EAST RENFREWSHIRE COUNCIL

CABINET

9 November 2017

Report by Chief Executive

Revised Risk Management Strategy

PURPOSE OF REPORT

1.   As part of its Corporate Governance arrangements the Council is required to have effective systems to manage risks. The revised Risk Management Strategy (attached in Appendix 1) enables the Council to deliver advanced risk practice by incorporating risk within service plans and encouraging the use of joint risk registers where possible for projects and partnerships.

RECOMMENDATIONS

2.   It is recommended that the Cabinet consider and approve the revised Risk Management Strategy.

BACKGROUND

3.   The Council has been commended for having "well developed risk management arrangements at both corporate and operational levels" by various external scrutiny bodies. Risk management is well embedded across the Council. Our current approach, which has been refreshed and refined over the years was first introduced in 2002. In 2014, the Council was a finalist in the Local Government Chronicle Awards for our approach to risk management under the Corporate Governance category.   Now, there is a natural progression towards mainstreaming risk and further integrating risk into existing governance structures.

4.   Currently, each service has an operational risk register to record day to day and service specific risks. Meanwhile at council level, the strategic risk register sets out the key strategic risks to be considered by East Renfrewshire Council and details the actions that management has put in place to manage these risks. The strategic risk register is reviewed weekly by the CMT.

5.   The strategic risk register is presented annually to the Cabinet and biannually to the Audit and Scrutiny Committee. In addition to this, regular progress reports on risk management are also presented to the Corporate Management Team and Audit and Scrutiny Committee.

REPORT

6   The Risk Management Strategy was last updated in 2014. The risk approach has been developed further to incorporate advanced practice. The suggested revisions will encourage service planning and analysis of risk to be closely aligned.

7. The main changes to the strategy include:-

- Joint risk registers should be encouraged for partnerships and contract management. This will help to define responsibilities and ensure we manage risk appropriately.
- Monitoring and inclusion of risks within the existing service planning process (mid and end year),
- Increased review of the strategic risk register e.g. weekly review at CMT.

8. Since 2012, a training course on risk management in partnerships, projects and contracts has been available on the corporate training calendar. The course was customised to the requirements of the Council and is delivered by Zurich Insurance Company Ltd. through the terms of the Council's insurance contract. Our arrangement with Zurich enables the Council to gain best practice on risk management methodology across both public and private sectors. The Council also benchmarks with other councils to ensure that the latest thinking is applied to our risk management strategy. The slides attached to this report are from the training that Zurich provide and they highlight the importance of discussing risk on an open basis with **joint registers** where possible.

9. The benefits of discussing risk on an open basis are as follows:

- Genuine consensus about the main risks (no hidden risks)
- Clear allocation of risks and ownership as to how the risks will be managed
- A clear process for managing and updating the view of risks
- Greater trust and buy-in
- One view and good communication is paramount.

10. Risks are generally transferred through:

- Use of wording within any agreement, e.g. a partnership agreement or Service Level Agreement
- Agreement of particular elements within the payment mechanism
- Seeking of particular implements such as bonds
- **A joint risk register.**

11. There are some examples of joint risk registers across partnerships of the Council however there is further potential to introduce a shared risk arrangement for the ERCLT (East Renfrewshire Culture and Leisure Trust), third sector and any contracts. This joint register should be incorporated into the regular meetings held between parties to measure performance against business plans/ service level agreements or partnership agreements. There is no need to create a separate governance structure.

12. Risks at service level (operational) should be captured within the service plan which will encourage risks to be reviewed in relation to the achievement of performance targets and key activities. The inclusion of risks within the service planning process will link service targets and activities with the risks in delivering them.

CONSULTATION

13. The Corporate Risk Management Group provided valuable feedback to design the new approach. The CMT approved the new approach in April 2017 and the strategy was revised (awaiting Committee approval) in May 2017. The Audit and Scrutiny Committee considered the revised Risk Management Strategy on the 17 August 2017 and recommended to the Cabinet that the revised strategy be approved.

RECOMMENDATIONS

14.   It is recommended that the Cabinet consider and approve the revised Risk Management Strategy.

Lorraine McMillan, Chief Executive

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Report Date – 24 May 2017

BACKGROUND PAPERS
Appendix 1 Revised Risk Management Strategy

KEY WORDS
Revised Risk Management Strategy, risks, opportunities, risk roles, risk appetite.

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Risk Management Strategy

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1.0   Introduction

Good risk management helps you take more risk (successfully). Risk management is an important aspect of all our lives. We are exposed to risk both in terms of **threats** to service provision and from the potential of **lost opportunities**. It is essential that we can demonstrate to our residents that we are fully considering the implications of risk as we deliver our business for the benefit of our community.

The Council introduced its first strategy for addressing risk management in June 2004. Since then, steady progress has been made in embedding risk management throughout the Council, and risk management is now an integral part of our service planning process.

Effective risk management will help to ensure that the Council maximises its opportunities, and minimises the risks it faces, thereby improving our ability to deliver our priorities and improve outcomes.

East Renfrewshire Council will adopt a positive approach to risk management. It is not about eliminating all risk but about understanding risk and managing it more effectively. We will not only look at the possibility of things going wrong, but also be proactive, innovative and consider the possibility of things going better than we expected to achieve our outcomes.

All employees must understand the nature of the risk and accept responsibility for risks associated with their area of work. In doing this they will receive the necessary support, assistance and commitment from senior management and Members.

The Council's risk management objectives are a long term commitment and an inherent part of good management and governance practices. The objectives need the full support of Members and active participation of managers.

2.0   Definitions
2.1   Risk

Risk is defined as the combination of the probability of an event and its consequences, whether a positive opportunity or negative threat (Risk Standard ISO/IEC Guide 73). Risk management is the planned and systematic approach to the identification, evaluation and control of risk. The objective of risk management is to secure the assets and reputation of the organisation and to ensure the continued financial and organisational well-being of the Council.

> **The chance of something happening that will have an impact on the Council's business or outcomes.**

2.2   Risk Management
Good risk management is about identifying what might go wrong, what the consequences might be of something going wrong and finally, deciding what can be done to reduce the possibility of something going wrong. If it does go wrong, as some things inevitably will, making sure that the impact is kept to a minimum.

Risk management should ensure that an organisation makes cost effective use of a risk framework that has a series of well-defined steps. The aim is to support better decision making through a good understanding of risks and their likely impact.

Risk management should be a continuous and developing process which runs throughout the organisation's strategy and the implementation of that strategy, methodically addressing all risks surrounding the Council's activities past, present and future.

> **The process of identifying and managing risk is to increase the probability of success and reduce the opportunity of failure.**

3.0 Our objectives

3.1 The council's risk management objectives are to:

- Ensure that risk management is clearly and consistently integrated and evidenced in the culture of the Council.
- Identify and address risks at all levels, from operational to strategic to projects to turn uncertainty to the benefit of the community.
- Anticipate and respond to changing social, environmental and legislative requirements.
- Introduce a robust framework and procedures for identification, analysis, assessment and management of risk, and the reporting and recording of events, based on best practice.
- Minimise injury, damage, loss and inconvenience to residents, staff, service users, and assets arising from or connected with the delivery of council services.
- Raise awareness of the need for risk management by all those connected with the council's delivery of service.

These objectives will be achieved by:

- Clearly defining the roles, responsibilities and reporting lines within the Council for risk management.
- Including risk management issues when considering decisions.
- Continuing to demonstrate the application of risk management principles in the activities of the Council, its employees and Members.
- Reinforcing the importance of effective risk management as part of the everyday work of employees and Members.
- Maintaining and reporting a strategic register of risks linked to the Council's outcome delivery plan.
- Including risks within service plans and reviewing risks as part of the mid and end year service plan monitoring cycle.
- Ensuring that risks are captured and reviewed as part of contract management or project management.
- Introducing shared joint risk registers for partnerships where possible.
- Maintaining documented procedures of the control of risk and provision of suitable information (Association of Local Authority Risk Managers toolkit), training and supervision.
- Monitor arrangements continually and seek continuous improvement.

4.0 Risk appetite

4.1 The term risk appetite describes our attitude towards the amount of risk that the Council is prepared to accept in trying to achieve our outcomes. The attitude towards risk can differ across our services, from risk averse to risk taking. Risk appetite is about taking well thought through risks where the long-term rewards are expected to be greater than any short-term losses. If the Council is unnecessarily averse to risk we may miss good opportunities. However, in taking some risks it is important not to over extend into territory where the Council cannot afford the possible consequences. It is worth noting that the Accounts Commission supports well-managed risk taking, recognising that innovation and opportunities to improve public services requires risk taking, providing that we have the ability, skills, knowledge and training to manage those risks well.

East Renfrewshire Council's approach is to minimise its exposure to reputational, compliance and financial risk, whilst accepting and encouraging an increased degree of risk in pursuit of innovation and improved outcomes. It recognises that its appetite for risk varies according to the activity undertaken, and that its acceptance of risk is subject always to ensuring that potential

benefits and risks are fully understood before developments are authorised, and that sensible measures to mitigate risk are established.

4.2   The Council's appetite for risk across its activities is provided in the following statements, and is illustrated diagrammatically.

	Unacceptable to take risks							Higher willingness to take risks		
	1	2	3	4	5	6	7	8	9	10
Reputation	██	██								
Compliance	██	██								
Financial	██	██								
People and culture		██	██	██	██	██				
Operational services		██	██	██	██	██				
Major change activities				██	██	██	██	██		
Environmental and social responsibility			██	██	██	██	██			

Reputation:- It is regarded as critical that the Council preserves its high reputation. The Council therefore has low appetite for risk in the conduct of any of its activities that puts its reputation in jeopardy, could lead to undue adverse publicity, or could lead to loss of confidence by the Scottish Government and funders of its activities.

Compliance:- The Council places great importance on compliance, and has no appetite for any breaches in statute, regulation, professional standards ethics, bribery or fraud.

*Financial:-*The Council aims to maintain its long term financial viability and its overall financial strength. Whilst targets for financial achievement will be higher, the Council will aim to manage its financial risk by not breaching the following criteria
- Unallocated general fund balance to be equivalent to 4% of the annual budgeted net revenue expenditure
- Nil qualifications on the accounts audited by External Audit
- Outturn net expenditure within 95% to 100% of approved revenue budget as revised by in year budget adjustments

People and culture – The Council aims to value, support, develop and utilise the full potential of our staff to enable a stimulating and safe place to work. It places importance on a culture of equality and diversity, dignity and respect, collegiality, annual performance reviews, the development of staff, and the health and safety of staff, visitors and residents. It has low appetite for any deviation from its standards in these areas. There is an appetite to modernise our services and this will involve developing the skills of our staff.

*Operational services:-*With declining budgets and growing demand for most of our services, there is a need to develop as an organisation. Our focus has been on responding to and adapting around 5 key areas, prevention, community engagement, use of data, modernising how we work and embracing digital. Changing the way which some operational services are delivered will bring increased risks but will allow us to maximise resources to deliver services in efficient and effective ways that meet the needs of residents.

Major Change activities (e.g. projects, collaborations):- Major change activities are required periodically to develop the Council, and to adapt to changes in the regulatory and technological environment and in the nature and conduct of the Council's activities. Such changes will be managed according to best practice in project and change management and the Council has a low appetite for deviating from such standards.

*Environmental and social responsibility:-*The Council aims to make a significant, sustainable, and socially responsible contribution to Scotland and the rest of the UK. It recognises that this should involve an increased degree of risk and is comfortable in accepting this risk subject always to ensuring that potential benefits and risks are fully understood before developments are authorised and that sensible measures to mitigate risk are established.

4.3   The Council has in the main an overall informed and cautious appetite for taking significant risk to achieve the priorities identified within its Outcome Delivery Plan and for providing services in support of this.

However it is to be noted that whilst the Council will maintain its overall informed and cautious approach, it will have areas within this where a higher level of risk will be taken such as in supporting innovation in service delivery. These will be offset by areas where it maintains a very cautious approach such as in matters of compliance with law and public confidence in the Council, so leading to its overall informed and cautious position on risk. A useful matrix explaining risk appetite is included in Appendix 2 of this strategy.

5.0   Our risk processes

5.1   It is essential that a single risk management approach be utilised at all levels throughout the Council. By effectively managing our risks and opportunities, which is all part of good governance, we will be in a stronger position to deliver our outcomes, provide improved services to the public, work better as a partner with other organisations and achieve value for money. This approach to risk management will inform the Council's business processes, including:

- Strategic planning
- Financial planning
- Service planning
- Policy making and review
- Performance management
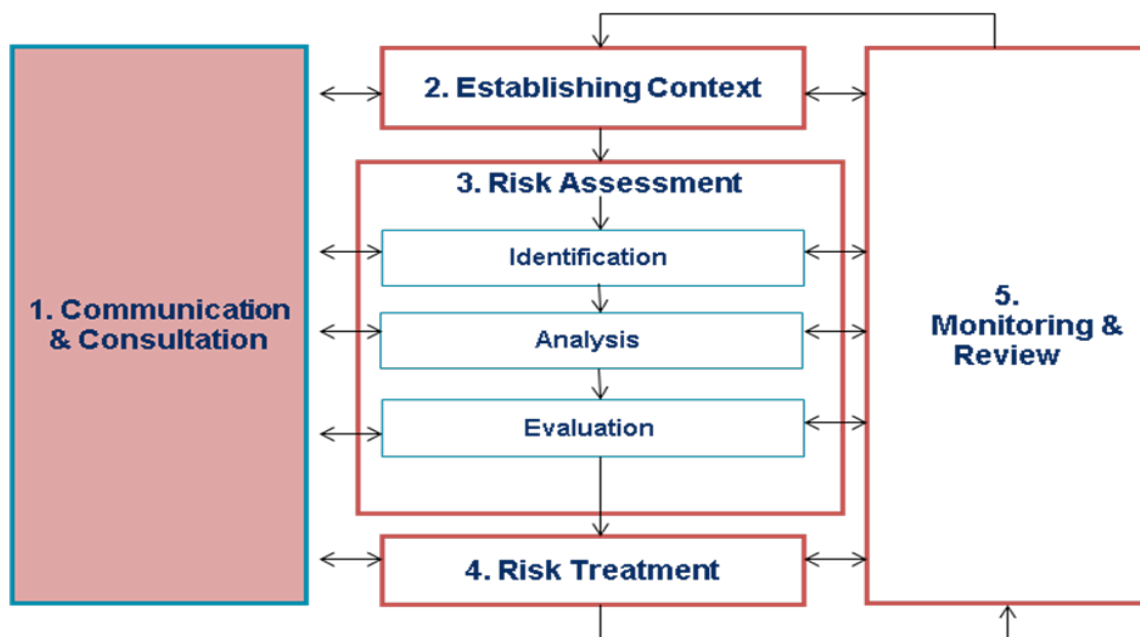- Project management
- Partnership working

5.2   For those with responsibility for delivering a service, they must identify and assess risks and opportunities; develop and implement controls and review and report on progress. They should record this risk information within service plans which will be discussed at regular intervals as part of performance monitoring and good management. Practical guidance on how to identify, assess and treat risks, and monitor their progress is provided on the intranet (ALARM toolkit). Staff, especially service supervisors, are encouraged to attend risk management training which is available at different levels starting from beginners and progressing to advanced.

5.3   The risks associated with partnerships and projects should be captured and reviewed regularly. There should be continual discussions on risk and records kept so each partner is aware of their responsibilities. Joint risk registers should be encouraged, where possible, as opposed to each partner maintaining their own register. The risks should be shared with partners on a regular basis. There is a project /partnership risk course available on the corporate training calendar.

5.4   The strategic risk register sets out the key strategic risks to be considered by East Renfrewshire Council and details the actions that management has put in place to manage these risks. The Corporate Risk Management Group/ CMT and Heads of Service provide updates on strategic risks which could prevent the Council from achieving its outcomes. The Corporate Management Team includes a link to the live strategic risk register within their meeting papers. Therefore strategic risks are reviewed on a weekly basis at CMT. The strategic risk register is presented to Audit and Scrutiny Committee on a 6 monthly basis and to Cabinet on an annual basis.

5.5   The Corporate Risk Management Group meets regularly and includes representation from each department. The departmental risk representative acts as the risk champion and has a clearly defined remit (Appendix 1) which aims to ensure risk management processes are applies consistently across the Council.

5.6   A diagram (from the ISO31000 risk management standard) showing the risk management process is displayed below. The most important element of the process is ensuring that there is good communication and consultation around the risks and control measures required to deliver effective services.

Source ISO31000- risk management process

5.4   The benefits of good risk management

Achieve and demonstrate good governance

Avoid the impact of failure (perceived or actual)

Support Value for Money, project, finance and performance management

Comply with legal and regulatory requirements

Manage partnerships, suppliers, contractors and ongoing services

Control acquisition or development of new services

Manage external changes in culture, political environment, etc

Maintain service provision through adversity

Adapt to changes in the market and customer needs

Achieve benefits and exploit opportunities, enabling innovation

Achieve objectives / deliver business services

6.0   Risk management roles and responsibilities

6.1   Responsibility for risk management should run throughout the Council. **Everyone has a role to play in the risk management process.**

Group	Role
Cabinet **(Reporting** *Annually***)**	Oversee the effective management of risk throughout the council, and gain an understanding of its benefits.
Audit and Scrutiny Committee **(Reporting** *Quarterly***)**	Provide independent assurance of the risk management process and its benefits. To be informed of the key risks facing the Council and the control measures which have been put in place to mitigate those risks.
Corporate Management Team **(Reporting** *Annually)*	Oversee the implementation of the risk management strategy and agree any inputs and resources required supporting the work corporately. Support the development of the risk management process, review the strategic risk register regularly, share experience on risk, and aid/advise in the review of risk management issues.
Corporate Risk Management Group **(Reporting** *Bi-annually***)**	Champion the risk management process throughout the council with both Members and officers ensuring the process is embedded and effective. The role of the departmental representative on the Corporate Risk Management Group is outlined in Appendix 1 of this strategy.
Service Managers	Raise awareness, manage and implement the risk management process effectively in their services areas, attend risk management training and recommend any necessary training for employees on risk management. To produce and review risks relating to the delivery of targets and activities within their service plans.
Employees	Manage risk effectively in their jobs, liaising with their manager to assess areas of risk in their job. Identify new or changing risks in their job and feed these back to their line manager.

6.2   Control environment

The control environment comprises the systems of governance, risk management and internal control. The key elements of the control environment include:

- establishing and monitoring the achievement of the organisations objectives;
- the facilitation of decision ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the organisation, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties;
- ensuring the economic, effective and efficient use of resources and ensuring continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness;
- the financial management of the organisation and the reporting of financial management;
- the performance management of the organisation and the reporting of performance management.

Managers will be responsible for ensuring that proper controls are in place to ensure that resources are used appropriately, to provide value for money and delivery of the Council's objectives. The controls will be reported through the Annual Governance Statement, to ensure that the systems and services they are responsible for deliver consistent, predictable, effective results in or to meet service or corporate objectives.

An Audit process exists which independently monitors the controls and procedures across the Council to enhance value for money, ensure systems' reliance, minimise risk and act upon suspicion of fraud or corruption. External Audit relies on the Audit processes in place in formulating their opinion of the Council's control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation's objectives.

6.3   Project and partnership management

Ensuring that we are capable of delivering major and complex projects/ partnerships across many of our services is key to achieving the Council's objectives. Achievement of these projects and/or partnerships is only possible because good managers take the time to plan, organise and manage their projects well. Project management documentation has been established for the Council, which draws on many areas of good practice that already exist across the Council and provides a practical reference point for managers and staff embarking on projects. This information includes provision for undertaking and continually reviewing the risk management process throughout the life of the project and/or partnership. Joint risk registers are advanced risk practice and these are encouraged across the Council. Training is given to staff on how to create effective joint registers and how to put in place effective governance to monitor and manage them.

7.0   Risk and the decision making process

7.1   Risk needs to be addressed at the point at which decisions are being taken. Where Members and officers are asked to make decisions they should be advised of the risks associated with recommendations being made. The current guidance on the format of corporate reports states that officers must "provide a summary of the option appraisal exercise carried out, giving details of all options considered and explain the reasons why these were discounted in favour of the one proposed. "

7.2   Guidance on options appraisal is now available on the corporate intranet and staff will be encouraged to follow these guidelines to ensure they risk assess options before a decision is taken.

8.0 Risk reporting

The structure for risk management is as follows:

Timeframe	Description	Involvement from	Reported to
Weekly	Review of the strategic risk register	Corporate Management Team	Internally (keep live register of risks)
Biannually (November and May)	Risks related to service delivery (within service plans)	Chief Executive and Directors	Chief Executive (meetings)
Biannually (April and September)	Review of the strategic risk register	Corporate Management Team/ Leadership Group and Corporate Risk Management Group	Cabinet (annually) and Audit and Scrutiny Committee (biannually)
Biannually (February and August)	Progress on risk management	Corporate Management Team/ Leadership Group and Corporate Risk Management Group	Audit and Scrutiny Committee
Every 3 years	Review of the risk management strategy and process document to identify and agree major changes	Corporate Management Team/ Leadership Group and Corporate Risk Management Group	Cabinet and Audit and Scrutiny Committee

9.0 Further information

Information on risk management is stored in a central shared council network drive (M Drive).
You can obtain access to this drive by contacting the ICT service desk.

This drive includes copies of the following key documentation

- Cabinet reports on risk management

- Audit and scrutiny reports on risk management

- Corporate management reports on risk management

- Minutes of the corporate risk management group

- Current strategic risk register

- ALARM toolkit on how to complete a risk register

- Risk reports from other councils

Current information on risk management including dates of training is available from the intranet
http://intranet.erc.insider/risk-management

Last updated: June 2017

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Appendix 1

Remit of the Corporate Risk Management departmental representative

- To act as a risk champion within their department. To provide advice to all staff on the content and accuracy of service risks and risks within the strategic risk register. To ensure that all staff within their department are aware of the principles of risk management and that supervisors are aware of their obligations. To advise staff on the frequency of update of risks within service plans and ensure all services **and partnerships/ projects** are captured and monitored within project/ partnership documentation. Joint risk registers for partnerships should be introduced to facilitate a joint approach to managing risks.

- To ensure that risks are captured, scored and monitored in a consistent format. Departmental risk reps should also review a sample of the proposed control measures (and keep a log of those they have checked) to ensure progress is taken.

- To act as the departmental liaison on the Corporate Risk Management Group. This group meets on a 6 monthly basis. To ensure that actions arising from this meeting are cascaded to staff across their department. Any departmental risk issues should be communicated via the departmental risk representative to the chair of the Corporate Risk Management Group.

- To ensure that all relevant staff have been trained in risk management within their department. To promote risk courses across the department.

- To regularly update the departmental management team on progress made within the department on risk management (including the discussion of risks at management meetings).

- To co-ordinate and collate risk management information on behalf of their department. To respond to requests from the Chief Executive's Office for risk updates or compliance evidence.

- To ensure that the risk M drive (network drive) is updated.

- To attend, if required, the Audit and Scrutiny Committee to provide departmental representation on risk management issues.

- To implement any actions arising from Internal or External Audit in relation to the implementation of risk management within their department.

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Appendix 2 Risk appetite

Category of Risk	1 Averse	2 Minimalist	3 Cautious	4 Open	5 Hungry
	Avoidance of risk and uncertainty is a key Organisational objective	Preference for ultra-safe business delivery options that have a low degree of inherent risk and only have a potential for limited reward.	Preference for safe delivery options that have a low degree of inherent risk and may only have limited potential for reward.	Willing to consider all potential delivery options and choose the one that is most likely to result in successful delivery while also providing an acceptable level of reward (and value for money etc.).	Eager to be innovative and to choose options offering potentially higher business rewards (despite greater inherent risk).
			Example behaviours when taking key decisions…		
Reputation and credibility	• Minimal tolerance for any decisions that could lead to scrutiny of the Government or the Department.	• Tolerance for risk taking limited to those events where there is no chance of any significant repercussion for the Government or the Department.	• Tolerance for risk taking limited to those events where there is little chance of any significant repercussion for the Government or the Department should there be a failure.	• Appetite to take decisions with potential to expose the Government or Department to additional scrutiny but only where appropriate steps have been taken to minimise any exposure.	• Appetite to take decisions that are likely to bring scrutiny of the Government or Department but where potential benefits outweigh the risks.
Operational and policy delivery	• Defensive approach to objectives – aim to maintain or protect, rather than to create or innovate. • Priority for tight management controls and oversight with limited devolved decision making authority. • General avoidance of systems / technology developments.	• Innovations always avoided unless essential. • Decision making authority held by senior management. • Only essential systems / technology developments to protect current operations.	• Tendency to stick to the status quo, innovations generally avoided unless necessary. • Decision making authority generally held by senior management. • Systems / technology developments limited to improvements to protection of current operations.	• Innovation supported, with demonstration of commensurate improvements in management control. • Systems / technology developments considered to enable operational delivery. • Responsibility for non-critical decisions may be devolved.	• Innovation pursued – desire to 'break the mould' and challenge current working practices. • New technologies viewed as a key enabler of operational delivery. • High levels of devolved authority – management by trust rather than tight control.
Financial/VFM	• Avoidance of financial loss is a key objective. • Only willing to accept the low cost option. • Resources withdrawn from non-essential activities.	• Only prepared to accept the possibility of very limited financial loss if essential. • VfM is the primary concern.	• Prepared to accept the possibility of some limited financial loss. • VfM still the primary concern but willing to also consider the benefits. • Resources generally restricted to core operational targets.	• Prepared to invest for reward and minimise the possibility of financial loss by managing the risks to a tolerable level. • Value and benefits considered (not just cheapest price). • Resources allocated in order to capitalise on potential opportunities.	• Prepared to invest for the best possible reward and accept the possibility of financial loss (although controls may be in place). • Resources allocated without firm guarantee of return – 'investment capital' type approach.
Compliance – legal / regulatory	• Avoid anything which could be challenged, even unsuccessfully. • Play safe.	• Want to be very sure we would win any challenge.	• Limited tolerance for sticking our neck out. Want to be reasonably sure we would win any challenge.	• Challenge will be problematic but we are likely to win it and the gain will outweigh the adverse consequences.	• Chances or losing are high and consequences serious. But a win would be seen as a great coup.

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