Crawley Borough Council

Report to the Audit and Governance Committee

2nd December 2014

Risk Management Strategy

Report of the Audit and Risk Manager – FIN 351

---

1. Purpose

1.1 The Committee has a responsibility to review the effectiveness of the Council's risk management arrangements.

2. Recommendations

2.1 The Committee is requested to indicate its support for the Risk Management Strategy enclosed as an appendix to this report and/or provide any comments it may have on the Strategy.

3. Reasons for the Recommendations

3.1 The Council has updated its Risk Management Strategy and this Committee has a responsibility to review the effectiveness of the Council's risk management arrangements, of which the Risk Management Strategy is a key component.

4. Background

4.1 The Committee has a responsibility to review the effectiveness of the Council's risk management arrangements.

4.2 The Council has reviewed its previous Risk Management Strategy, including the Council's strategic risks, and an updated Strategy has been produced. In line with the Council's Constitution, the Leader approved this Strategy in October 2014.

4.3 It is appropriate for this Committee to consider the Strategy and make such comments as they feel appropriate.

5. **Background Papers**

5.1 None.

Report author and Contact Officer: Gillian Edwards, Audit and Risk Manager (01293 438384)

ENDS

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 to these different aspects.

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

- o Financial loss
- o Reduction or prevention of service provision
- o Health and safety
- o Objectives not achieved
- o Reputational (which can have political impacts)
- o 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 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 and become issues.

Making this move also fits more comfortably with the systems thinking methodology 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 him or herself that effective management is in place and reporting to the Audit and 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 and 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 and the Chartered Institute of Internal Auditors (CIIA) at www.iia.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:

1. A balanced budget is not achieved in the medium term resulting in an increased use of reserves, which is not sustainable.

2. A Local Plan that meets the needs and aspirations of local people, that is capable of being delivered and is acceptable through public examination, is not achieved.

3. Failure to deliver key infrastructure projects as planned, on time and within budget, such as:

    - Town Centre
    - Broadfield Barton
    - Museum
    - Flood attenuation scheme
    - Cemetery

4. Insufficient capacity to respond to Member initiatives or undertake service reviews.

5. Inability to meet affordable housing and having to repay 1-4-1 receipts, (from Right to Buy income) with interest back to the Government.