Middlesbrough Council

Risk Management Strategy

"A Sense of Proportion"

Foreword

This is the Council's revised risk management strategy; it builds on the Council's pervious Risk Management Strategy - "Chance or Choice".   This strategy aims to improve the effectiveness of risk management across the Council. Effective risk management allows us to:

- have increased confidence in achieving our priorities and our outcomes
- constrain threats to acceptable levels
- take informed decisions about exploiting opportunities
- ensure that we get the right balance between rewards and risks
- improve our 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 our ability to deliver our priorities and improve outcomes for residents.

This strategy explains Middlesbrough Council's approach to risk management and the framework that we will operate to ensure that we manage our risks effectively.

Bob Brady   **Jan Richmond**
Deputy Mayor and Risk Champion   Chief Executive

CONTENTS

1. INTRODUCTION

1. "A Sense of Proportion" is the Council's revised Risk Management Strategy. It builds on the Council's previous risk management strategy – "Chance or Choice" which was revised for the following reasons:

   - to take into account the review of "Chance or Choice" and the progress made, across the Council, with regards to risk management and build upon this

   - to further embed good practice, in relation to risk management across the Council

   - in line with the original risk management strategy "Chance or Choice" which stated that regular reviews would be undertaken

   - in line with auditors' expectations.

2. This risk management strategy outlines the objectives and benefits of managing risk, responsibilities for risk management, and provides an overview of the framework we will implement to successfully manage risk. Detailed information on how to implement this policy and tools to assist in the implementation are provided in Middlesbrough Council's Risk Manual.

3. Risk management in Middlesbrough Council is about improving our ability to deliver our strategic objectives by managing our threats, enhancing our 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 those objectives. Good risk management will help identify and deal with the key risks facing the Council in the pursuit of its goals. Risk management is a key part of good management and not simply a compliance exercise.

5. The benefits of successful risk management include:

   Effective operational performance – Corporate polices are enhanced, less disasters and surprises, increased amount of positive feedback from external agencies and stakeholders, added value across service areas, improved number of targets achieved, improved internal controls, consistent management of risk and opportunities resulting in improved service delivery.

   Improved financial performance – Increased percentage of objectives achieved, reduced level of fraud, increased capacity though reduction in decisions that need reviewing or revising, decreased number of and impact of critical risks, improved income generation and reduced alterations losses.

   Improved human resources management – Reduced staff turnover, absenteeism and stress.

   I**mproved corporate governance and compliance systems –** Fewer regulatory visits, reduction in legal challenges, improved corporate governance statement which is better substantiated and demonstrated, increased public satisfaction.

   Improved insurance management – reduced cost of insurance premiums and number and level of claims, reduced uninsured loss claims.

2. AIM AND OBJECTIVES

Aim

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

Objectives

7.   The objectives of this Strategy are to:

- fully integrate risk management into the culture of the Council and also 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 the Council's approach to risk management, to stakeholders

- improve co-ordination of risk management activity across the Council

- ensure that the Executive, Corporate Management Team (CMT) and external regulators can obtain necessary assurance that the Council is mitigating against the risks of not achieving objectives and thus complying with good corporate governance.

8.   This section provides a brief definition of the terms used within this risk policy and strategy, and the definitions that Middlesbrough Council is working to.

Risk

9.   Middlesbrough Council has adopted the following definition, which incorporates all the key features of other definitions utilised by other bodies for example the Office of Government Commerce and the British Standards Institute: -

> "Risk is a condition, an act, situation or event with the ability or potential to impact units/departments that support the core operations or activities of an organisation by either enhancing or inhibiting corporate performance, attainment of corporate objectives or meeting stakeholders' expectations"

Risk Management

10.   There are numerous slightly different definitions of risk management, which essentially cover 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 our activities ".

11.   This definition has been drawn from the definitions used by many of the agencies that advise on best practice in relation to risk management. Their definitions of risk management are given below:

> "Risk management is a central part of any organisation's strategic management. It is the process whereby organisations methodically address the risks attached to their activities with the goal of achieving sustained benefit within each activity and across the portfolio of activities" (British IRM / AIRMIC / ALARM risk management standard).

> "Risk management is also the process by which risks are identified, evaluated and controlled. It is a key element of the framework of governance together with community focus, structures and processes, standards of conduct and service delivery arrangements" (OGC).

12.   The focus of good risk management is the identification and treatment of these 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 those factors, which 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 of achieving the organisation's overall objectives.

13.   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.

14.   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 organisation's activities past, present and future.

4. ROLES AND RESPONSIBILITIES

15.   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

16.   In order to ensure the successful implementation of this policy, responsibilities for risk management are detailed in table 1.

Table 1 – Roles and Responsibilities

ROLE	RESPONSIBILITIES
The Executive	- Overseeing effective risk management across the Council. - Agreeing Middlesbrough Council's risk management strategy. - Ensuring that risk management is delivered on the Executive's behalf by the Chief Executive CMT. - Ensuring that a strategic risk register is established which includes details of the actions taken to mitigate against the risks identified and regular monitoring of this. - Ensure that the risk strategy and strategic risk register are reviewed at least annually. - Appointing a member risk champion. - Approving an annual statement on the risk management processes in place and their effectiveness, and details of any improvements required.
Members	- Scrutinising the Executive's decisions to ensure that they meet the requirements of effective risk management. - Facilitating a risk management culture across the Council.
Chief Executive and CMT	- Risk management across the Council to be led by the Chief Executive who is the designated CMT lead on risk. - Advising members on effective risk management and ensuring that members receive regular monitoring reports. - Recommending to members a risk management strategy. - Ensuring effective implementation, monitoring and review of the risk management strategy. - Identifying and managing the strategic risks and opportunities facing the Council. - Overall co-ordination of risk management across the Council. - Being responsible for ensuring that the Council fully complies with all Corporate Governance requirements, including the Annual Statement of Internal Control.

ROLE	RESPONSIBILITIES
Directors	• 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. • Appointing a risk champion for the directorate and authorising the risk champion to progress effective risk management that adheres to corporate guidelines, across their directorate. • Identifying and managing risks within their Directorate and ensuring that mitigating actions are regularly reported.
Heads of Service	• 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. • Identifying, analysing and profiling of risks arising from their areas of responsibility within the directorate risk register, and prioritising and initiating action on them. • Balancing an acceptable level of operational risk against programme and project objectives and business opportunity. • Reporting systematically and promptly, to the senior management team, any perceived new risks or failures of existing control measures. • Approving funding for operational risk activities. • Reporting the results of their departmental risk assessment to directors via the Risk Forum in order to provide assurance on the effectiveness of controls in place to mitigate or reduce risks.
Risk Champions	• To act as the main contact for the directorate on the subject of risk and its management ensuring that corporate information and requirements are communicated to the Directorate. • to progress effective risk management, that adheres to corporate guidelines, across their directorate including ensuring that all reporting requirements are met. • To represent their Directorate at the Risk Forum. • To provide support on risk management to directors, heads of service and other managers within the directorate. • To promote the benefits of risk management across the directorate. • To identify the directorates' risk management training needs and report these to the Risk Manager. • To maintain, on behalf of heads of service, a directorate risk register that complies with corporate guidelines.
Managers	• To communicate the corporate approach to risk management to staff. • To identify training needs of staff and report these to the risk champion. • Ensure that they and their staff are aware of the corporate requirements, seeking clarification from the risk champion, when required. • Co-operate with the risk champion in order to facilitate the effective operation of the risk champion's role.

ROLE	RESPONSIBILITIES
Staff	• Understand their accountability for individual risks. • Understand how they can enable continuous improvement of risk management and risk awareness. • Report systematically and promptly to their manager any perceived new risks or failures of existing control measures.
Risk Forum	• Co-ordinate risk management across directorates. • Identify and address cross-cutting risks / risk management issues. • Provide a forum to support risk champions in a 'blame free' learning environment. • Monitor developments, nationally, in risk management and consider their relevance to the Council. • Provide a forum to consider how risk management can support strategic initiatives. • Advise on and review risk management reports for policies and major initiatives.
Internal Audit	• Audit the key elements of the Council's risk management process. • Use the results of the Council's risk management process to focus inform the overall internal audit plan. • Ensuring that internal controls are robust and operating correctly.
Risk and Insurance Unit	• Manage the implementation of the integrated framework, strategy and process on behalf of the Council. • Provide the Council with guidance, advice and support on risk management. • Support risk champions in delivering their role. • Co-ordinate risk management activity across the Council. • Lead and develop the Risk Forum. • Ensure staff across the Council are adequately trained in risk management and risk assessments. • Collate the Council's operational risk registers and control assurance statements for consideration at the risk forum. • Undertake monitoring of risk registers and prepare reports for consideration by CMT, Scrutiny and the Executive. • Undertake an annual review and update the Risk Management Strategy for approval by CMT.
Performance and Policy	• Ensure that the Council's approach to risk management fits within the Council's overall policy and strategy ethos. • Ensure that the Council's approach to risk management is reflected in relevant policies e.g. the Minimum Standard for Performance Management. • Performance manage the risk management process, including validating and reporting to CMT on the effectiveness of the strategy, and progress in implementing it.

ROLE	RESPONSIBILITIES
Partnership Management	▪ Provide advice to the Council on risks arising from partnership working and possible mitigating actions e.g. the use of Service Level Agreements (SLAs).

17.   To ensure effective and consistent risk management, risk management must occur within an overall framework and be supported by set processes and procedures.

18.   The risk management framework and processes that Middlesbrough Council has adopted are based on the British IRM /ALARM / AIRMIC Risk Management Standard 2002, the Office of Government Commerce Risk Guidance and the Australian Standard on Risk Management (AS / NZS 4360:2004).

19.   Middlesbrough Council's risk management framework consists of six steps, these are:

   1   Identifying strategic priorities
   2   Identifying and assessing risks
   3   Compiling a risk register
   4   Risk treatment
   5   Monitoring and reporting
   6   Reviewing

20.   Paragraphs 22 - 31 provide an overview of each of these steps. Further details on how to implement each step in the framework and tools that can assist this process are contained in the Risk Manual.

21.   The risk management framework is used to manage all risks at both strategic and operational levels. Details of how the framework links to the Council's corporate planning processes is outlined in section 6.

Identifying Strategic Priorities

22.   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 our priorities. Therefore effective risk management should be clearly aligned to strategic planning processes and take into account the environment within which we operate.

Identifying and Assessing Risks

23.   Identifying risks involves the identification of the potential risk and the source of the risk as well as assessing the likely impact of the risk. Middlesbrough Council uses a five by five matrix to determine the level of risk , see Figure 1.

Table 1 - Middlesbrough Council Risk Matrix

			Consequences				
			Insignificant	Minor	Moderate	Major	Catastrophic
			1	*2*	*3*	*5*	*7*
Likelihood	5	Almost Certain	Medium (5)	High (10)	Extreme (15)	Extreme (25)	Extreme (35)
	4	Likely	Medium (4)	High (8)	High (12)	Extreme (20)	Extreme (28)
	3	Possible	Low (3)	Medium (6)	High (9)	Extreme (15)	Extreme (21)
	2	Unlikely	Low (2)	Medium (4)	Medium (6)	High (10)	High (14)
	1	Rare	Low (1)	Low (2)	Low (3)	Medium (5)	High (7)

24.   Once all risks have been identified and the likely impact assessed, a decision needs to be taken about how to manage the risk. The level of risk and the appropriate action required is described as a 'risk appetite'. Middlesbrough Council's risk appetite is outlined in table 2.

Table 2 – Middlesbrough Council's Risk Appetite

Level of Risk	Level of Concern	Consequences	Action Required
Extreme 15 - 35	Very concerned about this level of risk.	Disastrous impact on either the Council's reputation, finance or business continuity.	Comprehensive action is required Immediately.
High 7 - 14	Concerned about this level of risk.	The consequences of this risk materialising would be severe but not disastrous.	Some immediate action Is required. A comprehensive action plan should also be developed.
Medium 4 - 6	Uneasy about this level of risk.	The consequences of this risk materialising are not severe.	Managed via contingency plans. Action plans to be developed later and budget bids mobilised. The status of this risk should be monitored regularly.
Low 1 - 3	Content to carry this level of risk.	The consequences of this risk materialising are relatively light.	The Council is content to carry on this risk by funding it. The status of this risk should be reviewed periodically.

25. A risk may be considered acceptable if it is sufficiently low that treatment is not considered cost effective. Such risks do not require inclusion in the formal Strategic, or Service Risk Registers, but should nevertheless be recorded by the Service concerned, and kept under review to ensure that deterioration in the risk level can be identified and addressed as necessary.

Compiling a risk register

26. Those risks requiring action need to be included in the risk register. The risk register provides details of who is responsible for managing the risk and how.

Risk Treatment

27. The risk register contains all risks that require treatment. There are four general approaches to treating risk these are; 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.

- **Transfer the risk** – either totally or in part e.g. through insurance.

- **Accept the risk** – the ability to take effective action against some risks may be limited or the cost of taking action may be disproportionate to the potential benefits gained.

28. A cost / benefit analysis of each treatment option is used to provide the basis for selecting the best option to manage each risk identified.

29. Risk treatment is concerned with actions taken to reduce the impact or likelihood of risks not wholly avoided or transferred, (retained risks). An Action plan is required for all risks where the risk management approach taken is to reduce the risk.

Monitoring and reporting

30. Quarterly monitoring and reporting of progress against the action plans developed to treat risks is required. At a strategic level this will be via CMT, Scrutiny and Executive and at directorate level it will be via the directorate senior Management Team, Risk Forum, and to the appropriate executive member.

Review

31. The risk management process should be reviewed annually to ensure that new risks are detected and managed. This review will be reported to the appropriate forum (CMT or the Risk Forum), and also fed into the following year's risk management process.

32.   It is the Council's policy to adopt a single risk management process to be utilised at all levels throughout the Council. This approach will help to ensure that risks are considered in equivalent fashion as between Services, and between strategic and operational tiers of management. It will facilitate the escalation, when appropriate, of risks encountered at the operational levels to strategic management. It will help also to ensure that the impact of strategic level risks at operational levels, and the contribution to their containment, which can often be made by staff at this level, is fully understood.

33.   Risks will be considered under the following broad categories: -

Political	Economic
Social	Technological
Legislative	Environmental
Competitive	Stakeholder
Professional	Partnership
Legal	Financial (including fraud and corruption)
Contractual	Physical
Project	Cross-cutting (risks affecting more than one
People Related	Service area, including those where the actions of one Service may impact risks faced by other Services).

34.   Inevitably, categories such as Political, Social, and Legislative will be of greater concern at the strategic level, while Professional, Technological, and Physical risks are of more concern at operational levels. There is however, no clear distinction, and all levels of management should be concerned, to varying degrees, with the majority of categories.

35.   A clearer distinction between strategic and operational level risks is achieved by consideration of the time frames over which the risks are likely to impact on the Authority. Generally, strategic level risks are likely to affect the medium to long-term priorities of the Council, and require longer term planning in order to address. Operational level risks in contrast, tend to be more immediate in their impact, and to be more susceptible to treatment in shorter time frames.

36.   In order for Risk Management to be fully embedded in the Council's management process it is essential that it is considered as an integral part of the Strategic and Service Planning processes. Table 3 identifies how the risk management process links into the Council's planning processes, and provides dates by which each step should be completed.

Table 3 – Risk framework alignment to strategic planning process

Step	Risk framework	Alignment to strategic planning	Date
1	Identifying Strategic/Service Priorities.	Strategic planning process used to identify and agree priorities.	March
		Service priorities published in Service Group plans.	April
		Council's priorities published in the Corporate Performance Plan.	June
2	Identifying and Assessing risks.	Service planning process including identification of risks against the priorities identified.	February
		CMT meeting to identify and assess risks.	March
3	Prepare Risk register.	Operational risks agreed and dealt with by relevant managers.	March
		Directorate Risk Registers agreed and included in Service Group plans.	March
		Strategic Risk Register agreed.	April
4	Determine Risk Treatment Measures.	Officers responsible for managing the risks identified agree, document and commence implementation of treatment measures.	April
		CMT agree treatment and responsible officers.	April
5	Monitoring and Reporting.	Quarterly reports on the Service Group Risk Register to Senior Management Team, Risk Forum, and appropriate member.	Quarterly
		Quarterly reports on the Strategic Risk Register to CMT, Scrutiny and Executive.	Quarterly
6	Review.	Annual review of process and Service/Strategic Risk Registers to feed into the following year's process.	March

7. LINKS TO CORPORATE GOVERNANCE AND OTHER POLICIES

Corporate Governance

37.   Governance is the system by which councils direct and control their functions and relate to their communities. In other words, 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.

38.   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.

39.   A council's system of internal control 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.

40.   This risk management strategy forms part of Middlesbrough Council's wider process of internal control.

Other Policies

41.   In addition to the relationship between risk management and internal control there are a number of other polices and processes that link closely to this risk management strategy, for example the Council's policy and decision making processes which requires all Executive reports to include an option appraisal / risk assessment.

42.   Risk management is closely aligned to Performance Management and this is reflected in the mirroring of requirements between the Risk Management Strategy and the Minimum Standard for Performance Management. This link is strengthened by the requirement that reports to the Integrated Performance and Budget clinics include a section on progress in mitigating strategic risks.

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

44.   The Internal Audit function is a component, and custodian of, the Council's system of controls protecting its financial and other physical 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.

45.   Middlesbrough Council's Risk Management Strategy and strategic risk register will be reviewed annually. Progress against the actions identified to mitigate risks will be monitored quarterly. Annual review and quarterly monitoring will be to the appropriate forum i.e. CMT, Scrutiny and Executive or Service Management Team, Risk Forum, CMT.

46.   The ultimate measure of effective risk management is that the Council:

- has resilience to deliver its services and core objectives
- is protected from the possibility of being impacted by an unforeseen risk
- is protected from the possibility of a foreseen risk having significantly greater impact than anticipated
- is able to take cost-effective, measures to reduce or eliminate the effects of negative risk
- is able to identify, and take maximum advantage of, the occurrence of positive risk.

47.   Middlesbrough Council will use both outcome and process based risk performance indicators to monitor the success of its Risk Management Strategy.

48.   The outcome based risk management performance indicators are:

- no occurrences, that breach effective risk management as defined in paragraph 45, occur

- all members agree that they are sufficiently informed about risk management to ensure they can undertake their role

- all risk forum members and risk champions agree that they are sufficiently informed about risk management to ensure they can undertake their role

- BVPI 12 – Average number of working days lost through sickness absence.

49.   The process based risk management performance indicators are:

- the percentage of appropriate reports to Executive that include an effective option appraisal / risk assessment

- minimising of the cost of risk e.g. uninsured losses, reduced insurance premiums, levels of reserves necessary

- that all staff receive appropriate risk awareness training or information.

9.   CONCLUSION

50.   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, a significant employer, and a major component part of the local community.

51.   This Risk Management Strategy provides a comprehensive framework and process designed support members and officers in ensuring that the Council is able to fully discharge its risk management responsibilities.

52.   A Risk Manual has also been developed and this provides a toolkit to assist in implementing this strategy.

53.   Further advice and assistance on risk management is available from the Risk and Insurance Unit, Town Hall, Middlesbrough Council.