Risk Management Strategy

June 2009

Draft 3

Hastings
Borough Council

Contents

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Version No	Revision No	Revision Date	Process Holder
3	1	11.03.09	R. Homewood
	2	30.04.09	R. Homewood
	3	10.05.09	R. Homewood
	4	21.05.09	R. Homewood
	5	04.06.09	R. Homewood

1. Introduction

1   Hastings Borough Council operates in an environment where it continually has to balance expenditure pressures against the need to meet its statutory duties, deliver high quality services and develop interventions to tackle deprivation, regenerate where possible the local economy and cushion it from the effects of the current recession, in the most effective and efficient manner. At the same time the Council is trying to ensure the protection of clients, staff, the public, assets, reputation and the environment.

2   Success or failure in achieving the right balance depends on many factors, but perhaps the most important and wide ranging, is the quality of decisions that are made. Decisions will range from those surrounding strategic planning through to everyday operational judgements.

3   All decisions present different levels of risk to the authority. In some cases the risks will be very apparent and as a result, people taking the decision will consider the risk formally or intuitively. In other cases risks will not be so clear and as a result the consequences may not be considered in arriving at the decision. The consequences of a bad decision can be very damaging for services with finite budgets and stretched resources.

4   The first problem for management is one of information. They will need to know something about the probability of an event occurring and its impact if it does occur. Management will be able to improve the quality of decision making as it gains better information about probabilities. Risk management is therefore about improving the quality of information, about the likelihood and consequences of these events occurring and subsequently using this information to make informed decisions and judgements.

5   The aim is therefore to create an environment where risk management becomes an integral part of planning and performance management processes and the general culture of the authority, rather than being viewed or practised as a separate function. This will result in better quality decision making that will see a reduction in costs and an increase in the probity of delivering the quality of services, which the Council is aiming for.

6   This strategy outlines the approach we will take to managing risk. Its purpose is to provide us with a corporate framework so that we all identify, manage and talk about risk in a consistent manner. The effective management of risks requires a strategy that has been sanctioned by and has clear support of leading Members and Chief Officers.

7   The strategy is underpinned by:

- Clear risk management objectives.

- A clearly and widely understood structure to secure implementation.

- Clearly defined roles and responsibilities within that structure.

- Clear processes and procedures for documenting and monitoring risk, including

    i. Mechanisms for co-ordinating risk management, both up, down and across the organisation.

    ii. Arrangements for identifying, evaluating and controlling risk.

- Clear and regular reporting arrangements.

- Appropriate training arrangements.

- A clear timetable for the implementation of the strategy and monitoring arrangements.

8 Hastings Borough Council aims to become an example of best practice in risk management striking a balance between risk, reward and intelligent risk taking. Hastings Borough Council is committed to embedding risk management across all of our activities as part of service delivery, projects and partnerships and wants stakeholders to respect our risk management capability.

2. What is Risk Management?

9 Risk can be defined as the combination of the probability of an event and its consequences. Risks can only be managed effectively if they have been clearly identified and their nature is properly understood. More detailed definitions of "risk" and "risk management" are given in Appendix A. Further guidance on accurately identifying risk is provided in the document "Risk Management for Managers".

3. Risk Management

10 Risk Management at Hastings Borough Council is regarded as a tool for exploiting opportunities as well as a safeguard against potential threats. Hastings Borough Council will therefore use risk management to promote innovation as well as to help secure existing objectives.

11 Risk management is a central part of the Council's strategic management. It is the process whereby Directorate management teams and operational managers methodically address the risks attaching to their activities with the goal of achieving sustained benefit within each activity and across the portfolio of all activities.

12 Risk management is the process by which risks (both threats and opportunities) to these strategies and objectives are identified, and evaluated. This will enable the Council to take decisions on the best way of controlling and managing the risk, and whether to transfer it (through insurance or through contract) or assess and finance it in-house. Risk is traditionally seen as a negative factor, ie the chance of things going wrong. However, if it is properly managed risk can also have a beneficial impact.

13 Risk management is an umbrella discipline that cuts all areas of the Council's activities, from the strategic to the operational, and needs to be integral to all activities.

14 Corporate governance requires that risk management be "embedded" into the culture of the Council. This does not mean solely having an internal audit function checking on risk management procedures. The Council needs to look ahead, be dynamic, respond to change and maximise business opportunities. To take the most logical steps, the Corporate Management Team and Directorate Management Teams need to review past data, forecast what might happen and predict outcomes. Then action

should be taken. The risks associated with the business need to be managed if outcomes are to be optimised.

15   The Government's agenda for modernising public services requires those public services to promote best practice within their organisations. Risk management is an integral part of good business practice, in the same way as good personnel or treasury management are.

16   The nature of the risk can determine the level of accountability. The Council needs to be able to handle risk at three levels: strategic, programme (directorate) and operational/project level. Uncertainty tends to be greater at the higher levels.

17   Decisions involving the formulation of strategic objectives, the resource allocation decisions to back them and assessment of policy options in response to changing circumstances are likely to be managed at a corporate level, eg Corporate Management Team. At the programme level, decisions made on procurement, establishing projects, service quality and business continuity may often be managed within a Directorate, whilst operational risk will be normally be managed within an individual service. Best practice emphasises that risks should be managed at the lowest possible level within the organisation, with clear accountability established and systems and processes designed to support that.

18   To quote from CIPFA/ALARM publication Risk Management in the Public Services, "there is no mystery about risk management, but there is a lot of jargon. It really is about business decision making and enabling the process of taking risk".

4.   Risk Management in Context

19   The Council has a statutory responsibility to have in place arrangements for managing risks, as stated in the Accounts and Audit Regulations 2003 (amended 2006):

"The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of the body's functions and which includes arrangements for the management of risk"

20   Risk management is recognised as an important element of good corporate governance. The CIPFA/SOLACE Framework on Corporate Governance requires Councils to establish and maintain a systematic strategy, methodology and processes for managing risk. They must also report publicly on the effectiveness of these arrangements.

5.   Local Context

21   The key benefits to the Council of a systematic approach to risk management are:-

- Increased focus on what needs to be done (and not done) to meet objectives.

- More effective targeting of resources.

- Enhanced ability to justify actions taken and reduced risk of mistakes.

- Better management of change programmes.

- Supports innovation, the Best Value process and potential quality improvements in service delivery.

- More satisfied stakeholders and fewer complaints.

- Greater control of insurance costs.

- Protects and enhances the Council's reputation.

22   Risk management requires shared awareness and understanding within the Authority of:

- The nature and extent of the risks it faces.

- The extent and categories of risks regarded as acceptable.

- The likelihood and potential impacts of these risks materialising.

- Its ability to reduce the incidence of impact of those risks that do materialise.

23   Robust risk management requires:

- Regular and ongoing monitoring and reporting of risk including early warning mechanisms.

- An appropriate assessment of the cost of operating particular controls relative to the benefit obtained in managing the related risk.

- A review, at least annually, of the effectiveness of the systems of internal control in place.

24   Hastings Borough Council recognises that risk management is not a new initiative or an "add-on" discipline. Robust risk management is an essential feature of good corporate governance and should be embedded in the performance management culture of the Council.

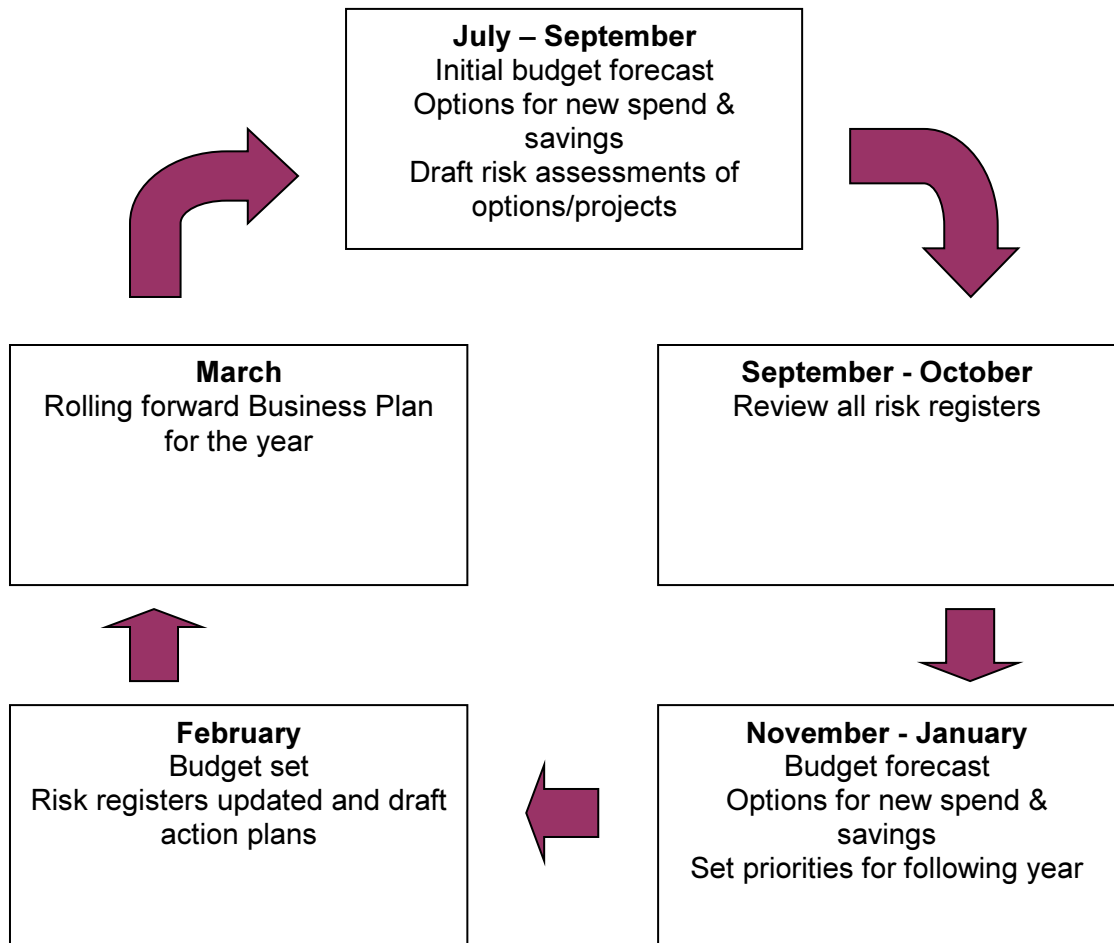## 6.   Risk Management Structure at Hastings Borough Council

25   In 2003, the Council adopted a Risk Management Strategy, to seek to ensure that all activities associated with risk management were embedded within the mainstream performance management framework of the Council. The objective of this updated document is to ensure that the authority continues to meets its objectives, protect assets and resources, and that it fully meets the requirements of the Audit Commission Standard, demonstrating a clear link between risk management and internal control.

26   The Corporate Risk Management Group has developed a comprehensive and integrated approach to managing the Council's risks. Our risk management approach focuses on 4 levels of risk – Strategic Risks (Corporate Management Group), Operational Risks (Team and Service Plans), Project (Project Board) and Partnership risk (Partnership Board).

27   Risks are, therefore, to be documented and monitored to ensure adequate and effective mitigating control measures at each level.

- Strategic – strategic risks are those which may affect the achievement of Corporate Objectives and are detailed in the Strategic Risk Register. Risk owners are Senior Officers (eg Chief Executive, Corporate Directors).

- Operational – Heads of Service and Senior Managers are maintaining risk registers aligned to the annual service targets in the Corporate Plan and the targets in individual Service Delivery Plans. Each register should be maintained in a timely manner and reviewed quarterly as part of performance monitoring arrangements.

- Projects – service risk registers include risk assessments for all projects over £50k. Projects in excess of this value are subject to the authorities Project Methodology (service managers are also encouraged to consider the benefits of applying similar principles to those under £50k to ensure adequate control). Risks are identified as part of the project approval request submitted via the Director to the Project Review Board.

- Partnerships – best practice requires identification and management of risks attached to all partnerships (the term partnership includes contractors providing key services) in which the authority becomes involved. These risks can apply specifically to the authority or to the partnership. Risk assessment of partnerships are in accordance with the authority's agreed methodology and results are recorded in the appropriate Operational Risk Register.

28 Contractual risks can arise at all four levels. The need for the effective management of contractual risks has been highlighted recently and the Contract Register has been reviewed and comprehensively updated to ensure all future contract risks are identified and monitored effectively. Contract monitoring arrangements for all contracts over £50,000 and those of a lower value but having potential significant impact have also been reviewed to ensure that are appropriate and effective.

29 Further guidance on categories of risk is provided at Appendix B.

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         ┌─────────────────────────────┐
         │      July – September       │
         │    Initial budget forecast   │
         │   Options for new spend &    │
         │           savings            │
         │   Draft risk assessments of  │
         │        options/projects      │
         └─────────────────────────────┘

┌──────────────────────┐          ┌──────────────────────┐
│        March         │          │  September - October │
│ Rolling forward      │          │ Review all risk      │
│ Business Plan        │          │ registers            │
│ for the year         │          │                      │
└──────────────────────┘          └──────────────────────┘

┌──────────────────────┐          ┌──────────────────────┐
│      February        │          │  November - January  │
│ Budget set           │          │ Budget forecast      │
│ Risk registers       │          │ Options for new      │
│ updated and draft    │          │ spend & savings      │
│ action plans         │          │ Set priorities for   │
│                      │          │ following year       │
└──────────────────────┘          └──────────────────────┘
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30   Managing risks at all four levels is integrated and linked into the Council's Corporate Planning and Performance management cycles. The diagram above illustrates low risk assessment and fits into the Corporate Planning cycle at various stages. The performance management cycle is based on quarterly performance review meetings and risk registers are reviewed and their status agreed at these meetings.

7.   Roles and Responsibilities

31   In determining roles and responsibilities, consideration has been given to the need to ensure that risk management is embedded in policy approval (strategic risks) and service delivery (operational risks) as well as the need to provide sufficient resources to both implement the Strategy and ensure systems are sustainable.

32   The table below provides an overview of the key roles and responsibilities. A more detailed description of the roles and responsibilities that Members, Senior Managers and Officers play in introducing, embedding and owning risk management is provided in the guidance document "Risk Management for Managers".

33   In broad terms, Operational, Project, Partnership and Contract risks will be managed and monitored through Directorate Management Teams and will be reported on quarterly to the Directorate Performance Review Panels, with any significant variances highlighted for consideration.

34   In between the Performance Review Panel meetings Heads of Service and Senior Managers will keep risk registers under review and alert the Directorate Management Team to any risks that may require escalation to a higher level via the Corporate Management Group.

35   The Corporate Risk Management Group will maintain an overview of Strategic Risks through reports from the Service Risk Champions and provide updates to Corporate Management Group.

36   The Corporate Risk Management Group will report to the Corporate Management group on the status of the Strategic Risk Register and Corporate Management Group will carry out an annual refresh of the Strategic Risk Register to ensure it includes only those risks which need to be aired at a corporate level.

37   The Chief Internal Auditor will provide reports on progress with the strategy implementation, the annual strategy review and significant corporate risks to the Corporate Risk Management Group which will then be fed through Corporate Management Group and on to Cabinet or Audit Committee as appropriate. The Chief Auditor will also report on the Annual Governance Statement to the Audit Committee and Council.
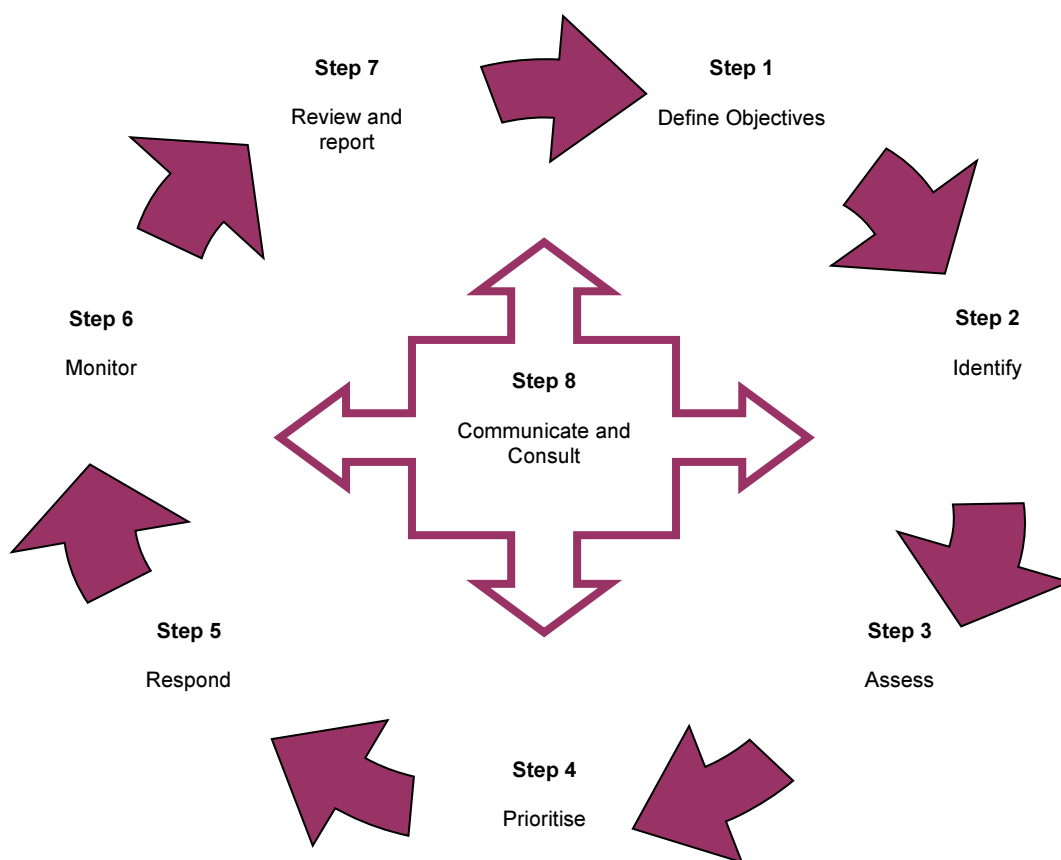
8.   Roles and Responsibilities

38   Roles and responsibilities are summarised overleaf. Current arrangements are set out in the guidance document "Risk Management for Managers".

Roles and Responsibilities - summary

Individual/Group	Summary of role/responsibilities
Members	Have a responsibility to understand the significant risks that the Council faces and be aware of how these risks are being managed. Cabinet will approve the Council's Risk Management Strategy.
Lead Member	Member Risk Champion. Cabinet Member for Resources.
Audit Committee	Monitor compliance with the Risk Management Policy and Strategy.
Chief Executive	Ensure good Corporate Governance including Risk Management.
Chief Executive's Nominee	Leads on all risk management issues. Officer Risk Champion
Corporate Management Group	Manage strategic risks, as well as operational risks in their individual areas of responsibility.
Divisional Management Teams	Primary role is to review and ensure operational risks are managed.
Performance Review Panels	Primary role is to review performance achievement. To review risks as part of performance review process.
Corporate Risk Management Group	Supports the continued development of the Risk Management Strategy in a co-ordinated, consistent way. Monitors implementation and application of the Strategy.
Heads of Service and Service Managers	Actively involved in the identification, analysis and profiling of Directorate and service risks. Maintain Operational Risk Registers and produce regular progress reports to Corporate Risk Management Group and quarterly performance review meetings as part of the existing performance management process.
Chief Internal Auditor	Ensure that the authority adopts risk management best practice and ensure compliance with the authority's policy and strategy. Auditing the risk management process and its application. Day to day supervision and support of the risk management software (GRACE) and the risk process, ensuring the adoption of best practice and compliance with the authority's policy and strategy.
Head of Financial Services	Manages the Council's insurable risks including, where appropriate, self-insurance arrangements.
All other officers	Have a responsibility to manage risk effectively in their job.

9. Hastings Borough Council's Risk Management Approach

39   Our successful risk management approach is set out in diagrammatic form below and is described in more detail in the guidance document "Risk Management for Managers". It takes account of the UK Risk Management Standard developed by the major risk management organisations in the UK – The Institute of Risk Management (IRM), the Association of Insurance and Risk Managers (AIRMIC) and The National Forum for Risk Management in the Public Sector (ALARM) (Association of Local Authority Risk Managers).

Step 7 Review and report

Step 1 Define Objectives

Step 6 Monitor

Step 8 Communicate and Consult

Step 2 Identify

Step 5 Respond

Step 3 Assess

Step 4 Prioritise

40   Underpinning each step of the approach is a series of consistent processes and documentation that:

- Identify and manage risks in a consistent, holistic way across the Council;

- Focus on risks that, because of their likelihood and impact, make them management priorities.

41   Additionally, the Council's approach is supported by the use of Risk Management Software developed by GRACE Governance Solutions. The GRACE software allows the Council to:

- Record identified risks and manage them in a consistent way;

- Map risks to corporate and operational objectives, KPIs and risk types;

- Generate risk registers;

- Easily identify key risks that, because of their likelihood and impact, are priorities;

- Record responses to risks by logging mitigating actions and internal controls, and allocating responsibility for them;

- Monitor and review risks, including tracking the changes to risks;

- Develop action plans for control improvement;

- Record incidents and consider need for control improvement;

- Produce pre-defined and ad hoc management reports.

42   Detailed user guides are made available on the Audit and Investigations intranet pages.

43   The detailed risk management arrangements are set out in the document "Risk Management for Managers".

10. Insurance Risk

44   Recent years have seen a fundamental change in the attitude of insurers. They are no longer prepared to insure bad risks and expect their clients, ie Hastings Borough Council, to be more pro-active in avoiding losses.

45   It is important to understand that the purchase of insurance is not a substitute for the proper management of risk. Risk management can and may be a proper substitute for insurance. Risk management will reduce dependence on insurance and generate immediate reductions in costs through saving in premiums and other constituents of the total cost of risk. It can be relied upon to produce real, measurable and substantial reductions in total expenditure.

46   The risks to which an organisation is exposed need to be identified, analysed, quantified and managed. Insurance should be purchased only where risk cannot otherwise be satisfactorily managed.

47   Senior management acknowledges that insurable losses occurring within their areas of responsibility are their responsibility – not that of an insurance company. It is acknowledged that the total cost of risk includes:

- Cost of insurance (premiums)

- Insurable costs which are insured "in house"

- Uninsurable risks

- "Down time" and the administrative time associated with all losses/incidents

- Management time and fees associated with risk and insurance

- Bad/damaging publicity following incidents

- Cost of covering arrangements for staff/vehicles etc not available due to incidents

- Staff morale

48   As part of the review undertaken when tendering the Council's external insurance requirements, the principle of moving towards an in-house insurance programme for some risks was recognised. Indeed, when placing the Employer's Liability and Public Liability policies with an Insurer, the Council elected to take voluntary levels of excess, thus bringing about a substantial saving in premium.

49   In return for this saving the Council assumes a certain level of risk. Effective management of this risk is therefore essential to the success of the movement towards in-house insurance programmes. The alternative is to face ever-escalating premiums, high levels of compulsory excess, and the possibility the Insurers may refuse to insure certain risks at any price.

11. Health and Safety Risk

50   Control of the risks to staff (and others) from the Council's work activities is fundamental to achieving an integrated risk management approach.

51   The Council utilises the following tools to manage health and safety risks:

- Corporate Health and Safety Policies and Procedures

- Staff and Management Health and Safety Group to co-ordinate action, monitor action plans and facilitate consultation

- Risk assessments to identify and control hazards

- Annual health and safety audits to identify and rectify any shortfalls in health and safety standards

- Regular inspections to identify areas for improvement

- Training to allow staff to carry out their responsibilities

- Safety representatives for consultation with staff

- Appointed competent staff to assist managers in their health and safety responsibilities

52   The Staff and Management Health and Safety Group makes appropriate recommendations to Corporate Risk Management Group about any potential threats or opportunities to the health and safety of staff (and others).

12. Training

53   Risk management is an integral part of good business practice in the same way as good personnel or treasury management are. Risk management must be embedded in the culture of the Council and in the mind set of all managers in planning and implementing service delivery.

54   The need for comprehensive risk management training was also highlighted following the Audit Committee review of the Cash Collection Contract.

55   The Council will ensure that all managers have received appropriate risk management training at two levels:

- Risk management theory and practice

- The use of computer risk management and monitoring systems (GRACE).

56   Training in the principles and theory of risk management tailored to Hastings Borough Council is provided for all Directors, Heads of Service and other officers with risk management responsibilities through People and Organisational Development team (POD) and is supported by an e-learning package. This is made available to all managers following initial training. The e-learning system also monitors progress and completion of the training.

57   Risk management training for Elected Members is arranged through POD and will be backed up by e-learning software provided by Modern Councillor and software developed for the Council by GRACE Governance Solutions.

13. Corporate Risk Management Software Training

58   Practical one-to-one training on the use of the Council's risk management software has also been developed to enable managers to complete, maintain and review risk registers at all levels within the organisation. These one-to-one sessions include risk management methodology, compilation and ongoing maintenance of service risk assessments and the Risk Register. A user friendly manual has also been developed for their future reference.

59   The timetable and action plan for implementing the improved arrangements for risk management set out in this Strategy is set out in Appendix C. Progress on these will be kept under regular review and will be reported on during the annual review of the Strategy which is presented to CMG reference to which is made in the Annual Governance Statement reported to the Audit Committee.

Appendix A – Definitions

Risk – the possibility that an event will affect a planned outcome.

Risk Management – the business of reducing the effect of risk by:

a) Mitigating its effect (eg by installing an effective internal control system and formulating contingency plans).

b) Passing it on to a third party (eg through contract clauses, insurance policies etc).

c) Balancing risk and reward (eg accepting that a limited loss may be sustained, but that its effect is outweighed by savings made by reducing the level of (or not installing) internal control systems).

Internal Control – the measures taken by management to ensure that the Council's aims and objectives are achieved with the optimum use of resources, maximising opportunities, and minimising risks.

Internal Audit – the independent confirmation that internal control measures are adequate, effective and appropriate to the level of risk.

Appendix B – Categories of Risk

There are principally two types of risk that organisations face – strategic and operational.

STRATEGIC **Risks that may be potentially damaging to the achievement of the Council's objectives**	OPERATIONAL **Risks which are faced in the day to day delivery of services**
Political – linked to possible failure to deliver key objectives or Central Government policy.	**Professional** – risks associated with the professional competencies of Council Officers.
Economic – affecting the ability of the Council to achieve its commitments.	**Financial** – risks associated with adequacy of financial controls and the level of insurance cover.
Social – the risks relating to the Council's ability to meet the effects of changes in demographic, residential or social economic trends.	**Legal** – risks related to potential breaches of legislation.
Technological – the ability to deal with technological change and the ability to use technology to meet changing demands.	**Physical** – risks related to physical damage (eg fire), security, accident prevention and health and safety.
Legislative – the ability to meet the legislative demands affecting the Council.	**Partnership/Contractual** – risks associated with the failure of the Council's contractors and partners to deliver services or products to the agreed cost, specification and timetable.
Environmental – risks relating to the environmental impact of the Council's service delivery (eg energy efficiency, pollution, recycling etc).	**Technological** – risks associated with reliance on operational equipment, eg IT systems/equipment and machinery.
Best Value – the need to demonstrate the four Cs in service delivery	**Environmental** – risks associated with pollution, noise or energy efficiency of ongoing service operations.
Customers – the ability to understand the changing needs of our customers.	**Best Value** – the need to demonstrate the four Cs in service delivery.

	Customers – risks associated with the ability to reach all our customers and meet the changing needs of our customers.

These categories of risk are neither prescriptive nor exhaustive, but do provide a framework for identifying and categorising a broad range of risks facing each service.

Appendix C - Strategy Implementation Plan

Action	Timescale for Completion	Person/Team Responsible	Resource Implications	Progress
Council approve Corporate Risk Management Policy and Strategy Agreed by CMG Comments from Audit Committee	 May 2009 June 2009	 CXEC CEXEC	 Existing Existing	 On Target
Training Risk management theory and practice training supported by e-learning Risk management software systems Phase 1 – 35 key managers Phase 2 – 85 managers & key staff Provide risk management training for Elected Members supported by e-learning	 Dec 2009 Nov 2008 Jun 2009 Dec 2009	 POD/Audit POD/Audit POD/Audit POD and Democratic Services	 Existing Existing Existing Existing	 Completed Completed
Contract Risk Register Review and Update	 November 2008	 All managers with contracts	 Existing	Completed
Contract Monitoring Arrangements Review contract monitoring arrangements of all contracts over £50k and those of a lower value that could have significant financial impact	 Mar 2009	 Audit	 Existing	 Completed

Action	Timescale for Completion	Person/Team Responsible	Resource Implications	Progress
Review Corporate Risk Management Policy and Strategy	Annually on anniversary of adoption	Chief Auditor	Existing	
Risk Reporting Processes Establish risk reporting processes through Quarterly Performance Reviews	Q1 2009/10	HoS/Directors	Existing	
Risk Assessment in Reports Ensure that all reports include a risk assessment identifying risks and mitigation measures	July 2009	Report Authors HoS/Directors	Existing	
Communication of Risk Issues Improve communications via usual corporate communication channels	Sept 2009	Chief Auditor	Existing	

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