

A Rough Guide to ...

Risk Management



! What is Risk?

Risk has a different meaning to each of us, and the type of risks we face will depend on what activities we are engaged in or on what job we do. If your discipline is finance, there might be a risk that you are not able to do what you want with the money at your disposal due to factors outside your control. If you are concerned with security, a risk is the chance of losing property. If your perspective is Health and Safety, risk is the possibility of injury to someone as a result of an accident. If you are a new County Council employee, risk might be the possibility of getting knocked down by a bus while crossing the road on your way to your very first day at work or if you do get there, of tripping over a loose cable in the office. So be careful because you, as much as anyone else, are in charge of your own destiny. And you as much as anyone else, are in charge of the destiny of others. In other words, we all manage risk, albeit occasionally subconsciously, either in respect of ourselves or of other people.



A simple definition of Risk is:
'Exposure to the chance of injury or loss.'

A strategic risk might be defined as:
'The threat that an event or action will adversely affect an organisation's ability to achieve its objectives and to successfully execute its strategies.'

Risk arises as much from the likelihood that something good won't happen as it does from the threat that something bad will happen. Every business decision involves risk (good or bad).



! What is Risk Management?

Risk management is a structured approach to managing uncertainty related to a threat, ie a sequence of human activities including, risk assessment, strategies developed to manage it, and mitigation of risk using managerial resources.


The strategies might include transferring the risk to another party, avoiding the risk, reducing the negative effect of the risk, and accepting some or all of the consequences of a particular risk.

Put simply, it is the process by which risks are identified, evaluated and controlled, increasing the probability of success, and reducing the probability of failure.

Organisations have to take risks in order to achieve their objectives, as very few activities are risk free. Taking action that leads to exposure to risk can enable an organisation to meet important objectives. It is however necessary that the risks taken are identified and quantified in advance so that the risk can be weighed against the possible benefit. Identifying the risk is also necessary to control and mitigate the detrimental results of taking the risk. Examples of positive results from taking risks are:

- Increased investment return to the pension fund as a result of holding equities rather than investing 100 % in Gilts.
- Accepting the risks involved in organising the new academy schools programme will lead to improved educational provision for secondary pupils within Cumbria, and all the benefits that will generate.

Risk Management might therefore be defined as:
'The process by which organisations methodically address risks with the goal of achieving sustained benefit within each activity and across the portfolio of all activities.'



Why do it?

Traditionally, local authorities have focused on assessing and managing risks at a day-to-day operational level. Typically, this would cover areas such as health and safety, security, fire safety, liability issues, and risks to service users associated with their choices and lifestyle. However, we have broadened our approach to cover those risks associated with our 'business' objectives. These are known as strategic risks.

Risk management has been identified by the Chartered Institute of Public Finance Accountants (CIPFA), and the Society of Local Authority Chief Executives (SOLACE) as one of the dimensions of Local Authority good corporate governance, which in its broadest sense, is simply the system by which the Council directs and controls its activities. As such this places a regulatory requirement on the Council, amongst other things, to report on the effectiveness of its systems for risk management in its annual Corporate Governance Statement which requires the Chief Executive and the Council Leader to confirm that there is a system of internal control in place to ensure key risks are managed.

The increasing importance of risk management is also reflected in its prominence in the Use of Resources Block of the Comprehensive Area Assessment (CAA). This places a number of requirements on the Authority. One of the main requirements is that arrangements need to be in place for identifying strategic and operational risks, assessing them in terms of impact and likelihood, identifying mitigating controls and allocating responsibility for implementing the controls ie documented evidence is required to demonstrate clearly how we are managing our risks. In addition, CAA requires risk management to progress from being based purely on hazard risks and focus more on risks that may prevent us achieving our business or Service Delivery and Improvement Plan objectives. This also includes assessing the risks of our significant partnerships.

Moreover, managing strategic risk is a key part of the Council's strategic management and if we are to make it a success, it needs to be a continuous process that fits within the Council's own ongoing strategic planning, financial planning, policy making, and review and performance management cycles.

Overview of risk management in Cumbria County Council

In acknowledging the importance of risk management within the Council, a large amount of work has already been carried out in shaping and developing our approach to managing strategic risk. In summary:

- Cabinet and the Corporate Management Team (CMT) have designated a Cabinet Portfolio member and the Director of Resources Member and Officer Risk Champions respectively. Together they jointly take responsibility for embedding risk management throughout the Council, and are supported by the Head of Financial Strategy and the Corporate Risk Manager. Each Service also has a designated member of staff to lead on risk management at a Service level, and act as a first point of contact for staff, who require any advice or guidance on risk management. Collectively, the Directorate Risk Champions and the Corporate Risk Manager meet together as a Corporate Risk Management Group, to monitor the progress of implementing and maintaining effective risk management across the Council, advise on corporate and strategic risk issues, identify and disseminate best practice and agree arrangements for reporting and appropriate training. External support is also provided by Zurich Municipal, the county council's principal insurers, who also advise on risk management and Aon Risk Services, our risk and insurance consultants.

Risk management is not solely the responsibility of the Corporate Risk Manager or the Directorate Risk Champions. All services, employees, Members and stakeholders are responsible for ensuring that risk management is successfully embedded into all aspects of the Council's aims and activities.

- The Council has formally adopted a Risk Management Policy and a Risk Management Strategy which together sets out the Council's approach to risk management. Corporate risks are identified and refreshed annually by the Corporate Performance Group. Progress on managing these risks is updated quarterly.



Performance Plus

The Council records all performance information and associated indicators in Performance Plus. Now the Performance Plus software system is also being utilised to record, manage, compare and communicate strategic risks at all levels across the whole Council. Details of individual risks must be input into Performance Plus, and this is the central database of strategic risks across the Council. The data stored in Performance Plus populates the Directorate and Unit risk registers and provides reports to enable tracking of control measures and improvements to mitigate the risks. This will result in risk and performance measures being integrated into one system.

Risk Identification and Assessment Process

The evaluation of strategic risk needs to be consistent in approach across the Council, with a clear structure to the process, and must be linked to objectives at each level ie strategic objectives, Service Delivery and Improvement Plans at council and Partnership level and Unit team plans. Therefore, the key components of our approach are risk identification, assessment, treatment, communication and assurance. Strategic risks are documented on risk registers within Performance Plus, both corporately and within each Service, in a clear way to assist monitoring and prioritisation, and to enable a corporate view of the major risks facing the Council.

There are four distinct areas of the Council's activities where strategic risk assessments are required. For each, the same criteria for identifying and assessing risk is applied, but using different procedures and forms. These are:

- Strategic Risk Assessments;
- Service risk assessments;
- Risk assessments of individual projects; and
- Risk assessments of the Council's involvement in individual Partnerships

The assessment of risk should also be used to support Key Decisions in reports.

Reporting

There is quarterly reporting of progress on risk management initiatives to:

Cabinet -
Corporate risks

County Council -
Corporate risks

Corporate Performance Group -
Corporate risks

Departmental Management Teams -
Directorate Service risks and associated risk:

- Partnerships risk
- Project Risks
- Local Area Agreements

The main aim of the Council is to achieve its corporate objectives (linked to themes) in the Council Plan and it is important that progress on managing the risks to achieving those objectives is regularly monitored.



For advice and further information contact:

The Risk Manager,
Corporate Finance, Resources Directorate,
The Courts, Carlisle, CA3 8NA

Tel: 01228 226269

Fax: 01228 606264

Email: halvor.norendal@cumbriacc.gov.uk

Web: [http://www.intouch.ccc/Finance/finance/
Riskmgtdguide.asp](http://www.intouch.ccc/Finance/finance/Riskmgtdguide.asp)

