



RISK MANAGEMENT STRATEGY 2011-12

June 2011

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1. Introduction

- 1.0 This strategy 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 Audit Committee who are responsible for overseeing the council's risk management arrangements.
- 1.1 The strategy has been developed in line with good practice and taking into account the international standard, ISO 31000, Risk Management – Principles and Guidelines' and the 'Structured Approach to Enterprise Risk Management and the requirements of ISO 31000' document issued by the Institute of Risk Management ("IRM"), the Association of Insurance and Risk Managers ("AIRMIC") and the Association of Local Authority Risk Managers ("ALARM").
- 1.2 Effective risk management is a key element of corporate governance, and is recognised as such in:-
- The CIPFA/SOLACE Corporate Governance Framework; and
 - CIPFA's guidance on the Annual Governance Statement.
- 1.3 The Accounts and Audit (Amendment) (England) Regulations 2006 also state that the Council is "responsible for ensuring that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions, and which includes arrangements for the management of risk".
- 1.4 The Council's risk management function is provided via the Internal Audit, Risk and Assurance Service within the Corporate Services Directorate.

2. Definitions

- 2.0 Every organisation exists for a purpose and, as such, every organisation should be able to define its purpose in terms of objectives or what it is seeking to achieve. The achievement or otherwise of those objectives depends 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.
- 2.1 There are many definitions of risk and risk management however in simple terms:
- **Risk** - 'the effect of uncertainty on objectives'.
 - **Risk Management** - 'the culture, processes and structures that are directed towards effective management of potential opportunities and threats to the organisation achieving its objectives'.

- 2.2 The definitions link risks to objectives. Therefore the definitions of risk can most easily be applied when the objectives of the organisation, directorate or service area are clearly defined.
- 2.3 Risk Management is not simply a compliance issue. It is concerned with providing a framework and process that enables an organisation to manage uncertainty in a systematic, effective, consistent and efficient way thereby enabling informed decision making in order to allow opportunities to be exploited or action to be taken mitigate or manage risks to an acceptable level.

3. Policy Statement

The Council recognises the need to identify and understand its' 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.

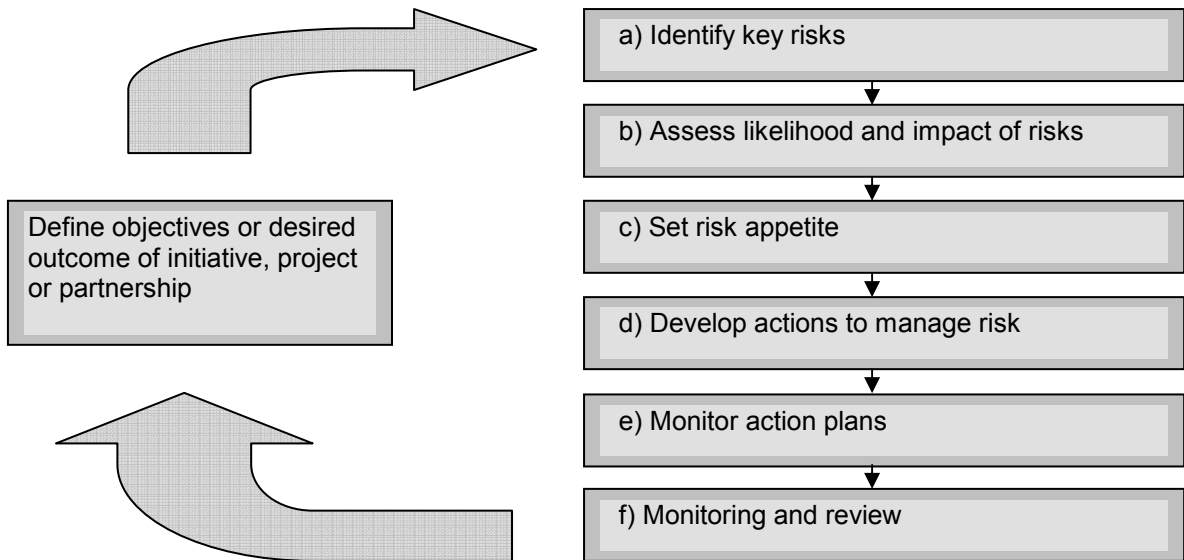
Risk management is an essential part of good management and is a key component of the council's overall corporate governance arrangements. It is recognised that, in order to be effective, the approach to risk management should be structured and consistent and operate at both strategic and operational 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 manage risk, the Council will develop policies and procedures 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 risk throughout the organisation;
- Develop a consistent risk assessment process or framework that can be applied to both current activities and new initiatives;
- Promote widespread understanding of the principles, processes and benefits of risk management via training, guidance documents etc;
- Assist both the directorates and corporate body identifying and understanding key risks and in determining an appropriate risk appetite; and
- Ensure that risk is managed in accordance with best practice and in accordance with the Council's approach to corporate governance.

4. Risk Management Process

4.0 In order to manage risk effectively it is necessary to develop a systematic approach to identifying, analysing and managing risk. The following diagram illustrates the risk management methodology adopted by the Council.



- a) The first step is to identify the key risks that could have a significant adverse effect or prevent key business objectives or outcomes from being met and/or prevent opportunities from being exploited;
- b) The key risks are then assessed in terms of likely frequency (probability of risk event occurring) and severity (potential impact should such an event occur);

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

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- c) 'Risk appetite' is defined as the amount and type of risk that the Council, Directorate, project board, partnership etc is prepared to accept, tolerate or seek. 'Risk appetite' can be illustrated via a 'risk matrix' which may be used to 'sense check' the assessment and assist in determining the appropriate level of response. 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.
- d) 'Action plans', normally in the form of risk registers, record the actions required to manage the risk, the person responsible for implementing the actions and the timescale or key dates. A risk register is not only evidence that the key risks have been identified and assessed but also reflects the commitment to managing the risk to a level that reflects the agreed risk appetite.
- e) Appropriate governance or management arrangements should be in place to ensure that the 'action plans' are reviewed on an appropriate basis
- f) The monitoring and review process is used to determine whether the agreed actions to manage the risk are effective and whether the 'risks' and 'risk appetite' are still appropriate taking into account any changes in the organisation or external factors.

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	<ul style="list-style-type: none"> • To have an understanding of the key principles of risk management;
Cabinet Members	<ul style="list-style-type: none"> • To ensure that there is an appropriate consideration of risk in relation to the decision making process; • To be aware of the council's strategic risks and those relating to their respective portfolio.
Standards & Governance Committee (as the member body responsible for leading on all aspects of Corporate Governance).	<ul style="list-style-type: none"> • To receive assurance from the Audit Committee on the adequacy and effectiveness of the risk management framework.
Audit Committee (as the Member body responsible for providing independent assurance to the Standards and Governance Committee on the adequacy and effectiveness of the risk management framework)	<ul style="list-style-type: none"> • To ensure that an appropriate Risk Management Strategy and Policy is in place; • To approve, support and monitor the implementation and ongoing processes for embedding risk management throughout the Council; and • To receive regular reports from the Chief internal Auditor (or nominated deputy) and/or take appropriate action to ensure that corporate business risks are being actively managed • To receive copies of the annual and interim reports for noting and action as appropriate.

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Individual/Group	Role/Responsibility
Director of Corporate Services	<ul style="list-style-type: none"> • To undertake the role of 'corporate lead on risk management'; • To jointly champion, with a Member (who would normally be the Cabinet Member for Resources, Leisure and Culture), the processes for embedding risk management throughout the Council;
Management Board of Directors	<ul style="list-style-type: none"> • To support and monitor the implementation and ongoing processes for embedding risk management throughout the Council; • To identify the Council's key strategic risks to enable the Strategic Risk Register and associated "Action Plans" to be developed and actioned;
Directors / Directorate Management Teams	<ul style="list-style-type: none"> • To support the council's risk management strategy; • To ensure that a co-ordinated and consistent approach to the identification and management of risk is adopted; • To ensure that risks are appropriately managed and to have in place appropriate review and monitoring arrangements; • 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 • To provide evidence, based on sources of internal and external assurance to support preparation of the Annual Governance Statement.
Senior Managers	<ul style="list-style-type: none"> • To manage risk effectively in their service areas and in accordance with the agreed risk appetite or tolerance.
Risk and Assurance Manager	<ul style="list-style-type: none"> • To facilitate the continuing development of the Council's risk management arrangements; • To develop, maintain and communicate appropriate risk management guidance and information; • To support directorates in developing their risk management arrangements in line with the agreed Risk Management Strategy; • To maintain and facilitate the periodic review of the Strategic Risk Register; • To review and report upon the adequacy and effectiveness of the Council's risk management arrangements; • To arrange appropriate risk financing measures and provide advice and guidance on the extent of insurance cover or self insurance arrangements; • Where appropriate, arrange the placement of cover with insurers including the negotiation of premium rates and policy terms; and • To provide and manage a claims handling service to process claims made by directorates and by members of the public.
Employees	<ul style="list-style-type: none"> • To manage risk in the course of undertaking their duties;
Health and Safety	<ul style="list-style-type: none"> • To ensure that appropriate arrangements are in place to manage health and safety risks to prevent or minimise the risk of accident or injury and to comply with legislation and statutory requirements.

Individual/Group	Role/Responsibility
<i>Internal Audit</i>	<ul style="list-style-type: none"> • To develop a risk based internal audit programme. • To audit the risk and internal control processes across the council. • To co-ordinate fraud and irregularity investigations including assessing the effectiveness of Fraud prevention controls and detection processes; and • To receive and provide assurance to Members and senior management of the effectiveness of risk management and controls;

6. Integration with corporate processes

6.0 Business Planning

The purpose of the Directorate Business Plans is to detail the contribution to the council's vision and priorities, the business objectives to be achieved in period and how they will be achieved in the context of the resources, customer needs, challenges and any changes that are expected resources.

6.1 The development of risk registers is a key component of the business planning process with the priorities and challenges used to inform the development of the associated risk register. This process applies to both the Council Plan and Directorate Business plans which generate the Strategic Risk Register and the Directorate Risk Registers.

6.2 Directorate Risk Registers are reviewed on a regular basis by the respective Directorate Management Team with the Strategic Risk Register reviewed by the Management Board of Directors.

6.3 Decision making

The need to identify and communicate key risks features in the [Decision Standards Guidance](#) document which instructs the report author to 'consider whether there are any significant risks associated with the idea / proposal and how these might need to be presented'. In addition it suggests that the 'Detail' section on the corporate report template be used to highlight any significant risks associated with the decision and, where appropriate, for the decision maker to be provided with assurance that appropriate actions or controls are in place'.

6.4 Partnership Working

The Partnership Code forms part of the Council Constitution and contains explicit reference to risk with the associated Protocol document including a '[Partnership Risk Management Model](#)'. The Partnership Code is to be reviewed to ensure that it is aligned with the future approach to partnership working as reflected in the formation of Southampton Connect as the successor body to the Southampton Partnership.

6.5 Project Management

The need to identify and manage risk features throughout the various Gateways within the PM Connect Project Management Methodology. Supporting information and guidance, intended for both Project Managers, Sponsors and Boards, sets out the recommended approach to risk relevant to the category of project together with the required action at each gateway.

6.6 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 local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities'.

Source: Chartered Institute of Public Finance & Accounts and Society of Local Authority Chief Executives – Annual Governance Statement Guidance document 2008.

6.7 In accordance with the Account and Audit Regulations the Council is required to publish an 'Annual Governance Statement' ("AGS") with its accounts. The AGS is a key corporate document and intended to provide an accurate representation of the corporate governance arrangements in place during the year and highlight those areas where improvement is required. Risk Management is an integral part of good governance and a key component of the AGS in terms of how it serves to support transparent decision-making and accountability to stakeholders.

6.8 Performance Management

Risk management is inextricably linked to performance management as it is intended to assist managers in identifying those key risks that need to be managed in order to enable business objectives to be achieved and/or opportunities to be exploited. This is reflected in the fact that risk management features prominently in the Council business planning process.

6.9 Fraud Risk Management

The day to day management of fraud risk is the responsibility of everyone within the organisation and internal control systems should be designed 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.

6.10 The annual Internal Audit plan of work is developed using a risk based approach with 'fraud' being one of the key risk indicators.

6.11.1 Certain areas of operation will have an inherent risk of fraud e.g. housing and council tax benefits, insurance etc and appropriate arrangements to manage these risks are in place within the respective service areas.

7. Communication and training

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

7.2 Risk management training for manager's forms part of the corporate learning and development training opportunities.

8. Reporting

- 8.0 The “Corporate Lead on Risk Management” shall present an annual report to the Audit Committee summarising achievements and outlining the planned activities for the forthcoming year as well as an interim, six-monthly report.

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 Audit Committee for approval. The Audit Committee is the Member body responsible for providing independent assurance to the Standards and Governance Committee on the adequacy and effectiveness of the risk management framework.

Glossary of common terms used in relation to risk management

Audit Committee	<i>The Member body charged with providing independent assurance to the Council's Standards and Governance Committee on the adequacy of the risk management framework, the internal control and reporting environment including (but not limited to) the reliability of the financial reporting process and the statement of internal control.</i>
Assessing risks	<i>The evaluation of risk with regard to the impact if the risk is realised and the likelihood of the risk being realised.</i>
Consequence	<i>The outcome of an event.</i>
Contingency	<i>An action or arrangement that can be put into place to minimise the impact of a risk if it should occur.</i>
Control	<i>Any action, procedure or operation undertaken to either contain a risk to an acceptable level, or to reduce the likelihood.</i>
Corporate Governance	<i>The system by which an organisation is directed and controlled.</i>
Exposure	<i>The consequences, as a combination of impact and likelihood, which may be experienced by the organisation if a specific risk is realised.</i>
Fraud	<i>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.</i>
Horizon Scanning	<i>Systematic activity designed to identify, as early as possible, indicators of changes in risk.</i>
Identifying Risks	<i>The process by which events which that could affect the achievement of key objectives, are drawn out, described and recorded.</i>
Impact	<i>The effect that a risk would have if it occurs.</i>
Inherent Risk	<i>The level of risk before any action has been taken to manage it.</i>
Internal Control	<i>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.</i>
Likelihood	<i>The probability that an identified risk event will occur.</i>

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



RISK FINANCING STRATEGY

June 2011

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1. Introduction

- 1.0 This document sets out the council's approach to risk financing and will be of particular relevance to the Audit Committee in respect of their responsibility for overseeing the council's risk management arrangements.
- 1.1 The Risk Financing Strategy is a component of the council's overall Risk Management Strategy. This document therefore needs to be considered in conjunction with the Risk Management Strategy document.

2. Definitions

- 2.0 **Risk Financing** - "Utilisation of source(s) of funds to pay for 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 and external insurance cover in some case other risk financing options may be available and these will be referred to as appropriate.

3. Structure, Resources and Accountability

- 3.0 In accordance with the Council's Financial Procedure Rules the Chief Financial Officer 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 Chief Financial Officer 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 self insurance fund including the setting of contribution levels;
 - 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 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 risk and insurance support and advice on a retained basis for the duration of the agreement or contract.

- 3.4 The appointment of an 'insurance broker/advisor' will be led by the Risk and Assurance Manager with the timing of any appointment, renewal or extension of an agreement normally taking place at least six months prior to or post 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 or 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) which is in line with the standard market approach. 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

- 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 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. The long term aim is to self insure to the highest possible levels where the cost benefit case can be proved, whilst also securing an acceptable level of financial certainty.
- 4.3 The structure of the risk financing programme will be subject to detailed review prior to each insurance tender exercise. The purpose of the review is to identify any gaps, or potential gaps, duplication etc in cover, and to evaluate self insurance against risk transfer options.
- 4.4 The arrangements for claims handling, including litigated claims, are reviewed as part of the insurance tender exercise with a view to securing the best quality service at a cost that can be demonstrated as providing value for money.
- 4.5 The risk financing programme is also subject to annual review as part of the insurance renewal process to ensure that the scope and type of external insurance cover is still appropriate.
- 4.6 The cost of risk (i.e. external insurance premium and contribution to the internal insurance fund) is allocated to service area on an equitable basis via an annual insurance recharge.

- 4.7 Losses within the deductible or excess are met from the self insurance fund which is reviewed on a monthly basis by the Risk and Assurance Manager to monitor the cost of claims settled in the period and estimated value of claims outstanding. If, at any point, a shortfall of funds is anticipated then the matter will be referred immediately to the Chief Financial Officer.
- 4.8 In line with good practice the 'self insurance fund' is subject to independent actuarial review which is normally undertaken every three years. The purpose of the review is to consider, at a particular point in time, whether adequate funds are available to meet current and future liabilities based on forecasts for expected losses and taking into account claims that have been 'incurred but not yet reported'. A summary of the report is provided to the Chief Financial Officer and to the Audit 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 limited number of insurers prepared to offer cover.
- 5.1 The Council, in consultation with its Insurance Broker/Advisor will keep abreast of all options for alternative risk financing structures such as consortia purchasing or joint procurement, risk pooling, captive insurers or the formation of a mutual insurance company. The foregoing options would however only be considered where any such proposals provided an acceptable level of financial certainty and security and where a cost benefit case is proved to actuarial standards.

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 and highlighting any areas where significant changes to cover were made or where certain types of cover were not taken.

7. Benchmarking

- 7.0 The council will seek to compare both the structure and scope of its risk financing programme 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 and with any significant changes reported to the Audit Committee.

Risk Register Template

Appendix 3

RISK MATRIX							
LIKELIHOOD	Very High	A	Yellow	Red	Red	Red	Red
	High	B	Yellow	Yellow	Red	Red	Red
	Significant	C	Yellow	Yellow	Yellow	Red	Red
	Low	D	Green	Yellow	Yellow	Yellow	Red
	Very Low	E	Green	Green	Yellow	Yellow	Yellow
	Almost impossible	F	Green	Green	Green	Green	Green
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:											