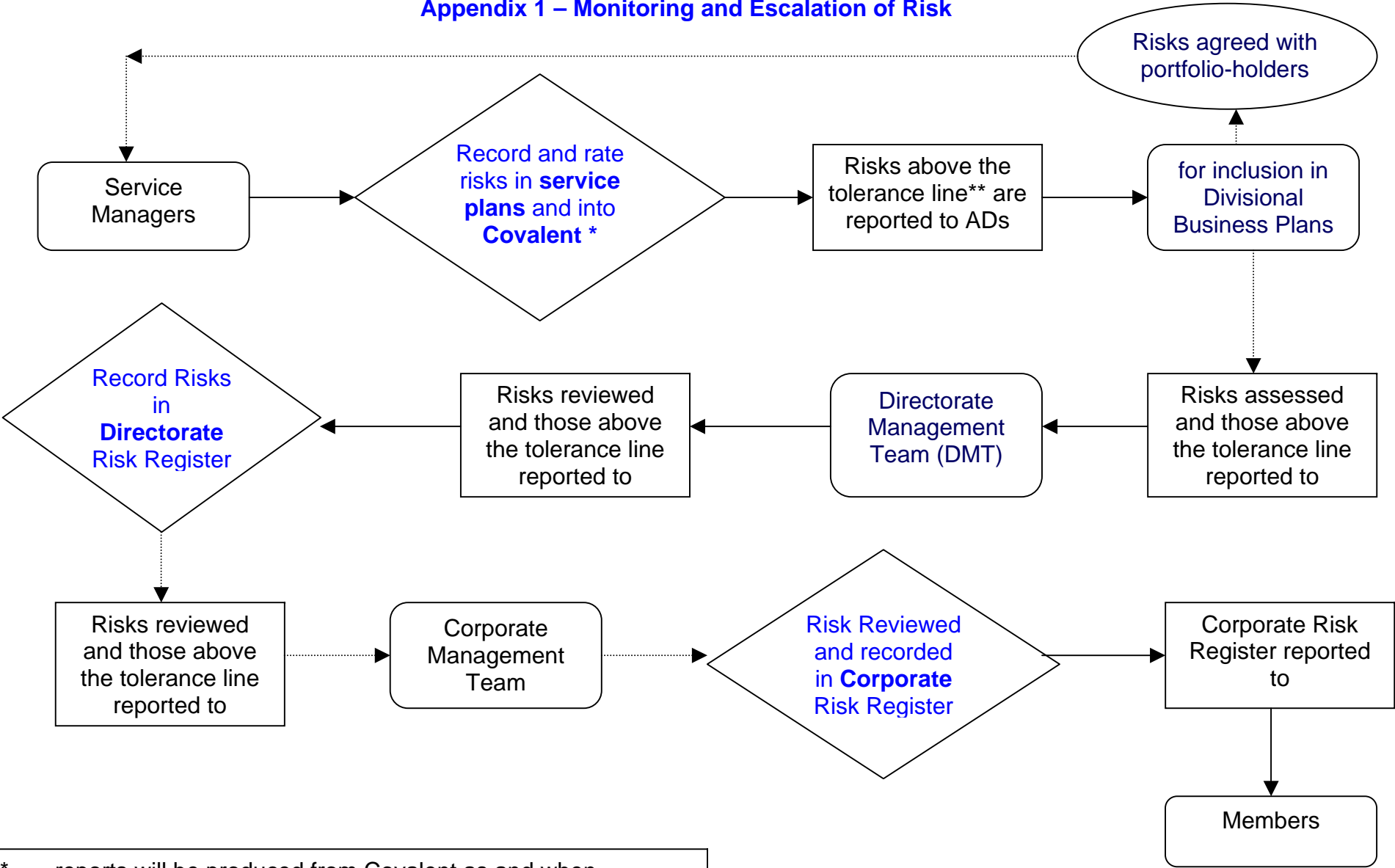
**Medway Council
Risk Management Strategy**

Who	Roles & Responsibilities
Strategic Risk Management Group	<ul style="list-style-type: none"> • review findings and recommendations of external auditors, internal audit or other relevant third parties in relation to risk management. • review the impact of any changes in the organisation on the risk management process and the response to these changes including the update of the risk register. • champion risk management, the practice, awareness and buy-in across the organisation. • provide strategic support to the development of service continuity plans and the emergency planning service.
Directorate Management Teams (DMT)	<ul style="list-style-type: none"> • ultimate responsibility for the management of all directorate risks and maintenance of a sound system of internal control within the directorate and across partnership working • review and monitor the effectiveness of the risk management actions relative to the significant key risks to the directorate on a quarterly basis. • reflect significant changes to business objectives and related risks and, where relevant, address them in the Directorate Business Plan.
Assistant Directors	<ul style="list-style-type: none"> • oversee the effective implementation of risk management within their service area within the agreed principles and framework. • discuss significant key risks and risk management actions with their portfolio holders and report on progress through the AD Quarterly Reports. • alert Directorate Management Team (DMT) if impact or likelihood of the risk increases.

**Medway Council
Risk Management Strategy**

Who	Roles & Responsibilities
Service Managers	<ul style="list-style-type: none"> • identify risks for their service areas, assess them for likelihood and impact, propose actions to mitigate them and allocate responsibility for the controls mitigating the risk. • record them into service plans. • discuss significant key risks and risk management actions with AD and reporting progress through the AD Quarterly Reports. • alert their line manager if impact or likelihood of the risk increases.
Staff at all levels within the Council	<ul style="list-style-type: none"> • identify, assess and report risks within their service areas. • practice risk management in their day to day activities. • alert their line manager if impact or likelihood of the risk increases.

**Medway Council Risk Management Strategy
Appendix 1 – Monitoring and Escalation of Risk**



* – reports will be produced from Covalent as and when required.
 ** - tolerance line is currently CII