APPENDIX 2

RISK MANAGEMENT STRATEGY

Wyre Forest District Council

December 2007

Contents

1. INTRODUCTION

1.1 Purpose and Objectives of the Strategy

The purpose of this Risk Management Strategy is to establish a framework for the effective and systematic management of risk, which will ensure that it is embedded throughout the Council and makes a real contribution to the achievement of the Council's vision and objectives.

The objectives of this strategy are to: -

- Define what risk management is about and what drives risk management within the Council
- Set out the benefits of and the strategic approach to risk management
- Outline how the strategy will be implemented
- Identify the relevant roles and responsibilities for risk management within the Council
- Formalise the risk management process across the Council - making it a living tool that is seen as part of the normal business

1.2 Approval, Communication, Implementation and Review of the Risk Management Strategy

The Risk Management Strategy will be made available to:-

- All Members of the Council
- Corporate Management Team
- Key Stakeholders such as Local Strategic Partners , etc
- Other interested parties such as the Audit Commission

It will be placed on the Council's intranet site so that all employees can have access and easily refer to it. It will be part of the employee induction process so that all individuals are aware of both theirs and others role and responsibilities for risk management within the Authority.

The strategy will be reviewed annually especially after key changes in Central Government policy or inspection regimes, or following internal reorganisation or changes in policy.

As part of this strategy, risk management will also be integrated into the existing performance management framework using the extant Performance Management system and over time, this should further embed understanding of risk issues within the business planning and management processes.

1.3 What is risk management?

Risk Management can be defined as:-

> **“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. The latter is achieved through controlling, transferring and living with risks”**
> ***ZMMS/SOLACE, Chance or choice? July 2000***

Risk management is essentially about identifying all the obstacles and weaknesses that exist within the Council. An holistic approach is vital in ensuring that all elements of the organisation are challenged including decision making processes, working with partners, consultation processes, existing policies and procedures and also the effective use of resources - both employees and physical assets.

The next stage is to prioritise them to identify the key obstacles to the organisation moving forward. Once prioritised, it is essential that steps are then taken to effectively manage those key obstacles /risks. The result is that major obstacles or blockages within the organisation can be mitigated to provide the Council with a greater chance of being able to achieve its objectives.

Risk management needs to be seen as a strategic tool and is an essential part of effective and efficient management and planning.

1.4 Why do we want (and need) to do risk management?

1.4.1 We are required to do it

By incorporating risk management within the business planning and performance management processes, this will strengthen the ability of the Council to achieve its objectives and enhance the value of the services provided.

However it is also something that the Council is required to do, for example:

- The CIPFA/SOLACE framework on Corporate Governance requires the Council to make a public ‘Statement of Assurance’ annually, including the Council’s risk management strategy, process and framework. The framework requires the Council to establish and maintain a systematic strategy, framework and processes for managing risk.

- The Comprehensive Performance Assessment (CPA) also examines risk management as a key discipline that all local authorities should be carrying out and specifically asks whether an authority has assessed the risks inherent in its corporate and service plans and partnerships. It also looks for evidence of a robust risk management strategy that is used in planning and delivering services. In the future, the replacement regime for the CPA, the Comprehensive Area Assessment (CAA) will continue this theme and contain many references to risk which will require sound risk management to be in place. Details of the current CPA Key Line of Enquiry 4.1 for risk management will be made available on the Council's Intranet webpages and will be updated to reflect changes in the guidance relating to external inspection processes, as appropriate.

1.4.2 Benefits of risk management

- Successful implementation of risk management will produce many benefits for the Council, these include:

- Consistent approach to the way risks are managed throughout the Council.

- Improved decision making – risks reported and considered within Council decision making .

- Become less risk averse in innovation (because you understand) and hence more innovative/opportunities.

- Improved business planning through a risk based decision making process focus on outcomes not processes.

- Improved performance (accountability and prioritisation) - feeds into performance management framework.

- Better governance - and demonstration thereof to stakeholders helps protect the organisation.

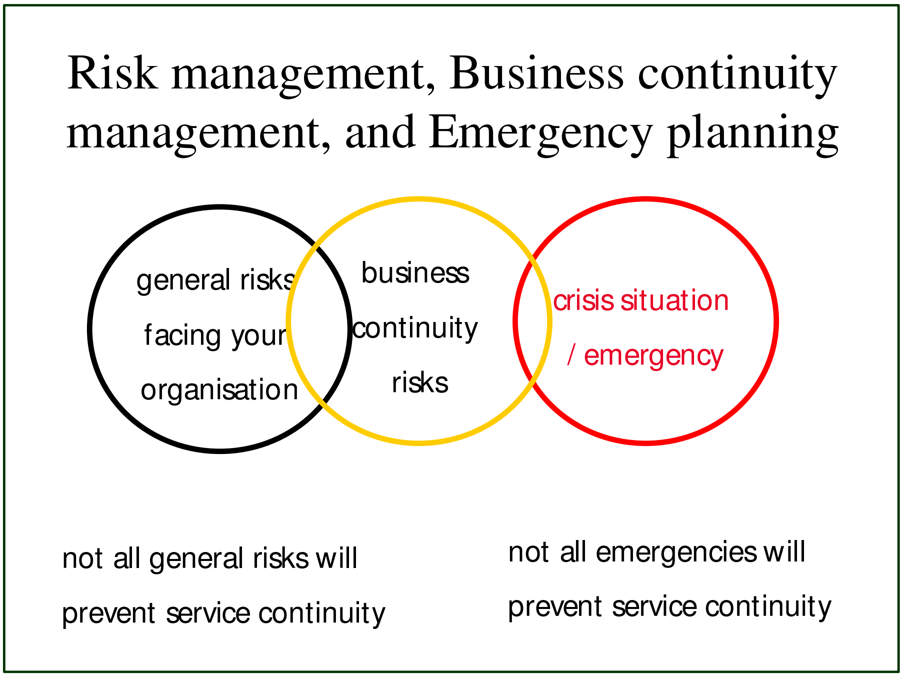
- The main benefit though is that the Council will be more likely to achieve its vision and the objectives underpinning this, because the barriers are being actively identified and managed. Thus -

> "We want Wyre Forest to be a District with healthy, safe and flourishing communities that are supported by a strong and diverse economy. The local environment will be clean, inspiring and valued, where people are proud to live and work and are attracted to visit and invest"

1.5 Links to other business processes

1.5.1 Risk management, Business continuity and Emergency planning.

There are important links between these areas, however it is vital for the success of risk management that the roles of each and the linkages, are clearly understood. The diagram below illustrates the differences.



- **Risk management** is about trying to identify and manage those risks which are more than likely to occur and where the impact on the strategic objectives can be critical or even catastrophic.
- **Business continuity management** is about trying to identify and put in place measures to protect the priority functions against catastrophic risks that can stop the organisation in its tracks. Some areas of overlap e.g. where the I.T infrastructure is not robust, will feature as part of the organisation risk assessment and also be factored into the business continuity plans.
- **Emergency planning** is about managing those incidents that can impact on community safety (in some cases there could also be a business continuity issue) e.g. a plane crash is an emergency and becomes a continuity event if it crashes on the key Council administration centre!

1.5.2 Risk management in projects and partnerships

Risk management needs to be a key part of the ongoing management of projects and partnerships:-

a) Project / Programme management

Within all successful project management methodologies, the effective management of risk is key to their eventual success. Therefore the approach to risk management outlined within this document should be applied, at an appropriate scale, to all projects within the Council.

The existing Project/Programme management arrangements give consideration to risk issues but this will need to be reviewed to ensure that the guidance and processes currently in place complement and support the delivery of this strategy.

b) Partnerships

Similarly, partnerships need to be effectively risk managed. This is especially true as partnerships are inherently more 'risky' due to a perceived or real 'lack of control', diverse and numerous partner organisations, multifaceted structures and cultures, and the different agendas of partner organisations, etc.

The CPA requirements (KLOE 4.1) state that risks in relation to partnerships be assessed. "Governing Partnerships" published by the Audit Commission recommends that organisations should:

- Take hard decisions to scale down their involvement in partnerships if the costs outweigh the benefits, or if the added risks cannot be managed properly
- Review each partnership to strengthen accountability, manage risks and rationalise working arrangements
- Ask - how do you monitor and mitigate the risks associated with working across a wide variety of partnerships? Is your monitoring proportionate, as well as effective?
- Ask - do you know that your own organisational governance arrangements are adequate both to support and to manage the risks of working in partnerships?

All future or current partnership arrangements should use the risk management principles outlined in this document to help them identify and manage the risks both to the partnerships and to the Council, from being involved in the partnership.

In 2006, the Authority produced 'Guidance for Managing Risks and Opportunities in Partnerships' which underpins a Partnership Framework document for Strategic and Operational partnerships. This will need to interface with the updated Risk Management strategy and risk register recording processes to ensure that current and future partnerships arrangements are robust and are supported by the existing corporate performance management system.

1.5.3 Reports to members

Reports or recommendations to Council or Committees should include a consideration of the key risks surrounding the issues raised. The process outlined in this strategy can be used to produce the relevant risk assessment.

2. IMPLEMENTING RISK MANAGEMENT

2.1 Strategic implementation

- To formalise and structure risk management at the Council, it is recognised that there is an obvious and clear link between corporate and service planning and risk management. The linkages are as follows:
- During the risk management process the Council's Corporate Plan Vision, including its five themes and the aims and objectives therein, should be used as a benchmark against which to identify and prioritise the strategic/corporate risks.
- Divisional risks assessments will be carried out in the same way using divisional plans as a benchmark. The linkages ('golden thread') between corporate and divisional plans are thus maintained in the risk management process ensuring that risks are identified and managed at the right level.
- Risk assessments, at all levels should be carried out within the regular business planning cycle and should be completed by February each year as part of the process of formulating the plans. This is advantageous as it makes risk management part of an established process, but also ensures that the mitigation actions for key risks can be included within business plans.
- An important aspect of this strategy is that eventually risk management will be fully integrated with business planning. This will be achieved through the increased use of the existing performance management system which contains a risk management programme.
- In addition to the current responsibilities of the Audit Committee which oversees the assurance framework for the risk management process, good practice suggests that all reports should include a section on risks. Further consideration is needed as to what procedures will best support successful implementation across the Authority.

To support the implementation of this strategy, a 'risk management process toolkit' will be developed and made available on the Council's Intranet site.

2.2 The risk management process

Implementing the strategy involves a 5-stage process to identify, analyse, prioritise, manage and monitor risks as shown in **figure 1**

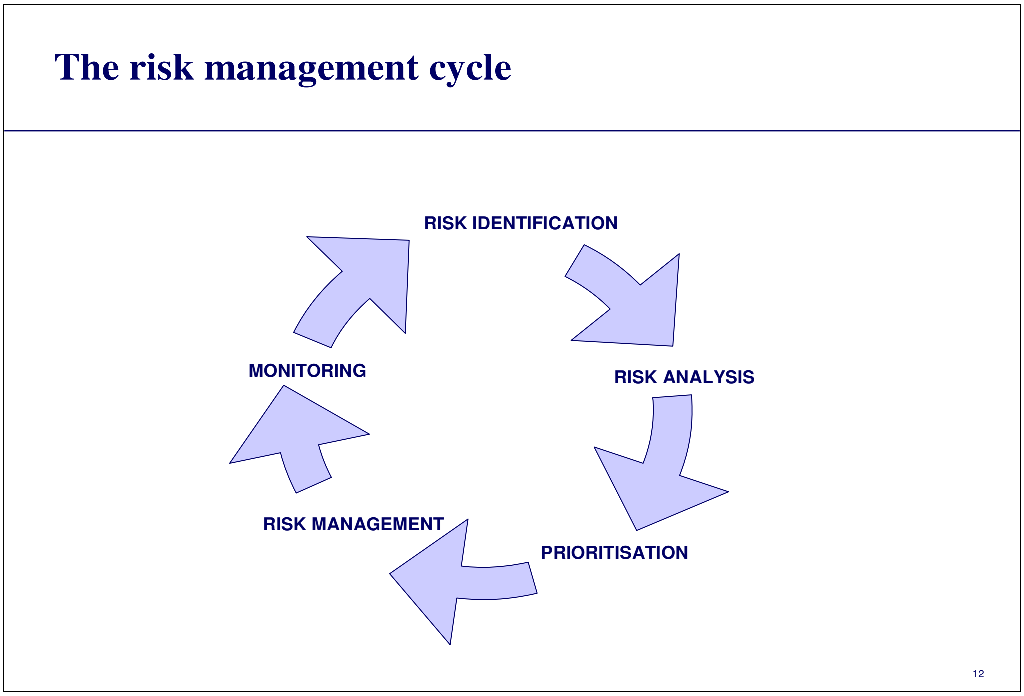


Figure 1: The risk management cycle

2.2.1 Stage 1 – Risk identification

The first step is to identify the 'key risks that could have an adverse affect or prevent key business objectives from being met. It is important that those involved with the process clearly understand the Council's or Division's key business objectives i.e. *'what it wants to achieve'* in order to be able to identify '*the barriers to achievement'*.

Using the categories of risk as a prompt (see Appendix.1), various techniques can be used to identify 'key' or 'significant' strategic/business risks including: -

- A 'brainstorming' session;
- Own (risk) experience;
- 'Strengths, Weakness, Opportunities and Threats' (SWOT) analysis or similar;
- Experiences of others - can we learn from others mistakes?
- Exchange of information/best practice with other authorities, organisations or partners.

In practice a brainstorming session incorporating the key points listed above will often be used, for example, by using an extended divisional management team meeting. What is vital is that this is a group exercise that considers the views of a range of relevant employees, or members, for the risk assessment. No one person holds all the knowledge about risks so to ensure a comprehensive approach as possible, we must involve others.

Similarly, a review of published information such as divisional and corporate plans, strategies, financial accounts, media mentions, inspectorate and audit reports can also inform this stage, as they are a useful source of information.

2.2.2 Stage 2 – Risk analysis

The information gathered needs to be analysed and developed into risk scenarios to provide clear, shared understanding and to ensure the root cause of the risk is clarified. Risk scenarios also illustrate the possible consequences of the risk if it occurs so that its full impact can be assessed. There are 3 parts to a risk scenario, as explained in **figure 2:**

Risk scenario format

Vulnerability	Trigger	Consequence
Affordability of housing in the District is high with the average house price being above local affordability relative to income - but lower than the national average	Unable to improve the provision of affordable housing	• Young people are priced out of the housing market • Drain of economically active people from the District • Population of the District becomes older (more of an ageing population) • Change/increase in the services the Council needs to provide • Damages efforts to build and broaden the local economy

Figure 2: Risk scenario format

The vulnerability explains the background to the risk, or the weakness that currently exists. The trigger is the risk 'event' that could or is occurring, whilst the consequences are the 'worst likely' chain of events that could occur, were the trigger event to occur.

Details of each risk scenario and supporting information, etc, will be logged into the electronic risk register software which forms part of the web based performance management system [Covalent],

2.2.3 Stage 3 – Prioritisation

Due to finite time and resources it is not practicable to manage all of the identified risks, so following identification and analysis, the risks will need to be evaluated to assess the really key ones. This should occur in a facilitated workshop – as a group exercise to gain a range of views and ideally, would involve those who identified the original risks.

The workshop participants will look at the risk scenarios and decide their ranking according to the potential likelihood of the risk occurring and its impact. A matrix (figure 3) is used to plot the risks (each risk should be given an identifying number which is then plotted into the appropriate square on the matrix) and once completed, the risk profile will clearly illustrates the priority of each risk.

When assessing the potential impact of the risks and more specifically their identified consequences, these should be compared to the appropriate objectives e.g. corporate objectives for the strategic risk profile, directorate objectives for the directorate risk profile and service objectives for the service risk profile (where applicable). The challenge for each risk is how much impact it could have on the ability to achieve the objectives.

Likelihood is assessed by asking how likely is it that the trigger event will occur? The combination of both allows the plotting of the risks on the matrix and set the risks in perspective against each other. Those risks towards the top right hand corner with higher likelihoods and impacts are the most pressing with the priority falling as one moves towards the bottom left hand corner.

At the beginning of this stage, a timeframe needs to be agreed, and the likelihood and impact should be considered within the relevant timeframe. A 3-year time horizon is being used at strategic level by the Council, with a 1-year timeframe used at divisional and service levels (as applicable), to link with business planning. The likelihood and impact should initially be considered with existing controls in place, not taking future ones into account at that time. The risk matrix is shown overleaf in **figure 3** :-

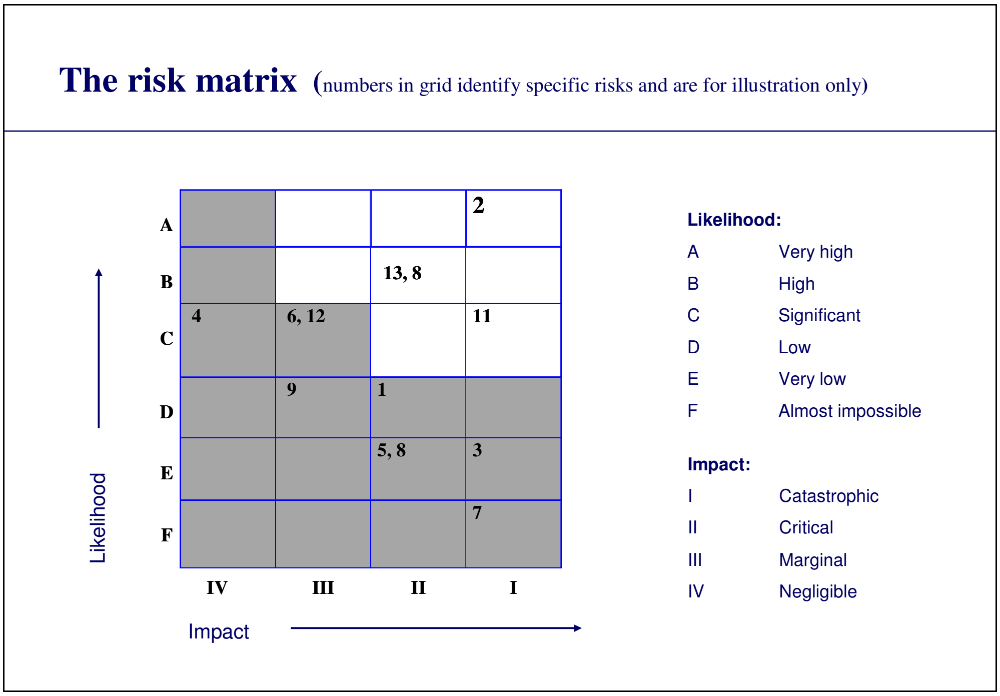


Figure 3: The risk matrix

To further aid the prioritisation process, a <u>risk tolerance</u> line should be set to aide the risk assessment process. This line is produced by starting at box F1 and asking the group if it would be willing to accept a risk within this box, as currently managed, or does it need to be more actively managed. If the answer is <u>yes</u>, move up to E1, or <u>no</u> move across to F2, and repeat the question until arriving at box A4. The tolerance line is draw below the boxes where the answer is no.

Those risks above the tolerance line are those that need to be managed and should be mitigated. Those below the line should not be ignored but no <u>significant effort</u> or <u>resource</u> will need to be put into their management. However, the current arrangements for managing these risks should continue.

2.2.4 Stage 4 – Risk management Action planning

The next step is to manage the risks in some way which is essential as it is during this stage that improvement actually occurs. A number of approaches exist to manage a risk, however the options are generally:

- <u>Transfer</u> - the risk is transferred to a third party to manage e.g. insurance / outsource/ partnerships
- <u>Tolerate</u> - some risks are outside our control or are prohibitive to manage so there is a need to understand them and live with the risk
- <u>Terminate</u> - an activity can be stopped therefore eliminating the risk
- <u>Treat</u> - the most likely solution where we look to mitigate the risk by managing down either its likelihood, impact, or both.

The most common way to treat a risk is to produce a management action plan that identifies the resources required to deliver the improvements, key dates, deadlines and critical success factors/Key performance indicators.

These plans should not be a separate initiative but should be incorporated into the existing business planning process enabling the results of the risk management work to be fed into the corporate planning, divisional planning and budgeting process. Ownership of each action plan needs to be allocated to employees with appropriate seniority and ability to drive the progress of the action plans. It will be their responsibility to develop the actions required to mitigate the risks and complete the plans. An example of a management action plan is illustrated in **figure 4**:-

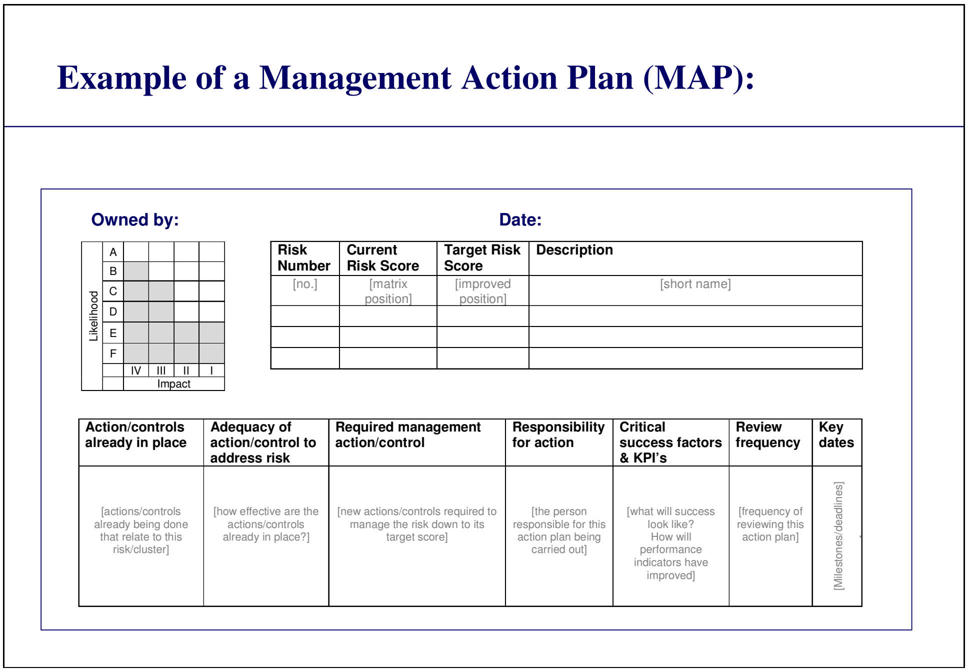


Figure 4: Management Action Plan

It is important to recognise that, in many cases, existing controls will already be in place and these should be looked at before considering further action. It may be that these controls are not being complied with or are 'out of date'.

The potential for controlling the risks identified will be addressed through service plans. Most risks are capable of being managed – either by managing down the likelihood or impact, or both. Relatively few risks have to be transferred or terminated. Service plans will also identify the resources required to deliver the improvements, timescale and monitoring arrangements.

Existing controls, their adequacy, new mitigation measures and associated action planning information will be recorded on the risk register. Full details of the risk mitigation measures that are to be delivered will be recorded in the respective business plans and cross referenced with the risk registers.

A further judgement which should be made is the ‘Target risk score’ and ‘target evaluation’, which is where the risk could be managed to, should the identified controls be successfully implemented.

Consideration also needs to be given to the ‘Cost-Benefit’ of each control weighed against the potential cost / impact of the risk occurring. N.B. ‘cost / impact’ includes all aspects including financial, resourcing, but also reputational.

A suggested matrix to use when determining cost/benefit of mitigating controls is as follows:

High cost/low impact on mitigating risk	High cost/big impact on mitigating risk
Low cost/low impact on mitigating risk	Low cost/big impact on mitigating risk

To aid the action planning process, by *reducing the number of action plans* and the potential for duplication, it is a good idea to cluster risks together. Risks can be clustered in any way that will facilitate the action planning process. However, clustering should be considered where there might be similarities in: service areas; project areas; root causes; likely solutions/actions, outcomes.

2.2.5 Stage 5 – Monitoring risk management

The responsibility for identifying, monitoring, reviewing, and managing risk is described below and illustrated in **figure 5** and detailed as follows:

- Strategic risks - reviewed quarterly by the Corporate Management Team (CMT). The ownership of strategic risks will be the ultimate responsibility of members of CMT who will have the lead role for these issues.
- Divisional risks - reviewed quarterly by the respective Divisional Management Teams, who have the ownership for these risks.

Any specialist operational/health & safety risks that arise will be collated by the responsible Head of Division in conjunction with the Corporate Risk Officer for review and introduction into the process.

On a quarterly basis, the strategic and divisional risk registers should be reviewed and where necessary risks re-prioritised. Risks should be amended to reflect the current situation, obsolete risks should be deleted and new risks identified. This will ensure that the risk registers and mitigation measures are appropriate for the current service and corporate objectives

From DMT’s, the top risks, those above the **risk tolerance line**, will be reported to the Corporate Risk Officer who will feed these priority risks into the strategic risk management process and to the Corporate Management Team, if it is deemed necessary

On a 6 monthly basis, progress report on the risk management process and key risks, will be made to the Audit Committee. It will be the role of the Audit Committee to review and make recommendations on the key risks as they see fit to Cabinet.

The top strategic risks within the Authority will be reported to Cabinet on a 6 monthly basis.

An annual report on the full progress of risk management within the Authority will be made to full Council, This will form part of the annual review process on Corporate Governance.

Action plans developed to manage the strategic and divisional risks will be monitored as part of the performance management process. This will ensure the integration of risk management with other processes and ultimately ensure its profile and success is maintained.

As Risk Management continues to develop and becomes embedded within the Authority, risk assessments will be included as a section in all policies and reports, so that risk is considered in everything the Council does.

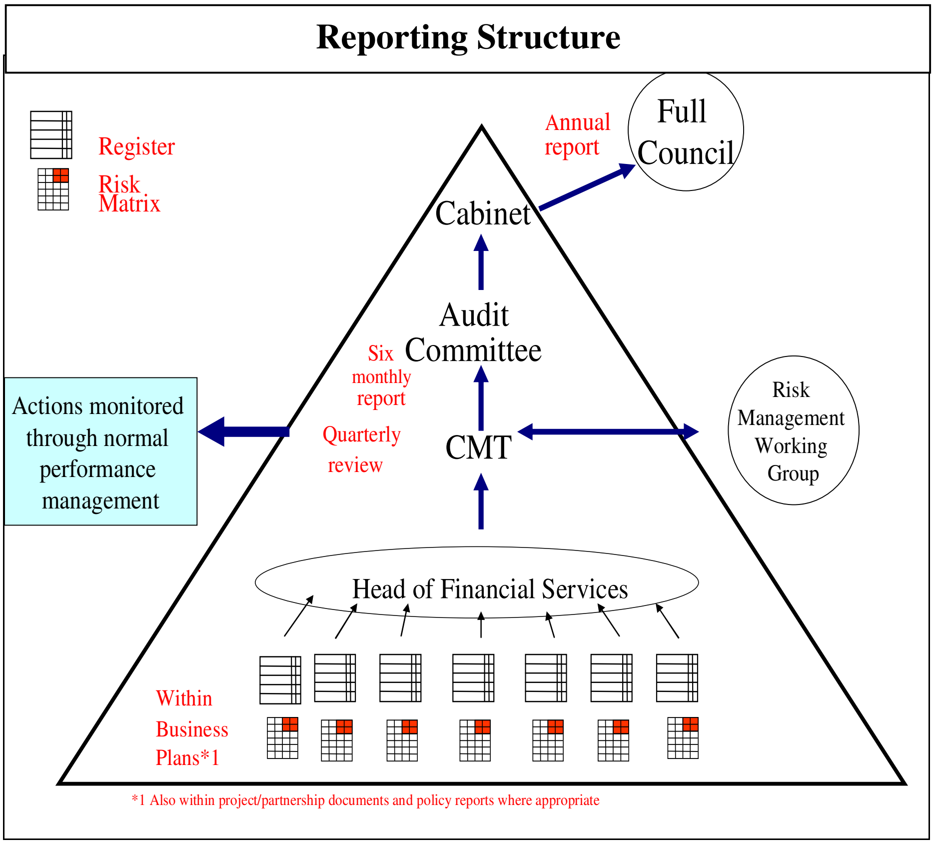


Figure 5: Reporting structure

2.3 Roles and responsibilities

The following Table 1 describes the recommended roles and responsibilities that Members and employees will play in introducing, embedding and owning the risk management process and therefore contributing towards the CPA standards for risk management:-

Members	Elected members are responsible for governing the delivery of services to the local community. Members have a responsibility to understand the strategic risks that the Council faces, and will be made aware of how these risks are being managed through the annual strategic and service planning process. They will also be kept informed on the management of those risks through the regular performance management framework. All members will have the responsibility to consider the risks associated with the decisions they undertake and will be informed of these risks in the reports that are submitted to them. They should not seek to avoid or delegate this overall responsibility, as it is key to their stewardship responsibilities
Cabinet	Receive regular updates on the key strategic risks facing the Council and provide their input as to how these should be managed. Receive regular reports, as received by the Audit Committee, covering implementation of the Council's risk management policy and strategy to determine whether strategic risks are being actively managed. Report to Council on the risk management framework, as appropriate. Agree the Risk Management Policy and Strategy on an annual basis, or if significant changes require a revision of it.
Audit Committee	To provide an independent assurance of the adequacy of the risk management framework and the associated control environment. Monitor and evaluate the development and operation of risk management by the Council. Receive reports and make recommendations to Cabinet where appropriate on Risk Management Policy, Strategy and its associated action plans Receive officer reports on developments and enhancements to the Risk Management process corporately Receive Internal audit and External audit reports on Risk Management matters as appropriate.
Corporate Management Team (CMT)	CMT lead by the Chief Executive, is pivotal in the promotion, demonstration and embedding of risk management within the Council. The successful outcome of this will be risk management practised throughout the organisation as part of usual activities and the sharing of best practice and experience between services. Ensure that effective systems of Risk Management and internal control are in place to support the Corporate Governance of the Council. Take a leading role in identifying and managing the strategic key risks and opportunities to the Council and to set the example and standards for all employees. Advise the Audit Committee, Cabinet and Council on the Risk management framework, Policy, Strategy and processes, as appropriate. Ensure that the Risk Management Strategy is communicated, understood and implemented by all Members and employees and that it is fully embedded in the Council's business planning and monitoring processes. Identify, analyse and profile high-level strategic and cross-cutting key risks on a regular basis as outlined in the monitoring process. Report to Members on the management of strategic and other significant risks and the overall effectiveness of risk management controls. Ensure that risk management skills training and awareness is provided to all Members and employees.

Heads of Divisions (HoD)	Individually responsible for proper monitoring of the relevant Divisional risk register, local action plans and the embedding of risk management into the business and service planning of the Division. Actively involved in the identification and assessment of Divisional level risks resulting in an up to date Divisional risk register. Ensuring that the risk management process is part of all major projects, partnerships and change management initiatives. Ensuring that all reports of a strategic nature written for Members include a risk assessment of the options presented for a decision. Reporting quarterly to the CMT on the progress being undertaken to manage the risks and an up date on the nature of the high priority red risks. Providing assurance on the adequacy of the Division's risk and control procedures.
Head of Financial Services **(**as HoD above plus**)**	Collation and reporting on "red" risks from Heads of Divisions on a quarterly basis, to CMT. Reporting to Audit Committee and Cabinet on a six monthly basis of current risk position and to provide an annual report on the progress of Risk Management to Council. Ensuring that mitigation measures are captured and monitored using the existing performance management arrangements. To ensure compliance with statutory requirements of current financial regulations, as appropriate.
Council Managers	Managers have an important role in risk management and will: Manage risk effectively in their job and report hazards/risks to their service managers. Carry out their role within risk management policy and guidelines.
Employees	All employees have an important role in risk management and will: Identify risks surrounding their everyday work processes and working environment, where necessary. Demonstrate an awareness of risk and risk management relevant to role.
Risk Management Group	To monitor and actively promote Risk Management within the authority within the terms of reference for this Internal Officer Working Group. To act as Champions of risk management within the Council
Internal Audit	Carry out an independent review and report on Risk management Strategy and processes. Provide assurance to the Council with an independent and objective opinion on the control environment comprising risk management, control procedures and governance. Report to Members on the control environment. Produce an annual Audit Plan that is based on an evaluation of risk and provide an annual 'Statement of Assurance' to the Council on the Authority's internal control environment on the work undertaken in the year.

Table 1: Roles and Responsibilities.

3. CONCLUSION

This strategy will set the foundation for embedding risk management into the Council's culture. It will also formalise a process to be applied across the Authority to ensure consistency and clarity in understanding the role and benefits of strategic risk management.

The reporting and escalation of risks should interlock with the existing arrangements for performance reporting. The intention being that the management of risks is incorporated into business plans so that by reporting on performance, naturally reports on progress on the mitigation of risks.

The adoption of this strategy will formalise the risk management work undertaken to date, will move the Council towards meeting the requirements of the CPA and will enable the Authority to demonstrate good business practice.

4. APPENDIX 1 - CATEGORIES OF RISK

Risk	Definition	Examples
Political	Associated with the failure to deliver either local or central government policy or meet the local administration's manifest commitment	New political arrangements. Political personalities, Political make-up
Economic	Affecting the ability of the Council to meet its financial commitments. These include internal budgetary pressures, the failure to purchase adequate insurance cover, external macro level economic changes or consequences proposed investment decisions	Cost of living, changes in interest rates, inflation, poverty indicators
Social	Relating to the effects of changes in demographic, residential or socio-economic trends on the Council's ability to delivery its objectives	Employee levels from available workforce, ageing population, health statistics
Technological	Associated with the capacity of the Council to deal with the pace/scale of technological change, or its ability to use technology to address changing demands. They may also include the consequences of internal technological failures on the Council's ability to deliver its objectives	E-Gov. agenda, IT infrastructure, Employee/client needs, security standards
Legislative	Associated with current or potential changes in national or European law	Human rights, appliance or non-appliance of TUPE regulations
Environmental	Relating to the environmental consequences of progressing the Council's strategic objectives	Land use, recycling, pollution
Competitive	Affecting the competitiveness of the service (in terms of cost or quality) and/or its ability to deliver best value	Fail to win quality accreditation, position in league tables
Customer/ Citizen	Associated with failure to meet the current and changing needs and expectations of customers and citizens. This also includes Public perception as a consequence of adverse publicity	Managing expectations, extent of consultation-
Managerial/ Professional	Associated with the particular nature of each profession, internal protocols and managerial skills & abilities	Employee restructure, key personalities, internal capacity, recruitment, development and welfare
Financial	Associated with financial planning and control and the adequacy of insurance cover and internal funds	Budget overspends, level of Council tax, level of reserves
Legal	Related to possible breaches of legislation	Client brings legal challenge
Partnership/ Contractual	Associated with failure of contractors and partnership arrangements to deliver services or products to the agreed cost and specification	Contractor fails to deliver, partnership agencies do not have common goals
Physical	Related to fire, safety, maintenance, accident prevention, security, and health and safety	Offices in poor state of repair, use of equipment