

Leicester  
City Council

CABINET  
FINANCE, RESOURCES & EQUAL OPPORTUNITIES SCRUTINY COMMITTEE

7 APRIL 2003  
24 APRIL 2003

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## RISK MANAGEMENT STRATEGY

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### Report of the Chief Finance Officer

#### 1. PURPOSE OF REPORT

- 1.1 The report sets out to review the current Risk Management Strategy (approved by Cabinet on 24 September 2001) and to ensure the new strategy will positively support both the Comprehensive Performance Assessment and Corporate Governance agenda.
- 1.2 Managing risk effectively is about getting the balance right between minimising the risk of things going wrong (and being able to reduce the consequences if things do go wrong) on the one hand; and on the other hand, maximising creativity to enable the organisation to tackle the difficult complex problems we face. Whilst at present we need to improve risk management, we equally do not wish to become risk averse, weighed down by over-bureaucratic procedures.
- 1.3 We need to get to a position whereby risk is properly assessed and informed decisions are taken about:-
- whether or not a risk is worth taking;
  - how we will control the risk if we do take it.
- 1.4 The purpose of this report therefore is to ensure that our risk management strategy supports the improvement agenda by increasing overall awareness of risk throughout the Council; and ensure managers and those responsible for managing risk identify, assess and control risks as they deliver services.

#### 2. SUMMARY

- 2.1 The Council approved its first risk management strategy in September 2001. This was our first attempt to set out how we would systematically identify and reduce risk in the organisation.
- 2.2 Whilst a number of initiatives have been very successful, overall progress on delivering a corporate approach to risk assessment has been limited. A key reason for this is undoubtedly lack of resources.

- 2.3 The revised strategy, therefore, attempts to be more focused on the key issues we need to progress, and addresses the issue of resources. In particular, it is believed that the challenges for the coming year are:-
- to ensure that assessments of key risks are carried out in each department and control mechanisms established, with the results being recorded in a formal register;
  - the introduction of a systematic approach to the assessment of risk when significant decisions are taken

### **3. RECOMMENDATIONS**

- 3.1 The Cabinet is recommended to adopt the revised Risk Management Strategy, and in particular approve the:
- policy statement
  - roles and responsibilities of key individuals
  - use of a risk assessment matrix in all reports seeking significant decisions
  - development of risk registers in each department, facilitated by external consultancy
  - designation of specific officers in departments to be departmental risk officers with responsibility for progressing Risk Management
  - use of £100,000 in 2003/04 from the Risk Management Fund as pump priming money for the Departmental Risk Officers, to be allocated to departments with reference to the amount of operational risk faced by each
  - production of an annual report on delivery of the risk management strategy

### **4. FINANCIAL IMPLICATIONS**

- 4.1 The cost of risk falls into 2 categories:-
- a) The direct cost of paying premia to insurance companies, meeting insured claims and associated administration of the risk management function. For 2002/03 this amounts to £3.3m;
  - 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!).

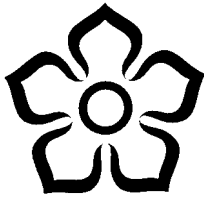
- 4.3 The policy attached as Appendix A paves the way to future differential charging of insurance premia, with reduced costs to departments exhibiting good risk management practice.
- 4.4 In 1998, Finance Sub-Committee approved the creation of a Risk Management Fund of £100,000 p.a. top-sliced from premia to fund cost effective measures to reduce claims. This fund is used annually to its full potential via the Corporate Risk Management Group. If this strategy is approved, £100,000 of this funding will be used to contribute to the cost of Departmental Risk Officers: (on a one-off basis).

## 5. **REPORT AUTHOR**

Elaine Butterworth, Risk Manager, Ext 7500  
 Mark Noble, Chief Finance Officer, Ext 7401

## **DECISION STATUS**

<b>Key Decision</b>	<b>No</b>
<b>Reason</b>	<b>N/A</b>
<b>Appeared in Forward Plan</b>	<b>No</b>
<b>Executive or Council Decision</b>	<b>Executive (Cabinet)</b>



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## **RISK MANAGEMENT STRATEGY**

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### **1. INTRODUCTION**

This document sets out the Risk Management Strategy of the Council.

It defines the concept of Risk Management within Local Government and contains a proposed framework for continuing to implement a Corporate Risk Management Strategy across the Council.

### **2. WHAT IS RISK MANAGEMENT?**

Risk Management is a concept that has gained increased focus and profile within the Public Sector. In a strategic context a useful definition to keep in mind is that it is:

'The identification, analysis and economic control of those risks which can impact on the Council's ability to deliver its priorities and objectives'.

The purpose of Risk Management is not to remove all risk, rather it is to make sure that losses are prevented or minimised and that 'rewards are maximised'.

In a nutshell, Risk Management is a tool through which the Council can:

- Minimise the chances of things going wrong; and/or
- Reduce the consequences if things do go wrong

Risk Management is not about risk avoidance. It is about taking informed decisions about risk, and actively managing risks we decide to take.

Risk Management is part of the Council's wider approach to corporate governance. The Council's health and safety procedures are an element of risk management, but are subject to their own processes for managing risk (which are unaffected by the recommendations in this report)

### 3. **WHY IS IT IMPORTANT?**

Effective Risk Management is acknowledged good management practice – endorsed by:

- CIPFA/SOLACE as a key aspect of Corporate Governance – ‘The system by which local authorities direct and control their function and relate to their communities’. Best practise is that each council should establish and maintain a systematic strategy, framework and process for managing risk.
- Comprehensive Performance Assessment. The Comprehensive Performance Assessment improvement plan mandates the Council to ensure that structured Risk Assessment processes are in place in most departments by July 2003.

As part of Leicester’s Comprehensive Performance Assessment process, it was recognised that the Council now has an effective framework for the development of its approach to Risk Management, but implementation is still in its infancy.

- The Audit Commission: in its paper entitled ‘Worth the Risk, improving Risk Management in local government’ the Commission concluded that good Risk management supports the achievement of objectives and has a vital role to play in ensuring that a council is well run.

In real operational terms the Council needs to further develop its culture of risk awareness to:

- Minimise the opportunity for things to go wrong for the Council – thus minimising the time and costs of putting things right
- Minimise insurance costs to the Council – whether through external insurance premiums or the internal insurance fund

### 4. **WHAT ARE WE TRYING TO ACHIEVE?**

Risk Management must become part of the culture of the organisation and as such an integral part of:

- Decision making processes
- Day to day operation of council services

This is not to say that we are starting from a clean sheet. Risk Management is involved in a number of existing disciplines (particularly project management). We do, however, need to be more systematic.

The strategy achieves this through the following means:

- A statement of policy formally endorsed by Members
- Clearly defining the roles and responsibilities of those responsible for managing risk at all levels
- Introducing new processes where appropriate
- Promoting awareness throughout the Council
- Training and Development
- Specific initiatives
- Appropriate provision of resources to support the above.

Each of the above is considered in turn below.

## **5. STATEMENT OF POLICY**

5.1 The Council endorses the policy at Appendix A.

## **6. ROLES AND RESPONSIBILITIES**

6.1 An effective Corporate Risk management Policy requires clear ownership for Risk Management. Respective roles and responsibilities need to be clearly stated, understood and accepted. Accountabilities for risk management are defined below.

### Those with direct responsibility

#### **6.2 The Cabinet**

- To oversee the effective management of Risk by Council officers by agreeing the overall policy and strategy and monitoring its implementation
- To ensure that risks are fully considered in Cabinet decision making processes

#### **6.3 The Chief Executive**

- To develop an effective risk management strategy for the Council
- To ensure risks are fully considered in all strategic decision making processes

#### **6.4 Corporate Directors**

- To ensure there is an appropriate performance management framework by which service directors are held accountable for management of operational risks in their services
- To ensure risks are fully considered in departmental decision making processes

#### **6.5 Service Directors**

- To ensure that operational risks in their service portfolios are effectively assessed and managed

## 6.6 **Operational Managers**

- To manage operational risks in their area of work
- To ensure that Risk Management becomes incorporated into the culture of their activities and becomes an integral part of their decision making and business planning.

## 6.7 **All Employees**

- To be aware of risks in their own area of work and to take appropriate care
- To report any new or changing risks to their Manager

### Those with Supporting Roles

## 6.8 **Corporate Risk Management Group (CRMG)**

This group consists of senior managers in each department. Its role is:-

- To support the Council in the effective development, implementation and review of the Risk Management Strategy
- To share experience on risk, risk management and strategy implementation across the Council

## 6.9 **Corporate Risk Manager**

- To support the CRMG, Council, departments and departmental risk officers in the effective development and implementation of the Risk Management Strategy and share experiences on risk across the council
- To monitor and review the extent to which the strategy is implemented in practice, reporting to members, directors or operational managers as appropriate.

## 6.10 **Departmental Risk Officers**

- To support their department in ensuring that risk management becomes incorporated at all levels of the department and is an integral part of departmental decision making and business planning.

## 7. **NEW PROCESSES**

The Council will introduce the following new processes, which are intended to support strategic and operational decision making.

### 7.1 **Supporting Strategic Decisions**

The council will ensure that those responsible for strategic decision making are made aware of Risk Management implications of the decisions they are being asked to make. This means that Members and Directors' Board should be given full advice on Risk Management implications of decisions that include significant risk.

This will be accomplished by including a matrix, as indicated below, in reports where a decision is required. This would **only** apply to reports where there is a significant risk to the Council in terms of one or more of the following:

- Finances
- Reputation
- Strategic objectives
- Departmental objectives

**Matrix**

Risk	Likelihood L/M/H	Severity Impact L/M/H	Control Actions (if necessary/or appropriate)
1.			
2.			
3.			
4.			

L – Low  
M – Medium  
H – High

7.2 The Annual Report

A periodic review of progress on introducing effective risk management to the organisation is an essential requirement. It will also provide an ‘early warning’ sign as to where more energy or resources need to be targeted. It is proposed that this will be prepared on an annual basis, reporting to Cabinet each 12 month period;’ and will become an integral part of reporting arrangements in respect of the Council’s new scheme of corporate governance.

7.3 Supporting Day to Day Operations

The Council will introduce Risk Registers which will record the most significant operational risks facing each department together with control mechanisms. This is seen as a key means of supporting service directors’ responsibilities (defined above) to ensure that operational risks in their portfolios are effectively assessed and managed.

A standard Risk Matrix is proposed to quantify identified risks. Risks will be assessed against their potential impact and their likelihood of occurrence. A pilot programme has already taken place in the Social Care and Health Department and it is hoped this will be completed in March, after which it will be assessed and the programme will be rolled out to all departments.



## **8. PROMOTING AWARENESS**

Effective communication will be achieved through some or all of the following:

- Seminars and bulletins
- Programme of risk audits
- Role of corporate Risk Management Group
- Publicising the RM strategy and policy through In Contact and Face.
- Bi-monthly newsletters
- Seminars/workshops/briefing on various subjects
- Regular bulletins on new legislation or court cases
- Dissemination of good practice through CRMG, SAGs and other group forums
- Leaflets/booklets/memos highlighting RM issues and good practice
- Quizzes in FACE
- Feedback on claims and providing RM advice/recommendations
- Use of intranet for discussion/news updates and RM issues
- Use of notice boards for awareness poster campaigns

## **9. TRAINING AND DEVELOPMENT**

Having defined and formally assigned roles and responsibilities for risk management, it is important that all employees of the authority need to be aware of what risk management means to them. Effectively this means some form of awareness training for employees at all levels – the extent and complexity will depend on what is required of the individual.

The training will take a number of forms and any one or a combination can be tried.

- Incorporate risk management issues with an induction training programme
- Incorporate issues within a standard staff training programme

The aim of any risk management training programme is to equip all employees with the necessary understanding, and skills to manage the risks involved within their particular part of the business and to develop their understanding of what risk management is, how it works and how the authority intends to implement it. More specific training may need to be developed for specific functions/areas of the authority.

Departmental Risk Officers should attend the Institute of Occupational Safety and Health (IOSH) “Managing Risk” Course as a basic introduction to risk management. This will provide them with four days intensive training and following completion of the coursework, a basic qualification in risk management.

The Council will also (where appropriate) include risk management responsibilities in job descriptions for specific persons assigned with responsibility.

## **10. SPECIFIC INITIATIVES**

10.1 **The Business Service Continuity Planning Working Group** was set up with representatives from each department to ensure adequate BCPs were in place. The framework has been agreed and representatives have now attended formal training. Individual assessments for each department will now be carried out to decide how much support and practical training is required by individual departments.

10.2 **The Driving Policy Group** was set up to develop standard policy and guidance for all departments. The draft document is currently being consulted on and the implementation date is now planned for June 2003.

10.3 **Cyber Risk Assessment** is being arranged for the authority due to the potential risks to the authority of e-government initiatives.

## **11. RESOURCES**

Implementation of the Risk Management Strategy will require resources. In addition to the Corporate Risk Manager, it is believed to be essential that each department nominates a post as departmental risk officer with a supportive role in each department. The key initial task will be to support the development of departmental risk registers in each department.

It is envisaged that, initially at least, the role will require around 0.75 FTE in most departments and funding of £100,000 from the Risk Management Fund will be made available, (allocated proportional to the amount of risk faced by each department). Continuation of the role will be evaluated after 12 months, although no further funding will be made available after 2003/04.

It is proposed that the role is best performed by means of internal secondment (or some other suitable way of creating internal capacity), using the extra resource to "backfill". The need for more permanent arrangements can be considered in 12 months time.

The Council sets aside £100,000 p.a. in a Risk Management Fund each year. Apart from resources required to pump prime the departmental Risks Officers, this will be available for specific projects to reduce/eliminate risk. A standard set of criteria will be used to evaluate bids, and decisions taken by the Corporate Risk Management Group.

**12. LEGAL IMPLICATIONS**

Risk Management is a key practice aspect of both Comprehensive Performance Assessment and the Corporate Governance agenda and Leicester City Council is required to comply with their requirements.

**13. OTHER IMPLICATIONS**

<b>OTHER IMPLICATIONS</b>	<b>YES/NO</b>	<b>PARAGRAPH REFERENCES WITHIN SUPPORTING INFORMATION</b>
<b>Equal Opportunities</b>	<b>N</b>	
<b>Policy</b>	<b>N</b>	
<b>Sustainable and Environmental</b>	<b>N</b>	
<b>Crime and Disorder</b>	<b>N</b>	
<b>Human Rights Act</b>	<b>N</b>	
<b>Elderly/People on Low Income</b>	<b>N</b>	

**14. BACKGROUND PAPERS**

Risk Management Strategy September 2001.

**15. CONSULTATIONS**

Corporate Risk Management Group, Service Directors.

### CORPORATE RISK MANAGEMENT POLICY

The Council believes that risk is a feature of all business, and is a particular attribute of the more creative of the Council's strategic developments. Some risks will always exist and will never be eliminated: they need to be appropriately managed.

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:

- Embed risk management into the culture and operations of the Council.
- Adopt a systematic approach to risk management as an integral part of service planning and performance management.
- Manage risk in accordance with best practice.
- Anticipate and respond to changing social, environmental and legislative requirements.
- Ensure departments have clear responsibility for both the ownership and cost of risk and the tools to effectively reduce/control it.

These objectives will be achieved by:

- Establishing clear roles, responsibilities and reporting lines within the Council for risk management.
- Incorporating risk management in the Council's decision making and operational management processes.
- Reinforcing the importance of effective risk management through training and providing opportunities for shared learning.
- Incorporating risk management considerations into Best Value Reviews and Business/Service Planning.
- Monitoring risk management arrangements on a regular basis
- Providing financial incentives to facilitate the proper management of risk

The benefits of Risk Management include:

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