

# Crawley Borough Council

	Report No:FIN/273	<b>C</b>
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## Report to Audit and Governance Committee

27 June 2012

### Risk Management Strategy

#### 1. Key Points

- 1.1 The Council is adjusting its approach to risk management
- 1.2 A revised risk management strategy has been produced that reflects that revised approach

#### 2. Recommendations

- 2.1 **That the Committee indicate their support for the Risk Management Strategy enclosed as an appendix to this report and/or provide any comments they may have on the Strategy**

DAVE RAWLINGS  
Head of Finance, Revenues & Benefits

### **3. Background**

- 3.1 The Committee has a responsibility to review the effectiveness of the Council's risk management arrangements.
- 3.2 The Council has reviewed its approach to risk management. As part of that review it has produced a revised risk management strategy. The authority to approve the Strategy lies with the Leader under the Constitution.
- 3.3 It is appropriate for the Committee to consider the Strategy and make such comments as they feel appropriate.

### **4. A Revised Approach to Risk Management**

- 4.1 Over recent months consideration has been given to the Council's approach to risk management. As a result of that consideration, a change of emphasis is being introduced to the approach.
- 4.2 The change in emphasis is reflected in a revised Strategy which is attached to this report. There are two main changes.
- 4.3 The first is a move in the culture from being risk adverse to risk cautious. A risk adverse culture is one where there is a tendency to try and mitigate all risks. A risk cautious culture is one where account is taken of the significance of the risk, the costs of the mitigation and the potential missed benefits in deciding whether to mitigate risks.
- 4.4 One consequence of this change will be for there to be greater challenge as to the need for some controls.
- 4.5 The second change in emphasis is away from completing forms (such as risk matrices) and towards ensuring that due consideration is given to risks and that they are managed. For instance, there will be an expectation that managers can articulate how they have considered risks rather than expecting it to be recorded in a prescribed format.
- 4.6 In relation to significant risks it is expected that there would also be evidence of the consideration of risks. However, that often exists in the form of notes from one to ones or other meetings, reports, e mails, etc. There is no need for that evidence to be duplicated through being recorded elsewhere.

### **5. Ward Members' Views**

- 5.1. Risk management affects all Council activities and, therefore, has no impact on specific wards.

### **6. Staffing, Equalities, Financial and Legal Implications/Powers**

- 6.1 None. No equality impact assessment has been completed.

## **7 Risk Implications**

- 7.1 There are no consequences relating to the Strategy itself. Its implementation should ensure that there is a more measured use of controls to mitigate risks on all Council activities.

## **8. Environmental Impacts**

- 8.1 None

## **9. Links to the Sustainable Community Strategy and Corporate Plan**

- 9.1 The proposals contained in this report relate to the following key areas of the Sustainable Community Strategy

Community Cohesion	y	Community Safety	y
Young People and Children	y	Health and Well Being	y
Older People	y	The Environment	y
The Local Economy	y	Social Inclusion	y

The following key principles are applicable:-

(i) Working together	y
(ii) Dignity, respect and opportunities for all	y
(iii) Involving People	y
(iv) Making it last	y

The report relates to the following areas in which the Council operates to enhance the town and the quality of life of local people:-

(i) Prosperity	y
(ii) Community	y
(iii) Environment	y
(iv) Value for Money	y

## **10 Reasons for the Recommendation**

- 10.1 The Council has drafted a new Risk Management Strategy. The Committee has a responsibility to review the Council's risk management arrangements of which the Risk Management Strategy is a key component.

## **11. Background Papers**

None

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# **RISK MANAGEMENT STRATEGY**

## **INTRODUCTION**

Most activities involve risks. If those risks do materialise, they may have an adverse effect on what the Council is trying to achieve. Therefore it needs to manage the risks that it faces. This paper sets out how the Council intends to approach the management of risk across the organisation.

All staff have a responsibility to manage risks. However, some staff have particular responsibilities for different categories of risk. Service managers have the major responsibility for operational risks to the services they are responsible for. Project managers and sponsors have the major responsibility for managing the risks on their projects. CMT and Heads of Service have the key role in managing strategic risks in collaboration with the Cabinet.

## **THE NATURE OF RISK**

*Likelihood* – by definition a risk is something that might or might not happen.

*Impact* – if a risk does happen, there will be an impact. That impact may be significant – for example it might jeopardise the project. Alternatively it might be relatively insignificant.

*Mitigation* – usually there is some mitigating action that can either eliminate a risk or, more typically, reduce the likelihood of it happening or the impact if it does.

*Costs* – taking mitigating action will have associated costs – even if it is only in terms of staff time.

*Benefits* – often the benefits of completing a project or providing a service are a given. However, the position can be more complicated when looking at options to achieve desired policy outcomes. Sometimes the benefits can vary depending on the choice taken.

*Risk Tolerance* – this can be either the maximum absolute level of risk that an organisation will accept, or the level at which the organisation is alerted to the risk.

The risk culture of an organisation is defined by approaches these different aspects.

If a risk materialises, it can have one or more of several different impacts:

- Financial loss
- Reduction or prevention of service provision
- Health and safety
- Objectives not achieved
- Reputational (which can have political impacts)
- Relationships/partnerships adversely impacted

Another way of categorising risk is between strategic, tactical and operational risks. It is not unusual to refer to project risks as a type of operational risk.

*Strategic Risks* – are those which may impact on the ability of the Council to achieve its corporate objectives.

*Tactical Risks* – are those which may impact on those activities that which support the implementation of actions to achieve those corporate objectives.

*Operational Risks* – are those that may impact on the day to day operations of the Council

*Project Risks* – are those that may impact on the ability of an individual project to deliver its objectives. These risks will usually be operational, but may be tactical.

## **RISK CULTURE**

The risk culture of an organisation can be categorised in a number of different ways. Typically the categorisation is based on the risk appetite of the organisation. Risk appetite has been defined as the “amount and type of risk that an organisation is prepared to seek, accept or tolerate.” One categorisation uses the following five approaches to risk:

- a. Avoidance – where risk is terminated. Usually this is only achieved by not undertaking an activity.
- b. Adverse – where the approach is to minimise risk, by taking mitigating action
- c. Cautious – where low levels of risk are accepted without mitigation, but medium and significant risks are mitigated
- d. Receptive – where there is a willingness to take risks where the risk warrants it, but with limits
- e. Unlimited – as d., but without limits

There is a strong relationship between the approach to risk and the level of controls an organisation operates. A risk adverse culture requires a significant level of controls, where as a risk receptive organisation requires far less.

The general view is that the Council is a risk adverse organisation. The desire is to move it to a risk cautious organisation. In both cases there needs to be an understanding of risks and what could be done to mitigate those risks. The main difference is that the need for controls will be far more challenged in the risk cautious organisation and account taken of the costs impact of imposing those controls.

The expectation, therefore, is that as the move takes place, the Council will reduce the amount and level of controls it has in place. This will save costs over time, but increase the number of risks that do materialise.

Making this move also fits more comfortably with the systems thinking approach that the Council has adopted as its main approach to reviewing many of its operations. Systems thinking will regard many current controls as "waste" as they do not add value to the customer or support the purpose of a service. In addition, many systems thinking advocates will argue that too many controls have unexpected impacts that act against the intentions of the overall system of control.

In setting out this change, it is important to note and accept that no organisation will, or should, have the same approach to all risks at all times. For instance, it would be inappropriate for the Council to behave unlawfully. Therefore, it should have a high level of controls to avoid the risks of acting unlawfully.

It is also true that risks will vary over time, both in terms of their likelihood and impact. Therefore, risks have to be managed – not just recorded.

## **STRATEGIC RISKS**

An organisation needs to ensure that it effectively manages its strategic risks. CMT have identified a small number of strategic risks. These are identified in Appendix 1.

CMT has the responsibility for ensuring that there is effective management of strategic risks. The Head of Finance, Revenues & Benefits has a responsibility to satisfy himself that effective management is in place and reporting to the Audit & Governance Committee.

## **EXPECTATIONS OF STAFF**

All staff are expected to consider risks in what they do. For front line staff, this will often focus on health and safety issues.

Managers are expected to actively consider the risks associated with the operations, projects and services for which they are responsible. It is expected that they will be able to articulate the risks that have been considered and actions taken to mitigate those risks. For significant risks it is also expected that this can be evidenced.

This expectation is not because it is vital to record significant risks. What is vital is to consider the risks and take appropriate action. However, it would be very unlikely that a significant risk would be properly considered and there being no evidence to reflect that consideration.

There is no prescription as to how this can be evidenced. One way is to create a risk matrix, and, for some projects, that would be recommended. However, it is recognised that in the real world discussions take place about risk on an ongoing basis. Therefore, the evidence may already exist in 1:1 or other meeting notes, reports, etc. There is no desire to add to these.

If managers have concerns relating to risk, they are expected to refer to their line manager or head of service. Heads of Service are expected to oversee the management of risk within their areas of responsibility. It is likely that they will be project managers or project sponsors for those projects that may have significant risks. In that capacity or in relation to operational matters they need to satisfy themselves that the approach being taken to risk is appropriate and in line with the Council's overall approach.

The Chief Executive and Directors share that responsibility. Together with Heads of Service, they are also responsible for making sure that portfolio holders are made aware of significant risks within their portfolio responsibilities. This will normally happen within the portfolio briefings.

There is also a general responsibility to ensure that whenever members are making decisions, they are aware of any significant risks that may affect that decision. This will typically be done through written reports. The standard report template includes a section on risk and this must be used. It should be explicitly stated that there are no significant risks if that is the case.

## **SUPPORT FOR STAFF**

The Audit and Risk Manager will arrange a programme of risk management workshops for managers. Where requested, these can be focused on particular services or functions.



The Audit & Risk Manager can also provide advice, as can Heads of Service. Useful external web sites on risk management include the Institute of Risk Management at <http://www.theirm.org>, CIPFA at [www.cipfa.org.uk](http://www.cipfa.org.uk) and the Chartered Institute of Internal Auditors (CIIA) at [www.iaa.org.uk](http://www.iaa.org.uk). Further information can be found on the Audit and Risk Section intranet page. Many local government professions provide advice on risk management related to particular services.

## **STRATEGIC RISKS**

The following have been identified as strategic risks for the Council:

- A significant reduction in financial resources
- A failure to deliver the capital programme
- A breakdown in the L E P partnership
- A failure to deliver the regeneration of the Town Centre
- An inability to deliver an increase in housing provision