Leicester
City Council

Wards Affected
All Wards

Cabinet **24 September 2001**

Risk Management Strategy

Report of the Town Clerk

1. Purpose of Report

1.1 The purpose of this report is to seek Cabinet approval to a risk management policy statement and a formal risk management strategy for the Council.

2. Summary

2.1 Risk management is the way in which the Council addresses the potential adverse effects of things which could go wrong. It is one aspect of the Council's wider approach to corporate governance generally.

2.2 Best practice in this area suggests that the Council should be:

(a) seeking to formalise its approach to risk management;

(b) increasing the profile of risk management, with a view to promulgating a culture of risk awareness throughout the authority.

2.3 Increasing emphasis is being placed on the effective corporate governance of organisations, and the public sector is starting to follow the lead of the private sector. By 2002, it is anticipated that the Chief Executive will have to sign an assurance statement stating how we have complied with locally adopted corporate governance procedures. A risk management strategy is an integral part of such a framework, and will prepare us for compliance.

2.4 In general terms, risk management is something which needs to be at the heart of the way the Council does business. Its remit stretches way beyond the insurance function and it should be regarded as an integral part of the day to day management of services.

3. Recommendations

3.1 Cabinet is recommended to adopt the risk management policy at appendix 1.

3.2 Cabinet is recommended to approve a risk management strategy, consisting of:

(a) a statement of roles and responsibilities of individuals involved in the management of risk;

(b) the establishment of a corporate risk management group, with the aim of promoting best practice across the authority;

(c) A nominated champion of risk management issues in each department;

(d) the creation of departmental risk management groups, where appropriate, to disseminate best practice within departments;

(e) a formal process for evaluating each department's risks, to be facilitated by the corporate risk management group;

(f) a regular reporting mechanism whereby the corporate risk management group reports six monthly to the Directors Board on the authority's progress in identifying, managing and reducing risk.

(g) A statement to be published annually on the risk management processes in place and their ongoing effectiveness.

3.3 It is proposed to undertake a series of risk management workshops to develop understanding of risk management across the authority, once the strategy is approved.

4. <u>Financial Implications</u>

4.1 The cost of risk falls into 2 categories: -

(a) The direct cost of paying premiums to insurance companies, meeting insured claims and associated administration of the risk management function. For 2000/01, this amounted to £2.5m for the Council;

(b) The indirect cost of service disruption associated with incidents, which (evidence suggests) can amount to many times the direct cost.

4.2 Whilst it is never possible to eliminate such costs, they can be reduced by good practice in risk management: prevention of incidents arising in the first place will undoubtedly save the Council money. Whilst an unusually high level of claims in any given year would be paid by our insurers, there is a knock on impact on future years premia (we pay in the end!).

4.3 The policy attached as appendix one paves the way to future differential charging of insurance premia, with reduced costs to departments exhibiting good risk management practice.

4.4 In 1998, Finance Sub-Committee approved the creation of a risk management fund of £100,000p.a. top-sliced from premia to fund cost effective measures to reduce claims. This fund will be used to its full potential via the Corporate Risk Management Group.

5. <u>Report Author/Officer to Contact</u>

Elaine Butterworth
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and
Mark Noble
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Leicester City Council

Wards Affected
All Wards

Cabinet **24 September 2001**

Risk Management Strategy

SUPPORTING INFORMATION

1. Report

1.1 Summary

Risk management is becoming increasingly topical, and local authorities are increasingly expected to introduce structured approaches which enable top management to have assurance that processes are working effectively in practice. The key is to create a risk adverse culture throughout the authority. The latest spur is the Audit Commission's report "Worth the Risk" published in July 2001. The approach recommended in this report will deliver best practice as described in that paper.

This holistic approach to risk can offer quantifiable results. Possible reduction in premia equate to tangible savings over a number of years and a reduction in claims against the authority. Nationally claims against local authorities are on the increase. Putting into place a risk management programme, starting with a policy and developing it into an initiative – rich, cross-departmental strategy to which every one of our employees contributes would help the council achieve its objectives of reduced losses and cost savings.

The public want council services to cost less and for their community to be as safe as possible, and at the same time service departments want their losses and insurance charges to be minimised.

The strategy of setting up a corporate risk management group made up of management representatives from all council departments will help filter risk management through to every level of the authority and bring risk management to the forefront of employees' minds.

Although many risk management initiatives have unquantifiable benefits it is believed that comparisons year on year will demonstrate that an effective risk management programme will yield savings on insurance premia, claims handling and losses, which will be measurable.

2. What is Risk Management?

2.1 The discipline is evolving and the scope becoming wider all the time. It is now most appropriately defined as:

"the culture, processes and structure which come together to optimise the management of potential opportunities and adverse effects and ensure the Council achieves its objectives".

2.2 This definition recognises that risk is ever present and is not in itself a negative factor. What matters is that the risk is identified and evaluated. This process (risk management) can then ensure the risk is managed by elimination, reduction or by transferring the risk (insurance).

There are two terms which need to be clarified:

- **Hazard** - an event or situation which can cause the Council to fail to meet its objectives (including ill-health and injury; damage to assets; loss of reputation; environmental pollution; financial losses; increased liabilities etc.)

- **Risk** - the chance, great or small, that damage or an adverse outcome of some sort will occur as a result of a particular hazard

It is therefore evident that the existence of a hazard does not always constitute a risk.

2.3 The Council's significant risks can be assessed in the context of the scale of risk associated with each hazard. This may be determined by considering:

- The **likelihood** of the risk event
- The **severity** of the consequences should it occur

2.4 By considering likelihood and severity and assessing hazards on a scale of 1-3, a scale of risk will be available for prioritising hazards/risks for attention. The scales of risk will be :

- **Low** - where the consequences will not be severe and any associated losses will be relatively low. As individual consequences they will have a negligible effect on service provision, however a number of low losses may have a more significant cumulative effect and may require attention. Examples might be minor employee accidents, road defects, missed project deadlines.

- **Medium** - these have a noticeable effect on the services provided. Each one will cause a degree of disruption to service provision and cost money. They are likely to happen infrequently and are difficult to predict. Examples might include a major fire, large scale theft, and systems failures.

- **High** - Risks which have a catastrophic effect on the operation of the council or the service. This may result in significant financial loss, major service disruption or a significant impact on the public. Examples might include a total systems failure or a major local emergency.

The risk management strategy envisages that each department will firstly analyse and secondly identify measures to manage risk based on the above criteria. An early task for the corporate risk management group will be to devise a system whereby this can be achieved without creating undue bureaucracy.

3. Who is involved in Risk Management?

3.1 There are many practices across the council currently contributing towards risk management. These may be more specifically referred to by a different name, e.g. emergency planning, health and safety, internal audit.

3.2 Managers within the authority already practice elements of risk management as part of their normal operational duties.

3.3 To some extent each and every person connected with the Council already has a responsibility to consider how to manage hazards and risks. For instance, all have a statutory duty to comply with health and safety legislation, all are subject to the council's financial regulations and standing orders when performing duties on behalf of the council.

3.4 In addition the Council has employed a Risk Manager, who is supported by the Risk Management Team.

3.5 As part of the risk management strategy, formal roles and responsibilities are recommended as described below: -

Group	Role
Cabinet	To hold Directors accountable for the effective management of risk by officers of the council.
Directors Board	To ensure that the council manages risk effectively through the development of a comprehensive corporate strategy and to monitor delivery by receiving regular reports. In addition, to consider strategic risks affecting the council. To ensure risks are identified, evaluated and managed by each department. To ensure that risk is identified, evaluated and managed effectively in each service area within the agreed corporate strategy and receive a report via the Corporate Risk Management Group, on a twice yearly basis.

Departmental Risk Management Champions	To act as the conscience of the department in actively promoting risk management through DMTs and departmental processes.
Risk Manager and other central support services	To support the council and its departments in the effective development, implementation and review of the risk management strategy and to share experiences on risk across the council. To monitor on behalf of Directors Board that risks are identified, evaluated and managed.
Service Managers	To manage risk effectively in their particular service areas and to report on how hazards and risks have been managed to the Departmental Management Team.

4. Why Risk Management

Developments since 1998 (when the Council last considered this issue) mean it is now an appropriate time to review the Risk Management Strategy. Developments such as the following have played a part:-

- Modernising agenda for local government
- Corporate Governance
- Managing human resource issues
- Effect of legislation
- Financial pressures
- Control and use of technology

Members may be aware of the increasing role that Corporate Governance plays in the effective performance of an organisation and that in September 1999 'The Turnbull Committee's report (Internal Control – Guidance for Directors on the Combined Code' – ICAEW) outlined a requirement for private sector companies listed on the London Stock Exchange to draw up an assurance statement, included in the published annual accounts, outlining the organisation's internal control and risk management arrangements. For some time a similar requirement for the public sector has been expected.

A recent publication gives formal recognition that Risk Management has a key part to play in local government Corporate Governance. CIPFA/SOLACE have published a new document 'Corporate Governance in Local Government – A keystone for Community Governance' and suggested a 'Turnbull' type reporting requirement by way of a statement in the annual accounts, April 2002.

The principles of corporate governance apply just as much in the public sector as they do in the private, and are being pushed by the Nolan report into Standards in Public Life, the DETR's "Modernising Local Government 1999", the Audit Commission's "Called to Account", CIPFA’s “Framework for Public Service Bodies” and CIPFA’s “Corporate Governance in the Public Sector”.

The keystone documents are best practice for establishing a locally adopted code of Corporate Governance: it is not a requirement – however, CIPFA/SOLACE have ‘urged’ every local authority to act.

To comply with Corporate Governance the authority needs to establish and maintain a systematic strategy, framework and processes for managing risk, which is the subject of this report.

The Audit Commission has also recently launched a new Code of Audit Practice, with which all of its appointed auditors must comply, that gives far greater prominence to risk management than before, (indeed it is now central to the audit process). A recent publication “ Worth the Risk” emphasises the need for authorities to have effective risk management strategies in place.

Eventually it is expected that every local authority will have to publish a statement annually in its financial statements on how it is applying the principles set out in the ‘Corporate Governance in Local Government Framework’ and how it is complying with its locally adopted code of corporate governance. Such a statement should be signed by the leading member and by the Chief Executive, having been approved by the Council, on behalf of officers and members. It will summarise how the authority has monitored compliance with its locally adopted code of corporate governance, and satisfied itself that it is both adequate and effective. By recording actions taken to consider hazards and risks, there would be better evidence with which to provide a defence of reasonableness of the council's actions.

5. Categories of Risk, Roles and Responsibilities

5.1 The importance of identifying how, by whom and when hazards and risks which could threaten the successful achievement by the council of its corporate and departmental objectives, is pivotal to successfully delivering risk management at the City Council. This is discussed above.

5.2 In setting up a framework for identifying risk, it is suggested that the Corporate Risk Management Group distinguishes between strategic risks (of relevance to Directors board) and operational risks (of relevance to individual departments). This is illustrated in appendix 4.

5.3 If Strategic and Operational risks are ranked across the council, it will enable the Directors Board and operational staff to take into account the hazards and risks connected to the council’s business in a consistent and uniform manner. Prioritising risks will also assist in allocation of resources from the risk management fund at an early stage.

5.4 It is eventually intended to develop risk awareness such that assessment of risk becomes an integral part of Council decision making.

6. The Benefits of an integrated approach to Risk Management

6.1 The benefits include:

- Better protection of resources and assets, including human resources
- Better management of the councils finances
- Enhanced stakeholder value which accords with the goals of Best Value and Community Safety Initiatives
- Accurate risk reporting - an improved system will aid Best Value Reviews in establishing the true cost of running a service by identifying the hidden costs of risk.
- Enhanced staff morale and behaviour - by identifying, assessing and acting upon hazards, risks and new legislation affecting staff and their working environment in a timely and structured fashion
- Targeted risk reduction effort - operational risk management action to be agreed and managed by departmental staff, corporate risks to be managed by the Corporate Risk Management Group, Directors Board to be involved in strategic risk management - all to generate savings and better utilisation of available resources
- Better assessment of business opportunities. With a clear understanding of the levels of risks acceptable to the council and a framework to support assessment, the council will be better placed to consider joint projects with other organisations, using the risk management framework
- Improved performance - this links to Best Value reviews, improved strategic planning, and resource identification
- Increased knowledge and understanding of the exposure to risk
- Management consideration of actual costs incurred, causes of losses and identification of areas of weakness which require attention, in turn identifying hidden cost of risk to departments
- Enhanced corporate governance - the principle is to structure risk management considerations into a formal framework in order that the Directors Board and Members are aware of the actual costs and implications and there is less opportunity for receiving unwelcome surprises as hazards and risks are managed

7. The Cost of Risk

Advice from ALARM (ALARM is the National Forum for Public Sector Risk Management)

7.1 ALARM has proposed to DETR/Audit Commission that a Best Value Performance Indicator, covering risk management, be adopted as part of the "Corporate Health" range of Performance Indicators. ALARM has recently undertaken work to identify the "cost of risk" in local authorities. At this stage, the work has only identified the visible cost of risk (insurance premia, claims settled by Council's internal insurance funds and the cost of the Risk Management function). There is, however, an invisible cost of risk (e.g. The effect of service disruption) which is much harder to quantify.

7.2 Following analysis of local authority working groups, ALARM, in their submission to DETR and the Audit Commission, outline that:

"Typically, local authorities have a cost of risk in excess of 0.65% of gross revenue. The cost of risk is the evident cost - insurance premiums, uninsured losses, cost of direct administration, cost of risk control.

Beneath this "evident" cost there is a vast hidden cost. For example, every employee who is off sick following an injury at work, there are huge indirect costs i.e. administration costs, a reduction in service levels to the public, cost of employing temporary staff, reduced morale, retraining other staff, extra stress on staff covering and so on. It is estimated that the indirect cost of accidents at work is many times more than the "evident" cost."

<u>Cost of Risk at Leicester City Council - based on the above advice</u>

7.3 The Council's direct cost of risk for 2000/01, as reported to ALARM is £2.5m. The hidden cost will exceed this, illustrating why we therefore need to tackle risk in a systematic fashion.

The following illustrates how the hidden cost of risk might escalate in a case of a serious back injury: -

- Personnel time – accident forms, RIDDOR returns to HSE.
- Health & Safety investigation time.
- Employee taken to hospital by another member of staff.
- NHS doctors treat employee.
- Shortage of staff because employee off sick – service delivery affected.
- Agency staff –more expense to department.
- Retraining other staff or agency staff to perform individuals job.
- Extra pressure on colleagues covering for absence while new staff are trained.
- Occupational health involvement with employee injured.
- Possible claim – claims handlers, more investigations, site meetings, reports. Letters to Solicitors, instructing Solicitors on behalf of authority.
- Employees attending court as witnesses.
- Meetings to develop new procedures, if procedures are at fault.
- Risk Assessments, pre accident and post accident.
- Phased return to work, if ever.
- If not returning, recruitment costs.

These are just some of the things involved in one injury/accident. A great deal of time and energy could be saved if risks are identified at an early stage, evaluated and controls put in place i.e. Risk Assessment carried out, staff trained and process of work agreed in advance, not after the accident. Majority of the above are uninsured costs, and are met by the authority and lost in department budgets.

7.4 If Risk Management were successfully operated, it is believed that the cost of risk could be reduced.

8. Departmental Champions

The strategy envisages each department appoints a high level "champion" of risk management (at Assistant Director level) to act as the department's conscience and to promote good practice. This is a similar approach to that adopted for Health and Safety, and given the strong links it makes logical sense for the 2 champions to be one and the same person.

The Council employs a professional, qualified risk manager in the Financial Services Division (Elaine Butterworth). She, and her team, will be a resource for the departmental champions to call upon, and it is envisaged that Elaine will be available to discuss risk management issues with individual departmental management teams.

9. Corporate Risk Management Group

Until March 2000 the Council had a Corporate Risk Management Group, charged with improving risk management across the Council. The initiative lost impetus, and it is now necessary to create a new group which will carry out this remit.

To ensure the group has a stronger profile it is proposed that the Chief Financial Officer will chair it, and departments are asked to nominate a high level representative (ideally the departmental risk management champions) to attend.

Detailed terms of reference have been prepared, but the key aims of the group are: -

(a) To establish a framework for identifying and managing risks across the Council in a structured way (without creating a paper chase).

(b) To report twice yearly to Director's Board on the overall arrangements for risk management in the Authority, and once a year to cabinet.

(c) To promote good practice and the co-ordination of training programmes.

(d) To agree programmes for spending the risk management fund.

FINANCIAL, LEGAL AND OTHER IMPLICATIONS

1. Financial Implications

1.1 The cost of risk falls into 2 categories: -

(c) The direct cost of paying premia to insurance companies, meeting insured claims and associated administration of the risk management function. For 2000/01, this amounts to £2.5m for the Council;

(d) The indirect cost of service disruption associated with incidents, which (evidence suggests) can amount to many times the direct cost.

1.2 Whilst it is never possible to eliminate such costs, they can be reduced by good practice in risk management: prevention of incidents arising in the first place will undoubtedly save the Council money. Whilst an unusually high level of claims in any given year would be paid by our insurers, there is a knock on impact on future years premia (we pay in the end!).

1.3 The policy attached as appendix one paves the way to future differential charging of insurance premia, with reduced costs to departments exhibiting good risk management practice.

1.4 In 1998, Finance Sub-Committee approved the creation of a risk management fund of £100,000p.a. top-sliced from premia to fund cost effective measures to reduce claims. This fund will be used to its full potential via the Corporate Risk Management Group.

2. Legal Implications

There are no direct legal implications however by recording actions taken to consider hazards and risk, there would be a record of the consideration of legal issues. If there should be litigation, there would be better evidence with which to provide a defence of reasonableness of the council's actions.

3. Other Implications

Other Implications	**Yes/No**	**Paragraph References within Supporting Information**
Equal Opportunities	Y	3.1
Policy	Y	3.2
Sustainable and Environmental	N	
Crime and Disorder	Y	3.3
Human Rights Act	N	

3.1 Equal Opportunities

The Risk Management Strategy would enable the equality implications of hazards and risk affecting the community and employees to be identified and assessed. Any action could be planned into the delivery service.

3.2 Crime and Disorder

The Strategy will assist the council and its partners to better understand and take action on the cost of crime which will help focus action to reduce crime in the city.

4. Background Papers – Local Government Act 1972

Papers are held by Risk Manager in Town Clerks & Corporate Resources.

5. Consulations

All departments have been consulted via Directors Board.

6. Report Author

Elaine Butterworth
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and

Mark Noble
Chief Financial Officer

Appendix 1

RISK MANAGEMENT POLICY STATEMENT

Leicester City Council is aware that some risks will always exist and will never be eliminated.

The Council recognises that it has a responsibility to manage hazards and risks and supports a structured and focused approach to managing them by approval each year of a risk management strategy.

In this way the Council will better achieve its corporate objectives and enhance the value of services it provides to the community.

The Council's risk management strategy's objectives are to:

- Integrate risk management into the culture of the Council.
- Inform Policy/Operational decisions by identifying risks and their likely impact.
- Manage risk in accordance with best practice.
- Anticipate and respond to changing social, environmental and legislative requirements.
- Prevent injury, damage and losses and reduce the cost of risk.
- Raise awareness of the need for risk management by all those connected with the Council's delivery of services.

These objectives will be achieved by:

- Establishing clear roles, responsibilities and reporting lines within the Council for risk management.
- Providing opportunities for shared learning on risk management across the Council.
- Reinforcing the importance of effective risk management as part of the everyday work of employees by offering training.
- Incorporating risk management considerations into Best Value Reviews of Services and Business Planning.
- Monitoring arrangements on an on-going basis.
- Providing financial incentives to facilitate the proper management of risk i.e. implementing a premium recharge system partly based on claims history of departments.

The benefits of Risk Management include:

- Improved efficiency within the organisation;
- Reduced drain on resources;
- Reduction in probability/size of uninsured or uninsurable losses;
- Reduced premiums (as insurers recognise the City Council as a "better risk");
- Safer environment for all;
- Can attract government grants;
- Improved labour relations;
- Improved public relations;
- Improved reputation for the organisation.