



# RISK

## Management Strategy

'a sense of proportion'

version.4.0 revised October 2008

## Foreword

Welcome to the Council's Risk Management Strategy, revised in October 2008. This Strategy aims to improve the effectiveness of risk management across the Council. Effective risk management allows us to:

- have increased confidence in achieving priorities and outcomes
- constrain threats to acceptable levels
- take informed decisions about exploiting opportunities
- ensure that we get the right balance between rewards and risks
- improve partnership working arrangements and corporate governance.

Ultimately, effective risk management will help to ensure that the Council maximises its opportunities and minimises the impact of the risks it faces, thereby improving ability to deliver priorities and improve outcomes for residents.

This Strategy explains Middlesbrough Council's approach to risk management, and the framework that will operate to ensure that risks are effectively managed.

Photo	Photo
Bob Kerr Deputy Mayor	Jan Richmond Chief Executive

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<b>Information Box</b>	
Title	<b>“a sense of proportion”</b> version 4.0 revised October 2008
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Primary audience	Members, Chief Executive, Corporate Management Team, Heads of Service, Unit / Departmental Heads and all Middlesbrough Council Staff
Contact	Corporate Risk Management Officer Performance and Policy Tel: 01642 729582
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## Introduction

1. Risk management is both a statutory requirement and an indispensable element of good management. As such, its implementation is crucial to the Council and essential to its ability to discharge its various functions: as a partner within the Local Strategic Partnership, a deliverer of public services, a custodian of public funds and a significant employer.

“a sense of proportion” v4.0 is the Council’s current Risk Management Strategy. It builds on the Council’s previous Risk Management Strategies, which were revised:

- in accordance with the statement that regular reviews would be undertaken
- to further embed good practice in relation to risk management across the Council
- in line with recognised best practice and auditors’ expectations.

2. This Risk Management Strategy provides a comprehensive framework and process designed to support Members and officers in ensuring that the Council is able to discharge its risk management responsibilities fully. The Strategy outlines the objectives and benefits of managing risk, describes the responsibilities for risk management and provides an overview of the process that we will implement to manage risk successfully. Detailed information on how to implement this policy and tools to assist in the implementation are provided in Middlesbrough Council’s Risk Management Toolkit.

3. Risk management in Middlesbrough Council is about improving ability to deliver strategic objectives by managing threats, enhancing opportunities and creating an environment that adds value to ongoing operational activities.

4. Risk management is a key part of corporate governance, which is essentially the way an organisation manages its business, determines strategy and objectives and goes about achieving these objectives. Risk management will help identify and deal with the key risks facing the Council in the pursuit of its goals. It is a key part of good management and not simply a compliance exercise.

5. The benefits of successful risk management include:

- **Improved service delivery**

Enhanced corporate policies, fewer disasters and surprises, added value across service areas, more targets achieved, improved internal controls, consistent management of risk and opportunities resulting in improved service delivery.

- **Improved financial performance**

Higher percentage of objectives achieved, lower level of fraud, increased capacity through reduction in the number of decisions that need reviewing or revising, decreased number of, and impact of, critical risks, better income generation and fewer alterations and losses.

➤ **Improved human resources management**

Potentially reduced staff turnover and absenteeism due to less stressful working environment because there are fewer surprises.

➤ **Improved corporate governance and compliance systems**

Fewer regulatory visits, fewer legal challenges, an improved corporate governance statement that is better substantiated and evidenced.

➤ **Improved insurance management**

Lower insurance premiums and number and level of claims, lower total of uninsured losses.

6. Further advice and assistance on risk management is available from the Corporate Risk Management Officer, Performance and Policy, Middlesbrough Council.

## 2. Aim and Objectives

### AIM

7. The aim of this Strategy is to improve ability to deliver strategic priorities by managing our threats, enhancing our opportunities and creating an environment that adds value to ongoing operational activities.

### OBJECTIVES

8. The objectives of this Strategy are to:
  - fully integrate risk management into the culture of the Council and into the Council's strategic planning processes
  - ensure that the framework for identifying, evaluating, controlling, reviewing, reporting and communicating risks across the Council is implemented and understood by all relevant staff
  - communicate to stakeholders the Council's approach to risk management
  - improve co-ordination of risk management activity across the Council
  - ensure that the Executive, Corporate Management Team (CMT) and external regulators are provided with the necessary assurance that the Council is mitigating the risks of not achieving its objectives, and thus complying with good corporate governance practice
  - ensure consistency throughout the Council in the management of risk.

### 3. Definitions

9. This section provides brief definitions of the terms used within this Strategy and the definitions that Middlesbrough Council is working to.

#### RISK

10. Middlesbrough Council's definition is:

***“Risk is the probability of an event occurring and its consequences”***

11. A brief explanation of the key words used in this definition is given below:

**probability** – the likelihood of an event occurring

**event** – the occurrence of a particular set of circumstances

**consequences** – outcomes arising from the event. There may be more than one consequence from the same event and consequences can be both positive and negative.

#### RISK MANAGEMENT

12. There are many slightly different definitions of risk management that cover essentially the same points. Middlesbrough Council's approach to risk management is based upon best practice and is defined as:

***“the process by which Middlesbrough Council manages threats, enhances opportunities and creates an environment that adds value to its activities”.***

13. The focus of good risk management is the identification and treatment of such risks. Its objective is to add maximum sustainable value to all the activities of the organisation. It aids the understanding of the potential upside and downside of all the factors that can affect the organisation's ability to deliver its objectives. It increases the probability of success, and reduces both the probability of failure and the uncertainty that the organisation will achieve its overall objectives.
14. Risk management should support improved decision-making through a good understanding of the risks associated with decisions and their likely impact.
15. Risk management should be a continuous and developing process that runs throughout the organisation's strategy and the implementation of that strategy, methodically addressing all risks surrounding the organisation's activities past, present and future.

## 4. Scope

16. Risk management is something that everyone within the Council undertakes almost daily, in varying degrees. Although it is difficult to draw clear boundaries around risk management areas because of the cross-cutting nature of risk, risk management within Middlesbrough Council falls into five main areas:
- health and safety risks
  - emergency planning
  - business continuity planning
  - project risks: both physical (e.g. mima) and strategy-related (e.g. Older Housing Strategy). This area is closely aligned to and may overlap with business risk
  - business risks: i.e. risks identified that could prevent the Council achieving its priorities – either top-level priorities (e.g. failure to deliver the Mayor’s Raising Hope agenda) or operational-level priorities (e.g. failure to deliver actions within a team plan).
17. The Risk Management Process outlined within this Strategy applies primarily to the business and project risk management areas but can, where appropriate, be used for any area. All risk areas identified above include high-level / long-term risks (strategic risks) through to low-level / day-to-day risks (operational risks).
18. Lead responsibility for the development of the five areas of risk management identified is shared between service areas located within Central Services and Environment (see Table 1).

**Table 1 – Risk areas**

Risk area	Service area with lead responsibility
Health and safety risks	HR Client – client (Central Services) and MBS (delivery)
Emergency planning	Emergency Planning Unit (Environment)
Business continuity planning	Performance and Policy (Central Services) Emergency Planning Unit (Environment)
Project risks	Performance and Policy (Central Services) Strategic Resources (Central Services)
Business risks	Performance and Policy (Central Services)



## **HEALTH AND SAFETY AND EMERGENCY PLANNING**

19. The Council has in place long-established and effective processes for the management of risks falling within the health and safety risks and emergency planning areas. The established processes already in place in these risk areas should be followed; they are not superseded by this Strategy.

## **BUSINESS CONTINUITY MANAGEMENT**

20. Business continuity management and risk management have clear inter-dependencies and are closely aligned. However, business continuity management is concerned with events that typically have a very low probability of occurring but would have a catastrophic impact on the Council's ability to deliver services, and business continuity planning is based around time-critical activities. Consequently, any risk identified through the risk assessment process as likely to have a catastrophic impact upon the Council's ability to deliver its services will probably be mitigated through the Council's Business Continuity Management Process. The Cleveland Emergency Planning Unit, in liaison with the Council's Emergency Management Response Team, hold responsibilities for managing the external impacts of risks of this nature.
21. The Council's approach to business continuity management is outlined in the Business Continuity Strategy. In summary, a Council-wide business impact analysis has been undertaken and Business Continuity Plans are now in place (at corporate and directorate levels). The Council has also ensured, through its partnership with Mouchel Business Services, that Council-wide Business Continuity Plans are in place covering activities in high-priority areas (e.g. customer services) and high-risk areas (e.g. IT).
22. The Council's approach to business continuity management is to ensure that a generic response is in place to deal with the likely impact of an incident, regardless of the cause of the incident. This means that the Council is able to produce one generic plan rather than a series of plans to deal with different scenarios. However, the impacts arising from one particular scenario – pandemic flu – are sufficiently different to warrant a specific plan, and therefore the Council also has in place a Flu Pandemic Plan.

## **PROJECT RISKS**

23. Project risks can be managed using one, or a combination, of the following risk management processes:
  - the Capital Bid Programme risk assessment pro forma
  - risk management techniques associated with the project management methodology used (e.g. External Funding Project Management Start to Finish Handbook)
  - the Council's Business Risk Management Process.

24. Risk management is incorporated into project management right from the outset (e.g. initial risk assessment as part of the Project Brief). The size and scope of the project will dictate the best way of managing the attached risks. However, ALL projects MUST undertake full risk assessments. All formal Project Management Training within the Council includes Project Risk Management.

## **BUSINESS RISKS**

25. The Risk Management Process outlined within this Strategy should be used to identify and manage all risks to the Council's ability to deliver its priorities. This should cover both strategic priorities (e.g. delivery of the community strategy themes) and operational activities (e.g. delivery of actions identified in team plans). The term 'business risks' relates to risks that might prevent objectives being achieved at all levels, including:
- strategic priorities, e.g. delivery of the Mayor's Raising Hope Agenda and the Community Strategy Themes
  - Planned Actions identified in the annual Strategic Plan
  - service area priorities identified in service group plans
  - priorities identified in team plans
  - individual objectives.

## 5. Roles and Responsibilities

26. Everyone in the Council is involved in risk management and should be aware of their responsibilities in identifying and managing risk. However, the ultimate responsibility for managing risk lies with:

- the Mayor and the Executive
- the Chief Executive and CMT.

27. In order to ensure the successful implementation of this Strategy, responsibilities for risk management are detailed in Table 2.

**Table 2 – Roles and responsibilities**

Role	Responsibilities
<b>The Executive</b>	<ul style="list-style-type: none"> <li>➤ Overseeing effective risk management across the Council.</li> <li>➤ Agreeing Middlesbrough Council’s Risk Management Strategy.</li> <li>➤ Ensuring that risk management is delivered by the Chief Executive and CMT on behalf of the Executive.</li> <li>➤ Ensuring that a Strategic Risk Register, including details of the actions taken to mitigate the risks identified, is established and regularly monitored.</li> <li>➤ Ensuring that the Risk Management Strategy and Strategic Risk Register are reviewed at least annually.</li> <li>➤ Appointing a Member as risk champion.</li> </ul>
<b>Members</b>	<ul style="list-style-type: none"> <li>➤ Ensuring that business risks are being identified and effectively managed.</li> <li>➤ Scrutinising the Executive’s decisions to ensure that they meet the requirements of effective risk management.</li> <li>➤ Facilitating a risk management culture across the Council.</li> </ul>
<b>Audit Committee</b>	<ul style="list-style-type: none"> <li>➤ Supporting and monitoring the implementation and ongoing processes for identifying and managing key risks of the authority.</li> </ul>

Role	Responsibilities
<b>Chief Executive and CMT</b>	<ul style="list-style-type: none"> <li>➤ Leading risk management across the Council, with the Chief Executive as the designated CMT lead on risk.</li> <li>➤ Advising Members on effective risk management and ensuring that they receive regular monitoring reports.</li> <li>➤ Recommending a Risk Management Strategy to Members.</li> <li>➤ Identifying and managing the business risks and opportunities facing the Council (including those highlighted within received reports).</li> <li>➤ Co-ordinating risk management across the Council.</li> <li>➤ Being responsible for ensuring that the Council fully complies with all corporate governance requirements, including the Governance Statement.</li> </ul>
<b>Directors</b>	<ul style="list-style-type: none"> <li>➤ Ensuring that risk management within their directorate is implemented in line with the Council's Risk Management Strategy and the Minimum Standard for Performance Management.</li> <li>➤ Appointing a risk champion who is authorised to progress across their directorate effective risk management that adheres to corporate guidelines.</li> <li>➤ Identifying and managing risks within their directorate and ensuring that mitigating actions are regularly reported.</li> </ul>
<b>Heads of Service</b>	<ul style="list-style-type: none"> <li>➤ Ensuring that risk management within their area of responsibility is implemented in line with the Council's Risk Management Strategy and the Minimum Standard for Performance Management.</li> <li>➤ Identifying, analysing, scoring and recording risks arising from their areas of responsibility, and prioritising and initiating action on them.</li> <li>➤ Balancing an acceptable level of operational risk against programme and project objectives and business opportunity.</li> <li>➤ Reporting systematically and promptly to the senior management team any perceived new risks or failures of existing control measures.</li> </ul>

Role	Responsibilities
<b>Risk Champions</b>	<ul style="list-style-type: none"> <li>➤ Acting as the main contact for their directorate on risk matters and ensuring that corporate information and requirements are communicated to the directorate.</li> <li>➤ Progressing across their directorate effective risk management that adheres to corporate guidelines, including ensuring that all reporting requirements are met.</li> <li>➤ Representing their directorate within the Risk Forum.</li> <li>➤ Providing support on risk management to directors, heads of service and other managers within their directorate.</li> <li>➤ Promoting the benefits of risk management across their directorate.</li> <li>➤ Maintaining, on behalf of heads of service, a directorate risk database that complies with corporate guidelines.</li> </ul>
<b>Managers</b>	<ul style="list-style-type: none"> <li>➤ Communicating to staff the corporate approach to risk management.</li> <li>➤ Identifying the risk management training needed by staff, and reporting this to the risk champion.</li> <li>➤ Ensuring that they and their staff are aware of corporate requirements, seeking clarification from the risk champion when required.</li> </ul>
<b>Staff</b>	<ul style="list-style-type: none"> <li>➤ Understanding their accountability for individual risks.</li> <li>➤ Reporting systematically and promptly to their manager any perceived new risks or failures of existing control measures.</li> </ul>
<b>Internal Audit</b>	<ul style="list-style-type: none"> <li>➤ Auditing the key elements of the Council's Risk Management Process.</li> <li>➤ Using the results of the Council's Risk Management Process to focus and inform the overall internal audit plan.</li> <li>➤ Ensuring that internal controls are robust and operating correctly.</li> </ul>

Role	Responsibilities
<b>Risk Forum</b>	<ul style="list-style-type: none"> <li>➤ Co-ordinating risk management across directorates.</li> <li>➤ Identifying and addressing cross-cutting risks / risk management issues.</li> <li>➤ Providing support to risk champions in a blame-free learning environment.</li> <li>➤ Reviewing risk registers and providing a conduit for the dissemination of best practice.</li> <li>➤ Reporting of any appropriate concerns and issues which require Corporate Management Team intervention.</li> <li>➤ Monitoring the effective implementation of the Council's strategic risk and business continuity strategies.</li> <li>➤ Championing implementation of best practice and appropriate standards in risk and business continuity management to promote improved corporate governance that is better substantiated and evidenced.</li> <li>➤ Reporting of information to enable Audit Committee Members to fulfil the roles of ensuring the effectiveness of risk management arrangements.</li> </ul>
<b>Performance and Policy Unit</b>	<ul style="list-style-type: none"> <li>➤ Providing strategic direction on the Council's approach to risk management.</li> <li>➤ Ensuring effective liaison between risk areas (see Table 1 on page 8).</li> <li>➤ Co-ordinating the Council's approach to risk management</li> <li>➤ Ensure appropriate training is available to Members and officers relevant to individual roles</li> </ul>
<b>Insurance Unit</b>	<ul style="list-style-type: none"> <li>➤ Providing advice and guidance on insurable risks.</li> </ul>
<b>Partnership Strategy and Information Team</b>	<ul style="list-style-type: none"> <li>➤ Providing advice to the Council on risks arising from partnership working, and possible mitigating actions such as the use of Service Level Agreements (SLAs).</li> </ul>

## 6. Risk Management Process

28. The approach to risk management in Middlesbrough Council is based on the best practice outlined in *A Risk Management Standard* (IRM/AIRMIC/ALARM: 2002).
29. Middlesbrough Council's Risk Management Process consists of seven steps:
- knowing the strategic and operational priorities
  - defining risks
  - scoring risks
  - treating risks
  - compiling a risk database and register
  - monitoring and reporting risks
  - reviewing risks.
30. Paragraphs 31–46 of this Strategy provide an overview of each of these steps. Detailed guidance on how to carry out each step is set out in the Council's Risk Management Toolkit. The Risk Management Process should be undertaken in conjunction with normal annual business planning processes. See Chapter 7 for further details of how the two processes are aligned.

### KNOWING THE STRATEGIC AND OPERATIONAL PRIORITIES

31. The starting point for risk management is a clear understanding of what the organisation is trying to achieve. Risk management is about managing the threats that may hinder delivery of our priorities and maximising the opportunities that will help to deliver them. Therefore, effective risk management should be clearly aligned to the business planning process, and should take into account the environment within which the Council operates. Similarly, this needs to be applied to all activities and processes to ensure focus on achievement of priority objectives.

### DEFINING RISKS

32. There are many ways of identifying risks. Details of some of these methods are included in the Risk Management Toolkit. However, as a minimum, the Council standard is that a PESTLE(P) analysis should be undertaken. PESTLE(P) requires those involved in the risk management process to consider the risks that might prevent a priority or objective being achieved, under the following headings:

Political	Economic	Social	
Technological	Legislative	Environmental	Partnership.

## SCORING RISKS

33. In order to decide on the best treatment option and to prioritise the treatment of the risks identified, the risks must first be scored. Risks are scored by identifying the likelihood of the event occurring and multiplying this by a factor representing the impact or consequences of the event if it did occur.
34. Middlesbrough Council uses a five-by-five matrix to determine the risk score. To differentiate between the significant changes in impact between “moderate”, “major” and “extreme” risks, the scoring has been weighted; see Table 3.

**Table 3 – Scoring risks**

<b>LIKELIHOOD (PROBABILITY)</b>	<b>5</b>	<b>Almost Certain</b> >80%	<b>Low (5)</b>	<b>Medium (10)</b>	<b>Medium (15)</b>	<b>High (25)</b>	<b>High (35)</b>
	<b>4</b>	<b>Likely</b> 51% - 80%	<b>Low (4)</b>	<b>Low (8)</b>	<b>Medium (12)</b>	<b>High (20)</b>	<b>High (28)</b>
	<b>3</b>	<b>Possible</b> 21% - 50%	<b>Low (3)</b>	<b>Low (6)</b>	<b>Medium (9)</b>	<b>Medium (15)</b>	<b>High (21)</b>
	<b>2</b>	<b>Unlikely</b> 6- 20%	<b>Low (2)</b>	<b>Low (4)</b>	<b>Low (6)</b>	<b>Medium (10)</b>	<b>Medium (14)</b>
	<b>1</b>	<b>Rare</b> <6%	<b>Low (1)</b>	<b>Low (2)</b>	<b>Low (3)</b>	<b>Low (5)</b>	<b>Low (7)</b>
			<b>1</b>	<b>2</b>	<b>3</b>	<b>5</b>	<b>7</b>
			<b>Insignificant</b>	<b>Minor</b>	<b>Moderate</b>	<b>Major</b>	<b>Extreme</b>
<p><b>Consider the impact on the following when scoring:</b></p> <p>47. Achievement of strategic priorities</p> <p>48. Council’s reputation</p> <p>49. Health and safety of employees, residents or service users</p> <p>50. Ability to deliver services (in particular key services)</p> <p>51. Financial e.g. budgets, claims, fines and penalties</p>							
<b>IMPACT (CONSEQUENCES)</b>							



## TREATING RISKS

35. All risks identified should be managed (treated) in accordance with the Council's "risk appetite" – see Table 4.

**Table 4 – Middlesbrough Council's risk appetite**

Level of risk	Level of concern	Action required
High	Very concerned	Action is required immediately
Medium	Concerned	Action is required within three months
Low	Content	The Council is willing to accept this level of risk

36. In exceptional cases, it may not prove possible to reduce risks any further and individual scores will remain at the High or Medium levels. The requirement for action immediately, or action within three months may not be possible. In such, exceptional, circumstances, the decision to accept the risk will be documented in the risk register after: support from CMT, and, where appropriate, approval from relevant Executive Member (for High risks); and approval from Directors (for Medium risks).
37. A risk may be considered acceptable if it is sufficiently low that treatment is not considered cost-effective; this applies if the risk scores 'low' on the Council's scoring matrix. Low risks do not require inclusion on either the Council's or the directorate's Strategic Risk Register, but they should be entered onto the risk database and reviewed annually.
38. Risks that are 'unlikely' to occur or 'rare' but would have a 'major' or 'extreme' impact will probably score either 'low' or 'medium' on the Council's scoring matrix. It is probable that many of these risks fall within the Council's Business Continuity Management Process. In the unlikely event of a risk being identified that results in a 'major' or 'extreme' impact, with a 'rare' probability rating, and is not covered by Business Continuity Plans, the Risk Management Officer will be contacted for advice. In these circumstances bespoke arrangements will be agreed for monitoring and controlling.
39. There are four general approaches to treating risk: avoid, reduce, transfer or accept.

➡ *Avoiding the risk* – not undertaking the activity that is likely to trigger the risk.

- *Reducing the risk* – controlling the likelihood of the risk occurring, or controlling the impact of the consequences if the risk does occur.
- *Transferring the risk* – handing the risk on elsewhere, either totally or in part – e.g. through insurance.
- *Accepting the risk* – acknowledging that the ability to take effective action against some risks may be limited or that the cost of taking action may be disproportionate to the potential benefits gained.

40. Assessment of each treatment option is used to provide the basis for selecting the best option to manage each risk identified.

41. Risk treatment is concerned with actions taken to reduce the impact or likelihood of risks not wholly avoided or transferred (retained risks).

### **COMPILING A RISK DATABASE AND REGISTER**

42. Any risk identified should have a risk assessment form completed for it and be entered onto the risk management database.

43. Risks that could adversely impact upon the achievement of two or more of the Council's priorities and that score 'medium' or 'high' on the Council's risk scoring matrix will be classified as Corporate Strategic Risks.

44. Service-specific risks that score 'medium' or 'high' gross risk rating must be included in the directorates' strategic risk registers, which should be incorporated in the relevant service group plan.

### **MONITORING AND REPORTING RISKS**

45. All risks on the Strategic Risk Register will be monitored quarterly via the quarterly Performance Management Clinics and twice-yearly Integrated Performance Management and Budget Clinics. Reports from these clinics are forwarded to Scrutiny (quarterly) and Executive (twice per year). Risk reporting will also be presented to Risk Forum members at Corporate Performance Management Group meetings. The Strategic Risk Register is also reported to full Council through its inclusion in the annual Strategic Plan reporting.

46. Service-specific business risks must be included within service group plans and be monitored through the directorates' performance management arrangements. This must include reporting, at least twice per year, to relevant Members.

### **REVIEWING RISKS**

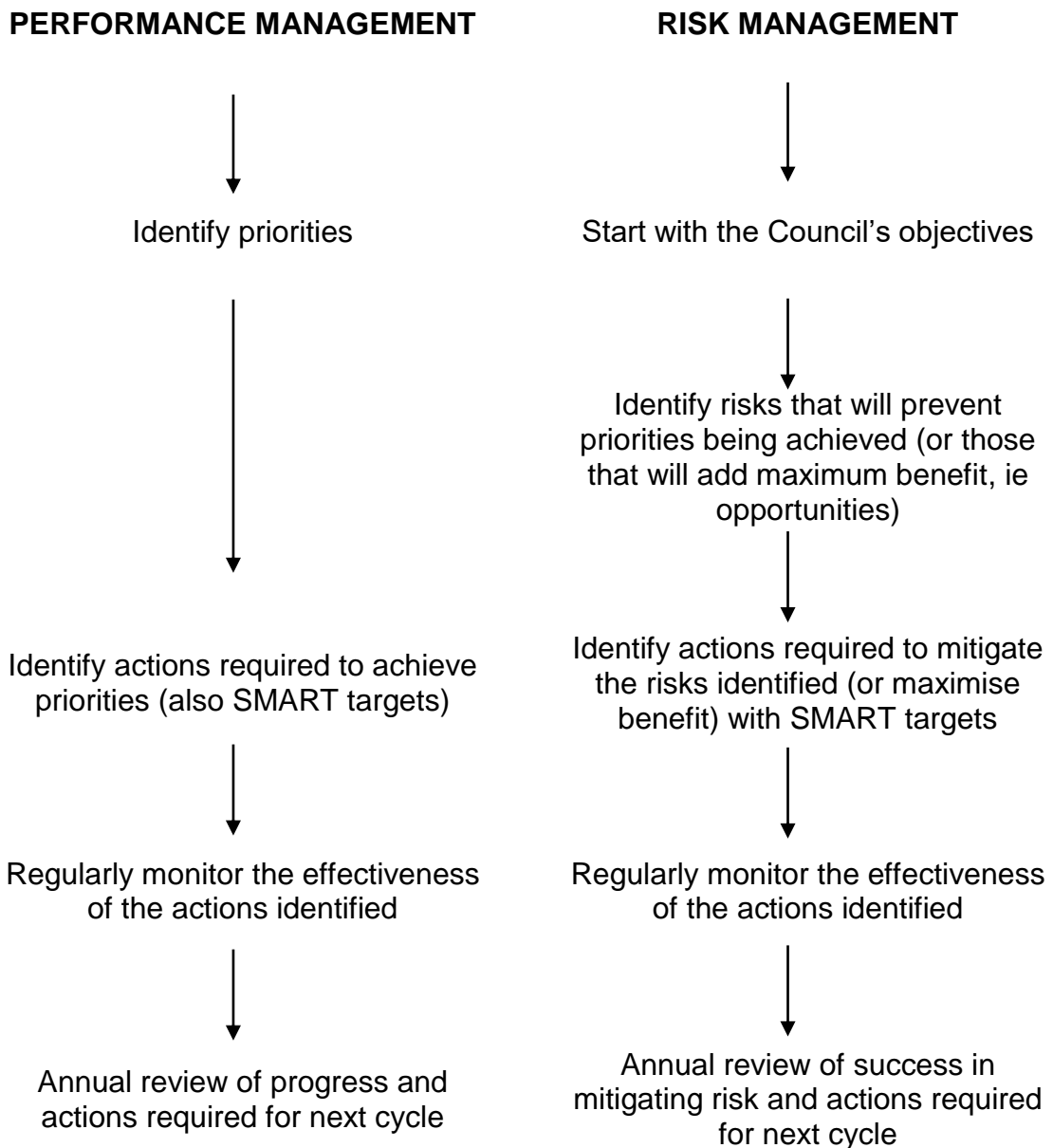
47. All risks are reviewed annually as part of the Council's and directorates' annual business planning processes and reported through the current performance management monitoring arrangements. See Chapter 7 for further details regarding the alignment of these two processes.

## 7. Alignment of Risk Management and Business Planning Frameworks

### SIMILARITIES BETWEEN PERFORMANCE MANAGEMENT AND RISK MANAGEMENT

48. The Council's annual business planning processes are supported by the Council's Minimum Standard for Performance Management. Performance management and risk management systems are very similar both in what they are designed to achieve and in how they ensure this happens. This suggests that the development of two separate systems, no matter how closely aligned, could result in duplication and inefficiency.
49. Performance management and risk management can be viewed as two sides of the same coin. Whereas performance management identifies and monitors what is needed to achieve our priorities, risk management focuses on the things that may happen that might prevent the Council achieving its priorities. The upside of risk management (identifying actions that will help achieve priorities) is in effect performance management.
50. The ultimate outcome that both systems support is the achievement of the Council's priorities. The interim steps in both systems include:
- (for performance management) a list of actions required to achieve the priority; (for risk management) a list of actions to mitigate risks that could prevent the priority being achieved
  - SMART targets (specific, measurable, achievable, relative, timely)
  - regular review of the actions and targets
  - annual review.
51. The starting point for identifying both the actions required under the performance management framework and the mitigating actions required by the risk management framework is the same: the Council's priorities. Therefore, the resulting actions and SMART targets from both the performance management framework and the risk management framework should be broadly similar and in some cases identical, albeit arrived at via different routes.
52. The main steps in the performance management and risk management frameworks are shown in Diagram 1.

**Diagram 1 – Similarities between performance management and risk management**



**BACKGROUND TO THE DEVELOPMENT OF TWO SEPARATE PROCESSES**

53. Historically, performance management and risk management have developed separately, with risk management, by and large, being based within financial and insurance services.

54. Risk management forms part of the system of corporate governance. During the 1990s there were a series of reports on corporate governance and financial reporting, culminating in the Turnbull Report in 1999. Entitled Internal Control: Guidance for Directors on the Combined Code, it drew together many of the

recommendations of the previous reports and was adopted by the London Stock Exchange. The report emphasises the need for the governing body to ensure that a high-level, risk-based approach to establishing a reliable system for internal control is implemented and then reviewed regularly. Although the report was written for companies listed on the Stock Exchange, its principles have been adopted by the public sector.

55. However, in adopting risk management techniques within the public sector, a key consideration is the way in which risk management links into performance management arrangements, and to the overlap between the two areas. Risk management in many local authorities is managed within the financial services remit and is often closely affiliated to the Insurance function. This has potential to lead to risk management processes being developed in isolation from existing business and performance management processes.

## **DIFFERENCES BETWEEN THE TWO PROCESSES**

56. One of the major differences between performance management and risk management is the degree to which quantitative analysis is applied. The development of risk management tools has largely been led by the financial services industry, to allow better management of this industry's major risks: credit and market risk. Both of these types of risk lend themselves to quantitative analysis and statistical modelling. However, the techniques associated with traditional risk management are less appropriate when transferred to a wider, performance-based risk management approach.
57. The Council's Risk Management Process has built on the strengths of the finance/insurance risk management model, while ensuring that it is adapted to meet the Council's needs.

## **INTEGRATION OF PROCESSES**

58. The Council has a well-established and effective business planning cycle that includes setting priorities and ensuring that the Council's budget is aligned to the Council's priorities. The Council's performance management framework monitors the delivery of these priorities and ensures that they are achieved within budget. The performance management framework includes regular reporting to the Executive, Scrutiny and CMT.
59. The Council's priorities are also the starting point within the Risk Management Process. The first step in risk management is 'understanding the Council's priorities' the second is 'identifying risks that might prevent the Council achieving its priorities'. It is essential that the risks identified and actions taken to mitigate them are regularly monitored and reported to the appropriate audience. Well-established and effective financial and performance management frameworks are already in place and have been expanded to integrate the risk management requirements.

## **BENEFITS ARISING FROM INTEGRATING THE TWO PROCESSES**

60. There are many benefits to be realised by integrating the performance management and risk management frameworks. These include:

- strengthened actions (actions are identified through two different processes, which look at the Council's priorities from two different angles – a positive and a negative view; consequently, the resulting actions are likely to be more comprehensive and robust)
- reduced duplication
  - the use of a single computerised system for the management of both performance and risk management
  - performance and risk can be monitored together using existing processes
  - performance and risk can be reported once using existing processes
- clear links established between performance and risk
- non-cashable efficiency saving.

## **THE INTEGRATED PROCESS**

61. The integrated Performance Management and Risk Management Process is implemented in the following way.

- Through the normal service planning processes, directorates identify their priorities and the actions required to achieve them.
- While identifying priorities and actions, directorates also identify the risks that might prevent the priorities being achieved. In this way, opportunities and risks are considered at the same time. (The Council's Risk Management Toolkit includes methodologies to fully exploit opportunities and to manage the potential negative implications of risks.)
- Risk champions compare the actions identified from the Service Planning Process and the Risk Management Process and ensure that all actions required (both performance management and risk management) are included within either the Strategic Plan (as Planned Actions) or the service group Plan (as key actions for the service area).
- Comprehensive details of the actions and the risks are entered into the performance and risk management database with linkages established between them.
- Planned Actions are monitored quarterly through the Performance Management Clinics.
- Directorate actions are monitored via the directorates' performance management arrangements, which must include reporting to the relevant Member at least twice per year.
- Low-level risks are recorded within the risk database and monitored annually.

## **8. Links to Corporate Governance**

62. Governance is the system by which councils direct and control their functions and relate to their communities. In other words, it is the way in which they manage their business, determine strategy and objectives, and go about achieving those objectives. The fundamental principles are openness, integrity and accountability.

63. This Risk Management Strategy forms part of Middlesbrough Council's corporate governance arrangements.

### **INTERNAL CONTROL**

64. Internal controls are those elements of an organisation (including resources, systems, processes, culture, structure and tasks) that, taken together, support people in the achievement of objectives. Internal financial control systems form part of the wider system of internal controls.

65. A council's system of internal controls is part of its risk management process and has a key role to play in the management of significant risks to the fulfilment of its business objectives. For example, the Council's policy and decision-making processes require all Executive reports to include an option appraisal / risk assessment.

### **HEALTH AND SAFETY**

66. The Council's Health and Safety Policy is also a key component of the Council's structure of controls contributing to the management and effective control of risk affecting staff, contractors, volunteers, service users and the general public.

### **INTERNAL AUDIT**

67. The Internal Audit function is a component, and custodian, of the Council's system of controls protecting its financial and non-financial assets. The Risk Management Process, in turn, serves the Internal Audit function by enabling it to identify areas of higher risk, and so target its resources more effectively.

## 9. Monitoring and Indicators of Success

68. Middlesbrough Council's Strategic Risk Register will be reviewed annually. Progress against the actions identified to mitigate risks will be monitored quarterly through the Performance Clinic process.

69. The ultimate measure of effective risk management is that the Council has the resilience to deliver its services and core objectives and is able to identify, and take maximum advantage of, the occurrence of positive risk.

70. Middlesbrough Council will use the following indicators to monitor the success of its Risk Management Strategy:

- The Council achieves at least 85% of the Planned Actions set out in the annual update of the Strategic Plan (as these actions mitigate against strategic risks).
- Achieve at least a level 3 rating for CAA Use of Resources assessment.

For further information, contact

**Corporate Risk Management Officer**

Middlesbrough Council

Civic Centre

Middlesbrough TS1 2QQ

Telephone: 01642 729582