REPORT TO:	FINANCE AND MANAGEMENT SERVICES COMMITTEE	AGENDA ITEM: 16
DATE OF MEETING:	18 FEBRUARY 2003	CATEGORY: RECOMMENDED
REPORT FROM:	CHIEF FINANCE OFFICER	OPEN
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SUBJECT:	RISK MANAGEMENT	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: FM14

1.0 Recommendations

1.1 That the Policy Statement regarding risk management as set out in Appendix A be approved.

2.0 Purpose of Report

2.1 To provide some background on the increasing importance of formally addressing risk management in local government. Subsequently, to seek approval for a Policy Statement on risk management to be adopted by this Council and to set out the initial actions required to be undertaken by the Risk Management Group.

3.0 Executive Summary

3.1 Formal risk management is becoming increasingly prominent in local authorities. Although not a statutory requirement, it is seen as a key element of the service delivery and financial planning processes. The Council has a good basis on which to build, although further benefits may not necessarily been seen in the short term. However, it is important that risk management if formalised and embedded throughout the Council.

4.0 Detail

What is Risk Management

4.1 Risk is the threat that an event or action will adversely affect an organisation's ability to achieve its aims and objectives. The resultant loss may not necessarily be measured in financial terms, but just as much by a reduction in an organisation's public image or reputation.

4.2 Risk Management is the process, by which risks are identified, evaluated and controlled. It has become a key element of the corporate governance framework, community planning, public standards and overall service delivery arrangements.

Increasingly, it is being seen as contributing to the safeguarding of public funds and in achieving best value services.

4.3 Risk Management is more than just insurable risks where the financial loss to the Council can be calculated. In essence, it is more about having a realistic idea of what problems/issues could arise and planning at an early stage how they might be addressed.

4.4 An example of risk management is the Council's medium term financial projection. This looks ahead 3 years at some of the potential issues the Council could be facing, assesses the impact on finances, and provides time for the Council to plan how it will address those issues.

Why have Risk Management

4.5 Risk Management has been a key issue in the private sector for a number of years due to a number of high-profile incidents culminating in what was known as the Turnbull Report. In certain parts of the public sector (health and education in particular) risk management is very much part of the planning and management process, and is effectively a statutory requirement.

4.6 In local government, progress to-date in introducing formal risk management systems has been patchy and lacking a co-ordinated and corporate approach. At present, there is no statutory requirement on local authorities to formally address risk management in a co-ordinated manner and to adopt best practice.

4.7 However, local government with the modernisation agenda, best value, limited resources, increasing statutory duties, Government targets, E-government, community engagement, etc. puts increasing pressure on how authorities manage their business and service delivery. This potentially puts an added burden on authorities and increases risk.

4.8 Consequently, the Audit Commission is taking an increasing look at risk management in local government and external auditors are now regularly reviewing and reporting on arrangements. In addition, risk management will form part of the Council's Corporate Performance Assessment.

4.9 An audit commission survey has shown that organisations embracing risk management have been able to get risks out in the open and set about prioritising and dealing with them in a structured way. In addition, this has led to amongst other things:

- ✓ A sharper focus on service delivery.
- ✓ Fewer customer complaints.
- ✓ Protection of reputation.
- ✓ Reduced and controllable insurance premiums.

What does Risk Management Cover

4.10 Risk management is an integral part of Corporate Governance and covers both strategic and operational issues and ranges from major fires and financial losses, to dealing with vandalism and slips and falls. Effectively, it is about identifying risks, assessing their probability, and developing measures to control and eliminate them.

Barriers to Effective Risk Management

4.11 Financially, there may be resource implications around implementing measures to deal with certain risks, and this may need to be addressed at the appropriate time. On a more non-financial basis, research has demonstrated that any organisation has to give risk management a high profile for it to bring any sort of benefits.

Current Position in South Derbyshire

4.12 Similar to most local authorities, this Council has a sound base on which to build. Risk management does currently take place within the Authority, but this tends to focus on insurance related, health and safety and property protection issues. At present, there is no co-ordinated approach in assessing overall risk and dealing with it.

4.13 As part of the re-tendering of the current insurance contract, the Council's Insurers undertook a risk management audit within the Authority during the summer of 2002. A summary of the findings and recommendations is attached in Appendix B.

4.14 In addition, the Council's Insurers have also facilitated a training session and workshop for potential members of a corporate Risk Management Group (RMG). This provided amongst other things, guidance to officers on techniques to evaluate risk, and on action planning and potential measures to deal with risk.

4.15 Furthermore, District Audit has recently carried out a review of the current status of risk management in the authority. This concluded that the Council is "average" compared to other shire districts (i.e. no better, no worse), but has a good base to build on given current policies and procedures, and from the work undertaken by the Council's Insurers.

The Way Forward

4.16 One of the main recommendations stemming from the work of the Council's insurers and District Audit, is that in accordance with best practice, the Council should:

- Adopt a broad policy statement on risk management, and
- Set up a Risk Management Group (RMG) to co-ordinate the work required.

4.17 A proposed policy statement is attached at Appendix A. This includes the terms of reference for, and composition of a corporate RMG. It is envisaged that this group would initially produce the Council's risk profile (some preparatory work has already been completed in conjunction with the Council's Insurer's) and to begin to raise and address the issues. Effectively, it would co-ordinate and oversee the risk management cycle as set out in Appendix A.

5.0 Financial Implications

It is likely that some measures to control risk will have resource implications. In addition, best practice suggests that a RMG should have some budgetary provision allocated (£10,000), from which to pump prime initiatives. A service development proposal was made as part of this budget round, but not approved. Members may wish to consider allocating any overall underspendings from current budgets in 2002/03 to the RMG.

These costs need to be balanced against the extra costs that the Council has already incurred from rising insurance premiums (some £60,000 per year). Any investment that helps to improve the way the Council manages its insurable risks, therefore, has the potential to pay for itself in a short period.

6.0 Corporate Implications

6.1 By adopting the Policy Statement and the terms of reference of a RMG, this should help risk management to become embedded in the Council's service delivery and financial planning processes.

7.0 Community Implications

7.1 Following on from corporate implications, although benefits are more medium than shorter term, risk management should help to put a sharper focus on service delivery in the local communities.

8.0 Background Papers

Audit Commission's "improving risk management in local government"
Reports of the Council's Insurers and External Auditors