

# WIRRAL COUNCIL

## AUDIT AND RISK MANAGEMENT COMMITTEE

29 NOVEMBER 2011

<b>SUBJECT</b>	<b>RISK MANAGEMENT STRATEGY AND THE MANAGEMENT OF RISK AND OPPORTUNITY</b>
<b>WARD/S AFFECTED</b>	<b>ALL</b>
<b>REPORT OF</b>	<b>DIRECTOR OF FINANCE</b>
<b>RESPONSIBLE PORTFOLIO HOLDER</b>	<b>COUNCILLOR STEVE FOULKES</b>
<b>KEY DECISION</b>	<b>YES</b>

### 1.0 EXECUTIVE SUMMARY

1.1 The Risk Management Strategy was reviewed by the Cabinet on 13 October 2011. Whilst there are minor changes to the Strategy this report recommends that a more tailored and embedded approach to the management of risk, strategically and operationally, is needed if the Council is to meet the challenges and take advantage of the opportunities both internally and in the wider environment. It proposes the creation of a new framework and processes to support the new approach.

1.2. Cabinet on 13 October 2011 agreed:-

- a. The retention of the existing Risk Management Strategy.
- b. Support for the development of a new corporate approach to the management of uncertainty and agrees that the action plan in the Appendix be incorporated within the Risk Management Strategy.
- c. That detailed proposals for the new framework and processes be presented to a future meeting of Cabinet for consideration.

### 2.0. RECOMMENDATION

2.1. That the report be noted.

### 3.0 REASONS FOR RECOMMENDATIONS

3.1 The current Risk Management Strategy is to continue whilst work on a more detailed review is undertaken in response to the changing environment.

3.2 Ensuring that an effective risk management system is in place is a key element of Member responsibilities for corporate governance and embedding a more robust approach to risk will assist the Authority to innovate and exploit opportunities and reduce exposure to threats. Input of Members into the initiative is vital to ensure that the degree of cultural change needed is delivered.

## **4.0 BACKGROUND AND KEY ISSUES**

### **The drivers for improvements in managing risk**

- 4.1 The effective management of risk is recognised as an essential feature of good governance. It is particularly important at times of uncertainty in the external environment and when organisations are undergoing substantial internal change.
- 4.2 In common with other local authorities Wirral faces a period of both significant threat and a number of opportunities driven by external influences and particular challenges related to change within the Council itself. Reductions in funding, changes in service delivery mechanisms, increasing service continuity and resilience challenges and rising community expectations are some of the issues identified. This is not a comprehensive list and the issues may not be the most significant influences.
- 4.3 Agile organisations should be able to prepare for and address the risks presented by these uncertainties. But to do so will require the Council to build on existing skills and introduce new management techniques. A formal framework and processes for managing risk have been in place for a number of years. However, to meet current best practice and the breadth and scale of the uncertainties facing the Authority, the existing approach and the way that risk issues are addressed require significant change.
- 4.4. It was reported to Cabinet on 25 November 2010 that an in-depth review had commenced of the approach to the management of uncertainty. The revised framework and processes will be informed by the British Standard for Risk Management (BS 31100:2008) and will seek to address risk in the wider sense of uncertainty. To progress this work a project outline was agreed by Chief Officers and a respected risk management academic and practitioner engaged to assist with the initial stages of the project.

### **Information gathering and review**

- 4.5 The Risk & Insurance Team has gathered information on areas for improvement in relation to the existing framework and how well managers understand and apply it. This was facilitated by the publication of the British Standard which details best practice guidance on what an effective risk management framework should contain, the processes to be adopted and how risk management activities can be developed. However, it is not prescriptive about the detail of processes leaving an individual organisation free to tailor the approach to meet its own culture and capabilities. Comparing the Council arrangements with the content of the standard has indicated a number of areas for improvement. Others have been recommended by Internal Audit through comparison with best practice.
- 4.6 To assist with determining the current level of understanding around risk and to appreciate how risks were being managed in practice Richard Anderson, a respected risk management academic and practitioner, was invited to conduct both a risk management maturity survey of managers and a series of business context interviews with senior Members and Chief Officers.

- 4.7 Mr Anderson reported his findings to the Executive Team. He recognised a number of strengths in the current arrangements including the relatively large proportion of people who are regularly involved in risk sessions, the fact that both internal and external risks are actively considered and the amount of training that has been provided. However without significant improvements in approach the ability to successfully address the uncertainties indicated earlier in the report would be limited and he recommended:-
- (a) The Leader and the Chief Executive should sponsor and develop an approach to risk management that can be rolled out to all staff with appropriate targeted communication and focussed training programmes.
  - (b) Cabinet and the Executive Team should develop a meaningful and helpful approach to defining risk appetite and tolerance which is both data-rich and capable of measurement and should work together to establish these. Risk appetite is defined as the amount of risk which an organisation is prepared to seek, accept or tolerate in pursuance of its objectives.
  - (c) Cabinet and the Executive Team should consider how they can develop the infrastructure to embed risk management.
  - (d) The Executive Team should identify ways to develop their own departments in becoming more effective at managing risk to support the achievement of Council objectives.
  - (e) All Members and staff should be introduced to the relevance and benefit of risk management.
  - (f) The Executive Team should actively consider how they can develop an approach to risk management across the extended enterprise with partners and other suppliers.

### **Executive Team response**

- 4.8 The report was presented to the Executive Team on 23 June 2011 and the Team recognised both the need for a much improved approach and that its success would require major cultural change within the organisation. The discussion established a number of important principles which should drive the future strategy for managing risk and uncertainty:-
- Any approach should be cost-effective and minimise the resources wasted in dealing with the negative impacts of operational risks..
  - It should support innovation and informed risk taking.
  - Risk management should be embedded into all activities and decision-making processes.
  - Candour and maturity in discussions between officers and Members about risks and opportunities should be enhanced.
  - The Council should continue to develop a culture which learns from experience rather than one which seeks to allocate blame. (Provided that officers have complied with the framework and processes).

4.9 The Team discussed a number of key priorities for future action and the priorities and how they might be achieved are set out below:

(a) **The establishment of a revised policy towards risk and uncertainty and an improved framework for managing it.**

The Risk & Insurance Team would take lead responsibility for producing a policy and framework for the consideration of Members and the Executive Team. However, given the interdependence of risk management and other management disciplines, including performance, project, finance and human resources and its key role in corporate governance, the Team would need to create an implementation group comprising interested and influential officers from across the organisation.

(b) **The establishment by Chief Officers and key Members of the risk appetite and risk tolerance.**

The task of beginning to establish the risk appetite and risk tolerance would require the direct involvement of the Executive Team and of Cabinet. This dialogue would be an early action within the project as it informs many subsequent aspects of the Strategy.

(c) **Consideration of an IT system for the capture, sharing and reporting of risk information.**

A critical element of any modern risk management approach is a system for capturing analysing and reporting risk and the Authority is unusual in not having one at present. A number of potential solutions are available to improve the quality of risk information and how it could be used. A task for the project team would be to evaluate the functionality of the recently procured programme control system to ascertain if it would be suitable for this purpose. If not Members and the Executive Team would be recommended to purchase a proprietary risk management information system.

(d) **Consideration of key information in relation to risks and opportunities that needs to be reported to the Executive Team and to Cabinet.**

Establishing what risk information is required by the Executive Team and Cabinet and in what format is vital to ensure that decisions taken are based on concise and relevant information. The implementation group would put forward proposals for achieving the correct balance and work with Chief Officers and Members over its implementation.

(e) **The creation and delivery of a training programme for staff and Members.**

Training for Members and the workforce is critical to implementing the new approach and to delivering the cultural change required to deliver the Executive Team's principles. The goals for any training programme and its content will be strongly influenced by the four other areas of action.

4.10 If the revised policy framework and processes are approved by Members then the next stage would be to implement the actions contained in the Strategy and embed the processes. It is likely that their introduction would need to be made over the next three financial years.

## **Governance**

- 4.11 In recognition of their ultimate responsibility for governance the Leader and the Chief Executive have agreed to sponsor the initiative. Detailed work associated with the project would be undertaken by an implementation group headed by the Risk & Insurance Officer. Regular progress reports would be provided to the Executive Team with a formal report to each meeting of the Audit & Risk Management Committee. The proposals for a revised framework and processes would be presented formally to Cabinet for consideration.

### **5.0 RELEVANT RISKS**

- 5.1 The Risk & Insurance Team is working to capacity with the majority of resource focussed on risk financing (insurance) and so additional work would impact on existing commitments. The involvement of other professionals in the implementation group would provide additional capacity.
- 5.2 The implementation of a new approach will require improvements to processes but also a degree of cultural change which will take several years to embed. The entire purpose of risk management is to support the strategic vision of the Cabinet and the Executive Team and if key stakeholders do not take ownership of the initiative and if their interest is not sustained it will not be possible to effect such change.
- 5.3 Not proceeding with the development of the new strategy and policy would mean that the Council would not meet current best practice. More importantly it could inhibit innovation and result in significant adverse impacts from unidentified and incorrectly quantified risks.

### **6.0 OTHER OPTIONS CONSIDERED**

- 6.1 An alternative would be to simply modify the policy and strategy to reflect existing practice within the Council. However developments in good governance practice and changes in the external environment mean that a step change is required if the approach is not to fall behind best practice and become insufficiently robust to meet the many challenges which the Authority faces.

### **7.0 CONSULTATION**

- 7.1 The report from Richard Anderson was informed by interviews with Members and Chief Officers and a confidential survey of 400 Council managers.
- 7.2 The development of a revised policy strategy and processes will require further consultation with all major stakeholders.

### **8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS**

- 8.1 There are no direct implications for these groups

## **9.0 RESOURCE IMPLICATIONS**

- 9.1 There may be additional costs associated with the implementation of the policy and strategy for example a system to capture and share risk information and support training. Cabinet would be advised of these when the draft framework processes are reported.
- 9.2 The effective management of risk and opportunities within an improved framework should ensure that resources are not wasted in over-controlling risks whilst reducing the financial burden of losses.
- 9.3 There are no direct staffing implications at this stage. The development of the new strategy and policy will be undertaken by the existing Risk & Insurance Team. Further training and development for officers and Members will be a key element of any new approach.

## **10.0 LEGAL IMPLICATIONS**

- 10.1 There are no direct legal implications. However an improved framework and processes will support Members in discharging their responsibilities in relation to the governance of the Council through more informed and transparent decision-making.

## **11.0 EQUALITIES IMPLICATIONS**

- 11.1 There are no implications at this stage. An equality impact assessment would be undertaken in respect of the new policy and strategy.

## **12.0 CARBON REDUCTION IMPLICATIONS**

- 12.1 There are no direct implications arising from this report.

## **13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS**

- 13.1 There are no direct planning implications. However the new approach should help to make planning decisions more informed. Specific risk control actions should improve community safety.

FNCE/261/11

**REPORT AUTHOR:** Mike Lane  
Risk & Insurance Officer - Financial Services Division  
telephone: 0151 666 3413  
email: [mikelane@wirral.gov.uk](mailto:mikelane@wirral.gov.uk)

## **APPENDICES**

Appendix 1 - Outline action plan for revised approach to managing risk.  
Appendix 2 - Risk Management Strategy

## **REFERENCE MATERIAL**

British Standard BS ISO 31000:2009 – Risk Management Principles and Guidelines  
Wirral Review of Risk Management - Richard Anderson and Associates  
Delivering Good Governance in Local Government Framework – CIPFA/SOLACE

## **SUBJECT HISTORY**

<b>Council Meeting</b>	<b>Date</b>
Cabinet	23 July 2008
Cabinet	24 September 2009
Cabinet	25 November 2010
Cabinet	13 October 2011

## RISK MANAGEMENT STRATEGY

## MANAGEMENT OF RISK AND OPPORTUNITY

## ACTION PLAN

Stage	Target Date
Seek mandate and commitment from Members	October 2011
Establish the project implementation team, develop project plan and governance structure	November 2011
Conduct risk appetite exercise with Cabinet and Executive Team	January 2012
Gap analysis of current framework and processes and maturity evaluation against BS31100	January 2012
Develop a revised risk management framework	January 2012 to April 2012
Benchmark the risk functionality of the Programme Control System against specialist risk systems. Seek authority to procure proprietary risk management information system if necessary	March 2012
Devise improved processes for the identification, evaluation, treatment and review of risk	April 2012
Seek Cabinet approval for revised framework and processes.	June 2012
Develop training programmes for Executive Team, Officers and Members	September 2012
Begin the delivery of training for Officers and Members	October 2012
Introduce revised approach into the corporate governance framework	2012/2013
Introduce revised processes to influence the development of the Corporate Plan	Winter 2012
Introduce revised processes to influence the development of departmental plans	Winter 2012
Align revised risk management and performance management processes	2012/2013
Introduce revised risk management processes into the corporate approach to project management	2012/2013
Evaluate performance of new framework and processes and produce initial annual report to Members.	June 2013