

## Executive

12 September 2006

Report of the Assistant Director Audit and Risk Management

# Corporate Risk Management Report 2006/07

## Summary

1. This report details the progress made during 2005/06 in deploying risk management arrangements across the Council. The report provides information on;
  - the Council's CPA score for risk management;
  - the introduction of Audit & Risk Management software;
  - the embedding of risk management across the Council;
  - the key risks identified in the corporate risk register;
  - risk management training;
  - proposals for the further development of Risk Management arrangements across the Council.

## Background

2. Risk management is a business discipline that public and private sector organisations use to better manage potential opportunities and threats to the achievement of corporate objectives. Risk management forms a key part of the Council's corporate governance arrangements, strategic management and performance management process.
3. Effective risk management should act as an enabler – supporting well-informed decision making and facilitating sustainable improvements in service delivery. It is fundamental to good management practice and should not be viewed as a separate discipline or token paper exercise to be carried out in isolation.
4. Risk can best be described as uncertainty of outcome. Nothing is achieved without some element of risk. In common with many other authorities, relatively little was done generally in the past to formally evaluate and manage risk at the Council. Where departments did consider risk the approach tended to be piecemeal. Any failure to

clearly identify and manage risks accordingly can mean that not enough is done to reduce exposure to hazards, loss or failure. Equally it can mean that opportunities may be lost if the organisation is not confident in how it should manage any risks associated with new initiatives or changes in practice. Risk management is therefore concerned with how the organisation can best evaluate and balance hazards and opportunities to make well-informed decisions and provide sustainable improvements in service delivery.

5. A simple way of thinking about risk is in terms of the formulae  $R = P \times I$  Where **R** is the risk, **P** the probability of something happening and **I** the impact should it occur.

## Progress & achievements

6. The Audit Commission's Annual Audit and Inspection Letter 2004/05 highlighted a number of improvements in the Council's overall governance framework and '*particularly risk management*'. Key progress has included the Risk Manager working across the organisation to:
  - establish a system of risk champions in each directorate to co-ordinate risk identification and management at both directorate and service level;
  - provide risk management training to service managers across most directorates (this work is on-going)
  - help improve the service planning and performance system by including the identification of operational and strategic risks as part of the service planning process, and requiring managers to pro-actively consider how to best manage their business risks. This in turn is helping managers to improve performance and successfully deliver corporate objectives;
  - introduce new project management standards, including proper consideration of risk identification and mitigation routines, that are now being successfully put into practice by the [Easy@York](#), Review of Admin Accommodation and FMS replacement projects;
  - support the proper integration of Risk Management considerations into decision making processes (although this was far from being fully embedded across the Council at the time of the last Annual Audit Letter).
7. Effective risk management has made a significant contribution to the Council's financial position over the last three years. Our approach to managing insurance risk has led to the achievement of £735K of recurring revenue expenditure savings since 2003/04. In addition, better control of the insurable risk through the use and application of risk management fund monies and a number of other risk management projects has helped sustain further annual budget savings of £100K

against annual premium costs over the same period (see also paragraph 11 below).

8. Whilst much positive progress has been made and there have been clear financial benefits of the function for the Council as a whole, the Audit Commission also noted in their last annual audit letter, that in their opinion Members were not fully engaged in the process and that risk management was not fully embedded into the culture of the organisation and that formal training was not been provided. The Use of Resources CPA score for risk management was therefore scored as a 2 by the Audit Commission in 2005. Work to develop and improve on these areas was planned following the 2005 assessment and has been delivered. A Member training session was undertaken at the Pre-Council seminar on 29 June 2006 and training provided to 40 key staff (Para 19) however further work is now needed to:
  - develop and deliver a formal training programme for staff and Members;
  - evidence that risk is embedded in strategic planning, financial planning, policy making and performance management
  - evidence that the Council considers positive risks (opportunities)
9. In order to help deliver the additional work associated with issues arising from the CPA inspections and the issues raised by the District Auditor, Members agreed (further to the Budget report in January 2006) to reinvest some of the £235K savings achieved on letting the new contract into rebuilding the risk management fund and administration of the function. An additional £40K was therefore allocated to re-investing in the Risk Management Fund which had become depleted and another £30K allocated to the proper administration and function of the service by creating an additional 1 FTE post to supplement the existing 0.3FTE establishment needed to develop the Council's approach and deliver the key improvements discussed above.
10. This investment will directly contribute to improving the Council's CPA score for Risk Management. However, the 'harder test' for the 2006 CPA re-fresh raises some uncertainty as to the amount by which the score may improve overall if the Audit Commission remain of the opinion that the risk management agenda does not have the active support and understanding of Members and officers in all departments.

## Risk Management Fund

11. The Risk Management Fund supports Directorate schemes aimed at reducing the risk of vandalism and anti social behaviour and thereby contributes indirectly to the success of various York Pride initiatives. The Fund has operated since 2001 and over that time has provided seeding and match funding money to a number of varied projects across the Council. The benefits of the better protection of Council

assets resulting from Fund initiatives has also directly contributed to significant reductions in the Council's insurance premiums and helped improve customers experience in their use and exposure to community assets such as schools. Exhibit 1 below details schemes that the fund has supported over the last five years:

Exhibit 1

<b>Year</b>	<b>Scheme</b>	<b>Contribution £</b>
<b>2000/01</b>	Joseph Rowntree School Glazing Scheme	650
	Motor Vehicle Safety Audit (DSO)	1,250
	School Security Survey - Burnholme	600
	School Security Survey – Hob Moor	600
<b>2001/02</b>	Grove House Security Improvements	830
	Knavesmire School – Bin Compound	4,683
	Highway Data Capture Devices	10,000
	Swipe Card Security St Leonard's	10,000
	Carr School – Extension to Security Fence	6,480
	Contribution to Risk Management BVR	10,000
<b>2002/03</b>	Yearsley Bridge Centre - Security	10,000
	Haxby Hall – Improved Security	580
	Yorkcraft - Security	2,945
<b>2003/04</b>	Huntington School - Fencing	1,430
	LCC Security Consultancy	4,875
	Carr Infant School – Bin Compound	1,975
	Lowfields School - CCTV	4,579
	Burton Stone CC – Security Survey	131
<b>2004/05</b>	None	
<b>2005/06</b>	Carr Infant School - Glazing Scheme	1,043
	Huntington School – Extended CCTV	7,600
	Neighbourhood Services – Driver Training	3,100
	Corporate Risk Management Training	5,000
	Burton Green – Security Improvements	10,000
	Lowfields – Extended CCTV	2,230
<b>Total</b>		<b>100,581</b>

## Audit & Risk Software

- The risk management process at the Council has been developed incrementally since 2001. Embedding the framework and developing the culture across the organisation has been difficult due to very limited resources within the Risk and Insurance Team to do this work (the function is provided by 0.5fte). The consideration of risk is key to good management. It is as much a thought process as a bureaucratic paper chasing exercise aimed at ensuring the identification and mitigation of significant risks that pose a threat to the organisation, documenting those risks and systematically managing their mitigation to avoid loss,

damage and failure. The 'paper' system used to date for documentation and management purposes has previously been delivered through the use of Excel spreadsheets and limited use of Word documents. This has been very time consuming and labour intensive. It was recognised that an interactive system was needed in order to:

- improve the team's efficiency;
- ensure a joined up approach to the arrangements for managing and reporting on the annual Statement of Internal Control (SIC);
- provide a better service to departments.

13. It was also recognised at that time that an automated working papers system was also required by the Internal Audit Service for similar reasons. The synergy between the two teams and the need to develop the Council's approach to proper risk based auditing led to purchase of a combined Audit & Risk Management system funded through the IT development plan.

14. The new system went live in both the Audit and Risk Management teams earlier this year. In the case of risk management existing risks were transferred into the system and these are now been reviewed to ensure their quality and appropriateness. The benefits of the new system allow:

- a fuller description of the risk and its potential impact on the Council;
- gross, net and target risk rating;
- full descriptions of controls;
- full descriptions of actions and action planning;
- links to corporate and directorate objectives and priorities;
- web browser access allowing greater flexibility;
- real time live risk registers;
- direct link to Audit module to allow risk based Auditing and better management and reporting of SIC routines and procedures.

15. Two worked examples showing the benefit of the system to the Council taken from the Member Seminar on 29 June demonstrating how we are using the system to help identify, mitigate and better manage potential risks is shown in Annex 1

16. The roll out of the system is in its early days and in the first instance the primary focus remains on using the system to document and manage strategic and operational risks to the Council. It has also been agreed that three major corporate projects will use the system this year - Accommodation review, FMS replacement, and [Easy@york](#) as a

precursor to rolling out the use of the system to support programme and project management needs in the future.

17. This flexibility of the system allows us to add, delete and amend categories as required. This is clearly demonstrated in relation to the new set of KLOE's around Data Quality. The Council is required to ensure that '*The organisation has begun to consider data quality as part of its corporate risk management arrangements*' (Level 2) and '*Data quality is embedded in corporate risk management arrangements, with regular assessments of the risks associated with unreliable and inaccurate information*' (Level 3). Data Quality now forms one of the standard categories within the new system and this allows managers to directly consider their risks in relation to this category on a regular basis.

## Embedding Risk Management

18. The embedding of risk management across the Council is not a simple or quick process, as it requires winning 'hearts and minds' and real cultural change. However, an increasing number of services are taking a more rigorous and formal approach to identifying risk in their processes. This has been helped by the inclusion of risk consideration into committee papers which has acted as a further catalyst in raising awareness. There is still a long way to go to ensure that the process becomes part of the organisations culture and is not seen as a 'bolt on' to everything that we do.
19. At its most basic level effective risk management is simply a thought process and only when a major threat is identified do we need to take a systematic approach to managing it. To that end, risk management disciplines serve to protect the organisation: its assets, people and reputation. Effective Risk Management disciplines help managers to minimise the risk of something adverse happening that may in turn jeopardise the organisation's ability to achieve its objectives - as opposed to stopping the organisation from achieving its ambitions. Understanding risk can help to create opportunity (rather than preventing us from doing things) as thinking the way in which we might best resolve problems often leads to more innovative ways of working. Risk management asks that when we manage we consider risk and that we do so in a disciplined way that better protects the interests and the assets of the Council.

## Key Risks

20. As discussed above, work on the Risk Register over the last 12 months has focussed on reviewing its content, filtering out bad data and trying to improve quality. The strength of the new system lies in its interrogation and reporting facilities, allowing managers to focus on their specific area and relevant risk categories. As the Register is a

real time document it can be constantly updated to show the up to date position as regards any given risk area. At the end of each financial year the retained risks can be brought forward into the next financial year allowing a risk profile to be developed over time.

21. Work to update the 2006/07 Register is now on-going. Risks that are ranked as high after taking into account controls and mitigations (net risks) are included in the link below. Risks are scored from 0 – 25 the higher the score the greater the risk. Examples of this years highly ranked risks include:
- Future Capping of set Council Tax Rates (20) – This risk was added by Strategic Finance following this years Capping issues.
  - Failure to successfully establish a Customer Call Centre (19) – This risk was added by Public Services as a result of the numerous challenges of establishing the new call centre.
  - Failure to deliver the Capital Programme (19) – This was included by Property Services due to their concerns about the vulnerability of the programme given its reliance on funding from external sources.
  - Highway Management – Breach of Statutory Duty (19) – This was added by City Strategy due to their concerns about compliance with the Traffic Management Act and potential loss of powers to manage the Highway.
  - Failure to meet the requirements of the Civil Contingencies Act in relation to Business Continuity (19) – The Council has a duty under the Act ensure that effective Business Continuity plans are in place for all critical services and be in a position to fulfil its duty to provide advice and assistance to local business.
  - Failure to achieve Parking income (19) – City Strategy added this as they had concerns about the sensitivity of parking income in relation to capacity and price.
  - Failure to meet air quality targets (19) - City Strategy has maintained this risk as they have concerns over the Council's ability to meet the relevant minimum standard.

A fully comprehensive and detailed list of risks included in the Register as it stands can be viewed through the following link. This shows the risks currently ranked as high contained within the register.

<http://intranet.york.gov.uk/documents/public/resourcespage/InsuranceDocs/Risk Register High Risks 2006-07.pdf?tag=co-3-24-5-42>

## Training

22. The driver in delivering training is as much about consistency of understanding and cultural change as the need to meet CPA requirements. The Risk and Insurance Team has delivered ad hoc training to over 40 staff in key groups during the last 12 months.
23. A more formal training programme for staff is now being developed and proposals received and evaluated from potential providers. It is intended that a formal training programme will start being delivered across the Council towards the end of 2006.
24. A programme of risk management awareness training for Members is also being developed. The first element of this was delivered jointly with the Audit Commission at the pre-Council seminar on 29 June 2006 which was well attended and considered a positive development by the Audit Commission. Future training events for Members will build on the successes of this session and help to demonstrate Member engagement with the subject for 2007 CPA review purposes.

## Risk Management Development Agenda

25. Work has been on-going over the last 12 months to plan the longer-term development of the risk management function at the Council. Proposals setting out what is needed and how this will be developed within existing resources will be tabled at Corporate EMAP on 31 October 2006.
26. The development plan is still in draft format but looks at the challenges to the service in deploying the risk management agenda these include:
  - Member and Officer engagement in the risk management process and the risk register as a management tool
  - the quality and credibility of risks submitted for entry into the register
  - fully populating the software ensuring consistency of data and the linking of risks to corporate and directorate objectives/priorities
  - clarity around the categories used to report risk
  - how risk is reported including the format of reports, frequency of reports and to whom is reported;
  - training needs;
  - risk based auditing;
  - evidencing the added value of embedded risk management.



## Options

27. Not applicable.

## Corporate Priorities

28. Risk management relates directly to the Council's priority to '*improve leadership at all levels to provide clear, consistent direction to the organisation*' clear and consistent leadership and direction requires a thorough understanding of all the risks and challenges to the organisation.

## Implications

29. There are no financial, legal, HR or other implications arising from this report.

## Risk Management

30. None

## Recommendations

31. CMT are asked to:

- a) note the contents of this report and progress to date;

Reason

*To raise awareness of the progress made to date in respect of risk management arrangements at the Council and advise Members of the further work now needed to support the effective development of the Council's approach in the future.*

- b) note the work now on-going to populate the 2006/07 Risk Register and the hyper-link address for Members to view the Register and the risks identified to date.

Reason

*To advise Members of the risks identified and included in the Council's Risk Register during 2006/07 to date.*

## Contact Details

### Author:

David Walker  
Risk and Insurance Manager  
Phone No 01904 552261

### Chief Officer Responsible for the report:

Liz Ackroyd  
Assistant Director of Resources (ARM)

Report Approved

Yes

Date 29 August 2006

**Specialist Implications Officer(s)** Not applicable

**Wards Affected** Not applicable

All

For further information please contact the author of the report

## Background Papers

Risk Register 2006/07  
Executive Corporate Risk Risk Management Report 2005/06  
Audit Commission Annual Audit & Inspection Letter 2004/05

## Annexes

Annex 1 Examples of applying Risk Management in practice

Annex 2 Example extract from the Risk Register