**SOUTHAMPTON CITY COUNCIL ®**

# RISK MANAGEMENT STRATEGY 2013-14

**April 2013**

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| 1. | Introduction |
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1.0 This strategy has been developed in line with published good practice* and provides an overview of the operating framework, arrangements and responsibilities for managing risk within the council. The strategy is relevant to Directors, Senior Managers and Managers as 'risk owners' and the Governance Committee in respect of their responsibility for overseeing the council's risk management arrangements.

| 2. | What is risk management? |
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2.0 Risk and risk management may be defined as follows*:

- **Risk** - 'the effect of uncertainty on objectives'.

- **Risk Management** - 'a coordinated set of activities and methods that is used to direct an organization and to control the many risks that can affect its ability to achieve objectives'.

<div align="right">Source ISO 31000 'Risk Management – Principles and Guidelines'.</div>

2.1 Risk management is an essential part of good governance within any organisation and is a key component of the council's overall corporate governance arrangements. It provides a framework and process that enables an organisation to manage uncertainty in a systematic, effective, consistent and efficient way. It supports informed decision making thereby enabling opportunities to be exploited or action to be taken to mitigate or manage key risks to an acceptable level.

2.2 It is recognised that the continued and ongoing pressure on public sector budgets will mean that public service organisations will inevitably be forced to have more of an appetite for risk in that they 'cannot do everything' and will face 'hard choices'. Effective management of risk is essential in ensuring that organisations are ready for the challenges that lay ahead and in supporting a 'culture of innovation' and moving from a 'risk averse' to a 'managed risk' approach.

2.3 The Accounts and Audit (England) Regulations 2011 also state that the council is responsible for ensuring that "the relevant body is responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk".

2.4 The council's risk management function is provided by Risk and Insurance Services within the Finance & IT Division of the Corporate Services Directorate.

* including 'ISO 31000 Risk Management – Principles and Guidelines' and 'A Structured Approach to Enterprise Risk Management' issued by the Institute of Risk Management, the Association of Insurance and Risk Managers and the Association of Local Authority Risk Managers.

| 3. | Risk Management Policy Statement |
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*The council recognises the need to identify and understand it's key business risks and is committed to ensuring that appropriate arrangements are in place to enable informed risk decision taking, recognising that effective risk management seeks to optimise the balance between risk and reward.*

*Risk management is an essential part of good management and is a key component of the council's overall corporate governance arrangements.  It is recognised that, in order to be effective, the approach to risk management needs to be structured and consistent and operate at both strategic and operational levels within the organisation.  It is also recognised that risks should be aligned with key priorities and that actions should be proportionate to the level of risk.*

*In seeking to ensure the effective management of key risks the council will develop policies and procedures intended to:*

➢ *Embed risk management into the culture of the organisation using consistent and common terminology;*

➢ *Raise the profile and understanding of risk management at all levels throughout the organisation including members;*

➢ *Develop a structured and consistent approach to the identification and management of key risks;*

➢ *Provide appropriate advice, guidance and training;*

➢ *Ensure that the approach to risk management is in accordance with good practice and is aligned with the council's approach to corporate governance.*

| 4. | Risk Management Process |
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4.0    In order to manage risk effectively it is necessary to have in place a systematic and consistent approach to identifying, analysing and managing risk.

4.1    In order to begin to identify risk the first step is to clearly identify the key objectives and desired outcomes of the project, service or activity in question.  The achievement or otherwise of those objectives may depend upon:-

- the organisation doing certain things and not doing others;
- the occurrence of (internally and externally caused) events that could affect the organisation; and
- the circumstances in which the organisation finds itself.

4.2    The following diagram illustrates the risk management methodology adopted by the council.
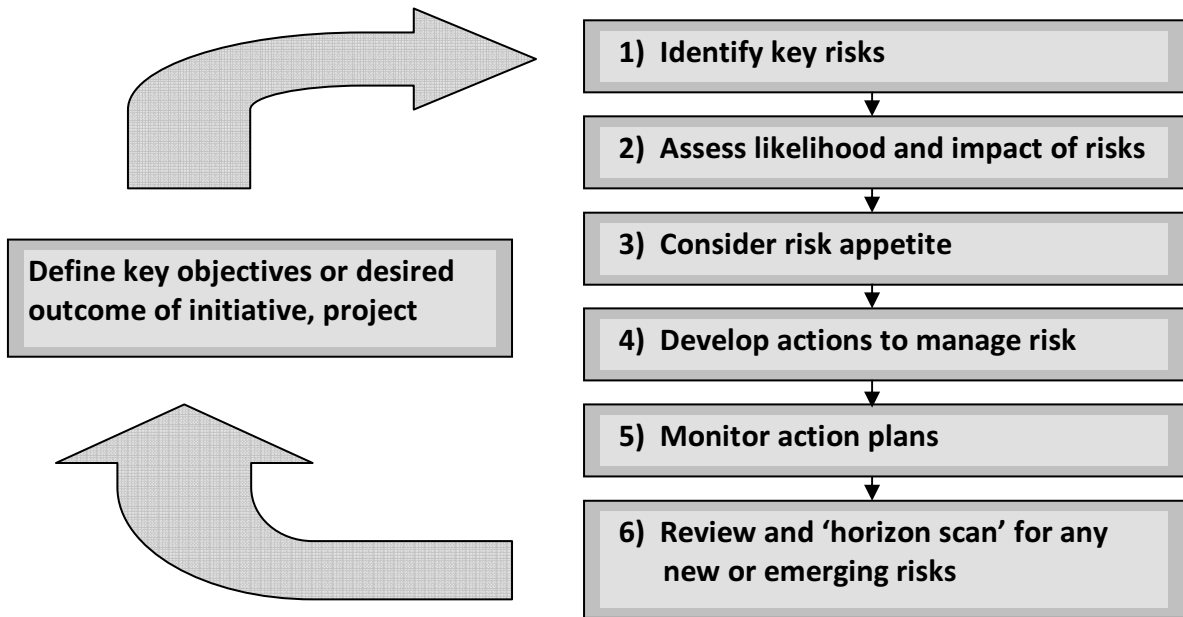
**Step 1)** Identify those key risks that could prevent or significantly hamper the achievement of the key objectives or required outcomes and/or prevent opportunities from being exploited;

**Step 2)** Assess the risks in terms of likelihood or frequency (i.e. the probability of risk event occurring) and severity (potential impact should the risk event occur);

**Step 3)** Understand and/or define the 'risk appetite' i.e. amount and type of risk that is considered acceptable to take and/or is tolerated. 'Risk appetite' can be illustrated via a 'risk matrix' on which the individual risk scores can be plotted. This may assist in determining the appropriate level of response noting that the aim is **not** to seek to drive all key risks into the 'green area' as this would reflect an extremely (and probably unreasonably) risk averse approach.

**Step 4)** Once the risk has been defined and assessed the next step is to determine how it should be managed.  There may be a range of actions required in order to manage the risk to an acceptable level.  Typically the actions are likely to be focussed on reducing the 'likelihood', as opposed to the 'impact' which may more difficult to influence.  Normally a 'Risk Management Action Plan' (see Appendix 2) is developed and used as a tool to record and monitor progress.

**Step 5)** Appropriate arrangements should be in place to ensure that 'action plans' are reviewed on a regular basis to ensure that the 'agreed actions' are being progressed satisfactorily.

**Step 6)** A periodic review should be undertaken to ensure the 'action plans' remain fit for purpose, that the risk appetite is still appropriate and that any new or emerging issues that may impact on the risk and/or any new risks are considered.

## 4.    Roles and responsibilities

4.0    To be effective, a structured approach to risk management needs to be adopted and embedded as part of good management.  All employees, members and those who act on behalf of the council have a role to play in the effective management of risk.

4.1    The principal roles and responsibilities are summarised below:-

| Individual/Group | Role/Responsibility |
|---|---|
| **Members** | • To have an understanding of the key principles of risk management; |
| **Cabinet Members** (including the Cabinet Member with responsibility for 'Leading on Risk Management'. | • To provide a 'Lead' in terms of influencing strategy and overall approach;<br>• To ensure that there is an appropriate consideration of risk in relation to the decision making process; and<br>• To be aware of the council's strategic risks and those relating to their respective portfolios. |
| **Governance Committee** | • To provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment, including (but not limited to) the reliability of the financial reporting process and the Annual Governance Statement; and<br>• To be satisfied and provide assurance that appropriate action is being taken on risk and internal control related issues identified by the internal and external auditors and other review and inspection bodies. |
| **Council Management Team** | • To oversee the corporate approach to managing risk and to determine and agree the council's overall risk appetite;<br>• To identify and agree the council's key strategic risks and to facilitate development of appropriate action plans to manage the risks;<br>• To periodically review (at least three times per annum) both the status and content of strategic and directorate risk registers; and |

| Individual/Group | Role/Responsibility |
| --- | --- |
| | • To support and monitor the implementation and ongoing processes for embedding risk management throughout the council. |
| **Directors / Directorate Management Teams** | • To support the council's risk management strategy;<br>• To ensure that a  co-ordinated and consistent approach is taken in respect of the identification and management of risk;<br>• To ensure that risks are appropriately managed and to have in place appropriate review and monitoring arrangements;<br>• To ensure that robust business continuity plans are in place covering key service areas and that the plans are reviewed and tested within agreed timescales; and<br>• To provide evidence, based on sources of internal and external assurance, to support preparation of the Annual Governance Statement. |
| **Directorate Business Development Managers (or equivalent)** | • To support both the Directorate Management Team and the Risk & Assurance Manager in respect of ensuring that processes are in place for the robust management of key risks. |
| **Senior Managers** | • To manage risk effectively in their service areas and in accordance with the agreed risk appetite or tolerance. |
| **Risk and Assurance Manager  /<br>Risk and Insurance Services** | • To facilitate the continuing development of the council's risk management arrangements including developing, maintaining and communicating appropriate guidance and information;<br>• To support directorates in developing their risk management arrangements in line with the agreed Risk Management Strategy;<br>• To maintain and facilitate the periodic review of the Strategic Risk Register in consultation with the Council Management Team;<br>• To review and report upon the adequacy and effectiveness of the council's risk management arrangements;<br>• To arrange appropriate risk financing measures and provide advice and guidance on the extent of insurance or self insurance arrangements;<br>• Where appropriate, to arrange the placement of cover with insurers including the negotiation of premium rates and policy terms; and<br>• To provide and manage a claims handling service to process claims made by directorates and by members of the public. |
| **Employees** | • To manage risk in the course of undertaking their duties; |
| **Internal Audit** | • To audit, via a risk based audit programme, the risk and internal control processes across the council.<br>• To co-ordinate fraud and irregularity investigations including assessing the effectiveness of fraud prevention controls and detection processes; and<br>• To provide assurance on the effectiveness of internal control processes. |

| 6. | Integration with other corporate processes |
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**6.0   Business planning / Performance Management**
There is an inextricable link between business planning/performance management and risk management.  The business planning process is focussed on identifying the key priorities and objectives for the forthcoming period.  The output from this exercise is then used to inform and assist managers in identifying those risks that need to be managed in order to enable these key business objectives to be achieved.

The clear identification of key priorities and objectives also ensures that effort and resources are focused and committed on managing key risks (by ensuring that the key risks are aligned with key priorities and objectives).

**6.1   Decision making**
The need to identify and communicate key risks features in the <u>Decision Standards Guidance</u> document which instructs report authors to 'consider whether there are any significant risks associated with the idea / proposal and how these might need to be presented'.  In addition, the 'Detail' section on the corporate report template may be used to highlight any key risks associated with the decision and/or to provide assurance that appropriate actions or controls are in place to manage the risk.   In addition, the template for reports to the Council Management Team also includes a 'key risks' section.

**6.2   Partnership Working**
A 'Partnership Working in Southampton' guide forms part of the Council's Constitution. The guide, which is intended to ensure that sound governance arrangements are in place, provides 'signposts to good practice' and makes explicit reference to the need to "think ahead and anticipate any potential problems or barriers to progress".

**6.3   Project Management**
The need to identify and manage risk features throughout the various Gateways within the PM Connect Project Management Methodology.  Specific guidance on the effective management of key risks is provided for Project Managers, Sponsors and Boards.

**6.4   Corporate Governance**
Defined as 'how local government bodies ensure that they are doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner.  It comprises the systems and processes, and cultures and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads its communities'.

Source: Chartered Institute of Public Finance & Accounts and Society of Local Authority Chief Executives – Delivering Good Governance in Local Government 2012.

**6.5   Annual Governance Statement**
The Accounts and Audit (England) Regulations 2011 require that local authorities publish an 'Annual Governance Statement' ("AGS") with their annual Statement of

Accounts. The AGS is a key corporate document that sets out the council's overall corporate governance framework and highlights any significant gaps or areas where improvement is required. Risk Management is an integral part of the overall governance framework in terms of supporting informed and transparent decision-making and accountability to stakeholders.

6.6 **Fraud Risk Management**

The management of fraud risk is the responsibility of everyone within the organisation and internal control systems are intended to minimise the opportunity for fraud or misappropriation of assets. Whistleblowing (Duty to Act) arrangements are in place together with an Anti Fraud and Anti Corruption Policy and Strategy.

## 7. Communication

7.0 The Risk Management Strategy and other associated guidance and template documents are made available on the intranet. The site is updated on at least an annual basis by the Risk and Assurance Manager.

7.1 Appropriate training opportunities will be made available to both members and staff relevant to their needs and responsibilities.

## 8. Reporting

8.0 The Risk & Assurance Manager shall, via the Head of Finance & IT, present an annual report to the Governance Committee outlining the planned activities for the forthcoming period in addition to providing a mid-term update.

## 9. Review

9.0 This document will be reviewed annually by the council's Risk and Assurance Manager and any significant amendments reported to the Governance Committee for approval.

## Glossary of common terms used in relation to risk management

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| **Assessing risks** | *The evaluation of risk with regard to the impact if the risk is realised and the likelihood of the risk being realised.* |
| **Consequence** | *The outcome of an event.* |
| **Contingency** | *An action or arrangement that can be put into place to minimise the impact of a risk if it should occur.* |
| **Control** | *Any action, procedure or operation undertaken to either contain a risk to an acceptable level, or to reduce the likelihood.* |
| **Corporate Governance** | *The system by which an organisation is directed and controlled.* |
| **Exposure** | *The consequences, as a combination of impact and likelihood, which may be experienced by the organisation if a specific risk is realised.* |
| **Fraud** | *The intentional distortion of financial statements or other records by persons internal or external to the organisation, which is carried out to conceal the misappropriation of assets or otherwise for gain.* |
| **Governance Committee** | *The Member body responsible for ensuring the adequacy of the risk management framework, internal control and reporting environment including (but not limited to) the reliability of the financial reporting process and the Annual Governance Statement.* |
| **Horizon Scanning** | *Systematic activity designed to identify, as early as possible, indicators of changes in risk.* |
| **Identifying Risks** | *The process by which events that could affect the achievement of key objectives, are drawn out, described and recorded.* |
| **Impact** | *The effect that a risk event would have if it occurs.* |
| **Inherent Risk** | *The level of risk before any action has been taken to manage it.* |
| **Internal Control** | *The policies, procedures, practices and organisational structures designed to provide reasonable assurance that business objectives will be achieved and that undesired events will be prevented or detected and corrected.* |
| **Likelihood** | *The probability that an identified risk event will occur.* |
| **Operational Risk** | *Risks concerned with day-to-day operational issues that an organisation might face as it delivers its services.* |

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|---|---|
| **Residual Risk** | *The level of risk remaining after action has been taken to manage it.* |
| **Risk** | *The effect of uncertainty on objectives.* |
| **Risk Appetite/Tolerance** | *The amount of risk that the council is prepared to accept, tolerate or be exposed to at any point in time.* |
| **Risk Financing** | *The mechanisms (e.g. insurance programmes) for funding the financial consequences of risk.* |
| **Risk Management** | *The culture, processes and structures that are directed towards effective management of potential opportunities and threats to the organisation achieving its objectives.* |
| **Risk Management Action Plan (RMAP)** | *The document that records the existing controls together with any additional controls required to manage the risk to an acceptable level in line with the risk appetite.* |
| **Risk Owner** | *The person with responsibility for ensuring that the controls identified in the RMAPs are adequate and appropriate and that the actions are being progressed.* |
| **Risk Matrix** | *The number of levels of likelihood and impact against which to measure the risk and to record the risk appetite.* |
| **Risk Register** | *A framework for capturing information about each risk, e.g. a description of the risk, its likelihood, its impact, how it is being controlled and who is managing that risk.* |
| **Risk Strategy** | *The overall organisational approach to risk management.* |
| **Strategic risk** | *Risks concerned with the high level strategic aims and objectives of the organisation.* |

## Risk Register Template

**RISK MATRIX**

| | | | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|---|---|
| | Very High | A | | | | | |
| | High | B | | | | | |
| LIKELIHOOD | Significant | C | | | | | |
| | Low | D | | | | | |
| | Very Low | E | | | | | |
| | Almost impossible | F | | | | | |
| **RISK RATING MATRIX** | | | 5 | 4 | 3 | 2 | 1 |
| | | | Negligible | Marginal | Significant | Critical | Catastrophic |
| | | | | | **IMPACT** | | |

| Key Priority/ Objective | Council Plan Ref | Action/controls already in place | Required Action/controls | Responsibility for Action | Due/ Target Date | Update of Required Management Action Controls | Status | Critical Success Factors and KPI's | Date last update | Date of next review | Risk Status |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Directorate** | | | | | | | | | | | |
| Risk Number : **001**  Risk Owner:  Portfolio:  Risk Category: | | | | | | | | | | | |
| Risk Description **-** | | | | | | | | | | | |
| Initial Risk Score:  Likelihood:  Impact: | | | | | | | | | | | |
| Current Risk Score:  Likelihood:  Impact: | | | | | | | | | | | |
| Target Risk Score:  Likelihood:  Impact: | | | | | | | | | | | |
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<u>**Appendix 3**</u>

# RISK FINANCING STRATEGY

**April 2013**

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## 1. Introduction

1.0 The Risk Financing Strategy is a key component of the council's Risk Management Strategy and sets out the council's overall approach to risk financing. It will be of particular relevance to the Governance Committee in respect of its responsibility for overseeing the council's risk management arrangements.

## 2. Definitions

2.0 **Risk Financing** - "Utilisation of source(s) of funds to pay for insurable losses. Source(s) of funds can be classified as:

*Internal* - a risk retention arrangement is established to use funds from within the organisation to pay for losses;

*External* - a risk transfer arrangement (generally through the purchase of insurance) is established to provide access to funds to pay for losses".

2.1 Although this document refers primarily to self insurance [risk retention] and external insurance cover, in some cases other risk financing options may be available and these will be referred to as appropriate.

## 3. Structure, Resources and Accountability

3.0 The council's Financial Procedure Rules state that the Chief Financial Officer (Head of Finance & IT) has responsibility 'to advise the Cabinet on proper insurance cover where appropriate, and effect corporate insurance cover, through external insurance and internal funding'.

3.1 The Risk and Assurance Manager reports to the Head of Finance & IT on all strategic risk financing issues and is responsible for ensuring that the adopted strategy is implemented and is subject to annual review.

3.2 The council's Risk Management and Insurance section is responsible for:

- Maintaining adequate and cost effective risk financing measures;
- Managing the internal self insurance fund;
- Providing risk management advice, guidance and support;
- Arranging, where appropriate, the placement of cover with external insurers including the negotiation of premium rates and policy terms; and
- The provision of an appropriate insurance claims handling service.

3.3    The council will normally appoint an external independent insurance broker/advisor to support and assist the council in respect of the periodic tender of its insurance portfolio.  The appointment will normally include provision of ongoing support on a retained basis.

3.4    The appointment of an insurance broker/advisor will be led by the Risk and Assurance Manager with such an appointment normally taking place at least six months in advance of any renewal (or tender) of external insurances.

3.5    External insurance will be procured in accordance the council's Contract Procedure Rules.  The council will award contracts for the provision of insurance services on the basis of the most economically advantageous terms in respect of price and quality.

3.6    The tender of the council's insurance portfolio will normally take place every three to five years (unless a longer or shorter term contract or agreement is proven to be beneficial to the council).  In accordance with good practice the council will normally seek to enter into a 'long term agreement' ("LTA") with insurer(s).  The LTA, which normally includes a discount on the premium, provides continuity of cover, an element of financial certainty and is in line with the standard market approach.

| **4.**   **Process and procedures** |
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4.0    An effective risk financing programme is one that provides appropriate and adequate protection for the council to support and enable current and future service delivery in addition to being able to demonstrate value for money.

4.1    The overall objective of the Risk Financing Strategy is to ensure that funds are available to pay for insurable losses using the most cost effective sources of finance.  In doing so the council seeks to protect its financial position through the selective purchase of insurance cover and seeks to ensure that the risk financing structure is as financially efficient as possible, whilst accepting that financial certainty has a cost.

4.2    The aim is to achieve the optimum balance between self insurance and external insurance, with the latter intended primarily to protect the council against the effects of a catastrophic loss and to limit the council's financial exposure in any one period.  The approach seeks to smooth the cost of risk and minimise year on year fluctuations.

4.3    The structure of the risk financing programme will be subject to a periodic review, led by the insurance broker/advisor, in order to identify any potential gaps, duplication etc in cover, and to evaluate self insurance against other risk transfer options.

4.4    The cost of risk (i.e. external insurance premiums and contribution to the internal insurance fund) is apportioned across service areas on an equitable basis via an annual insurance recharge.

4.5     Losses within the insurance deductible are met from the self insurance fund, which is reviewed on a monthly basis by the Risk and Assurance Manager.  If, at any point, it becomes apparent that a shortfall of funds could occur then the matter will be referred immediately to the Head of Finance & IT.

4.6     In line with good practice the 'self insurance fund' is subject to independent actuarial review which is normally undertaken every three years.  The review considers whether adequate funds are available to meet current and future liabilities. A summary of the report is provided to the Chief Financial Officer and to the Governance Committee.

## 5.      Alternative Risk Transfer

5.0     The council is committed to securing value for money and securing the most cost efficient source of risk financing. The insurance market for local authorities has traditionally been a specialist market with only a very limited number of insurers prepared to offer cover.

5.1     The council, in consultation with its insurance broker/advisor, will keep abreast of any opportunities in respect of 'alternative risk financing' including consortia purchasing, joint procurement, risk pooling etc.  The foregoing options would however only be considered where any such proposals provided an acceptable level of financial certainty and security and a clear cost benefit.

## 6.      Communication and Consultation

6.0     The Risk Management Strategy will be published on the council's intranet site.

6.1     The Risk and Assurance Manager will also produce an annual 'Insurance Renewal' briefing paper for the Chief Financial Officer summarising the outcome of the annual insurance renewal process.

## 7.      Benchmarking

7.0     Where appropriate the council will compare its approach to risk financing with peer authorities and will draw on benchmarking data in order to identify potential gaps in cover or areas for review.

## 8.      Review

8.0     This document will be reviewed annually by the Risk and Assurance Manager with any significant changes reported to the Governance Committee.