ROYAL BOROUGH OF KENSINGTON AND CHELSEA

RISK MANAGEMENT STRATEGY

Updated September 2006

1. Introduction and Purpose

1.1 The Royal Borough wants to be confident that its policies, people and systems are fully effective in delivering the Council's aims and objectives.

1.2 Risk is an inevitable part of everyday business and cannot be eliminated - but it can be managed.

1.3 Risk has traditionally been defined as being the threat that an event or action will adversely affect the Council's ability to achieve its objectives. Increasingly, this is seen as too negative a view and a more appropriate view is that:

Risk arises both from failing to respond to business opportunities when pursuing strategic and operational objectives and from a threat that something bad will happen.

Risk is therefore the threat or opportunity that an action or event will adversely affect or fail to beneficially affect the Council's ability to meet its objectives and execute its strategies successfully.

1.4 Risk management is the planned and systematic approach to the identification, evaluation and economic management of the risks associated with its activities. It should be integrated into the Council's philosophy, day to day practices, and business plans rather than be viewed or practised as a disconnected exercise.

1.5 A key advantage of effective risk management is that a controlled environment allows greater risk to be taken for greater reward, which leads to benefits in the form of improvements to the efficiency and quality of service delivery, and potential cost savings. In essence risks should only be taken (and opportunities responded to) where they are supported by analysis and understanding of the potential consequences derived from taking such risks.

1.6 The Risk Management Strategy was updated in November 2004, confirming the Council's commitment to the management of risk and providing a framework for embedding a risk management culture. This document is intended to update and refresh the strategy to take account of changes both in the Council's structure and operation and in risk management best practice.

1.7   This Risk Management Strategy (the Strategy) forms part of the Council's corporate governance arrangements and:

- explains the Council's approach to risk management;
- outlines the main aspects of the risk management process;
- identifies the main reporting procedures;
- documents the roles and responsibilities of all parties involved in the process.

1.8   Risk management is also an everyday part of the Council's decision-making process. The Council's appetite expresses the acceptance level of risks in order to balance the best interests of the Council Tax payers. Being too risk averse could mean we resist change and that the organisation atrophies as the world moves on. Too large an appetite for risk and we jeopardise the high quality services and reputation that the Royal Borough currently enjoys. The strong financial standing and stable management that are attested in our external quality scores should give us confidence to take risks where these have been well considered and judged against the benefit they can yield. These are not judgements that can be prescribed in advance, but such judgements do need to be underpinned by a systematic process of risk assessment and risk management that informs business cases, key decisions and project management.

2   Approach to Risk Management

2.1   The following key principles underline the Council's approach to risk management:

- The Town Clerk and Chief Executive is ultimately accountable for the system of internal control and the management of risk across the whole of the Council. The Management Board (*MB*) provides advice and challenge to assist the Town Clerk and Chief Executive in discharging this accountability.
- There is an open and receptive approach by the MB to discussing and addressing risks and opportunities within the Council.
- The Risk Management Group (*RMG*) oversees the implementation of the Council's Risk Management Strategy and the operation of the risk management process. Executive Directors are responsible for the working processes and structure of the Business Group Management Team (BGMT) to suit the particular needs of the business group/department.
- Service Managers are responsible for risk management within their area of the service and for notifying their Business Group Risk Champion of new or emerging risks.

- Business Group Risk Champions are required to consider if the risk requires a response and if so to inform their BGMT, the RMG and MB where exposure to risk is of a material nature.
- Risk management is everyone's responsibility. All highlighted risks will be formally allocated to owners.
- Regular monitoring of key risks will take place by the RMG and the MB.
- The Audit Committee will review risk management processes to provide independent oversight for the Council of the adequacy of the system of internal control and the risk management across the Council.

3. Framework

3.1 The Council expects all significant threats and opportunities inherent to the Council's business to be identified, evaluated and cost effectively controlled, within acceptable levels of exposure, as part of the business management process.

3.2 The Strategy aims are to ensure consistency in the measurement, control, monitoring, follow-up and reporting of risk, based on the Council's appetite for risk, not that of individuals.

3.3 The Council's risks take various forms, including failure of services on which the public rely; risks in relation to partnerships; risk to the health, safety and welfare of staff and the public; risk of loss, abuse or inefficient use of public funds; risk to the value and character of public property; risk to the Authority's reputation and public confidence; risk to the quality and sustainability of the environment and risk to the economic well-being of the Council. Risk management should be integrated into all relevant management processes and the Royal Borough has chosen to adopt the categories of risk set out in Appendices A1 and A2.

4. Measuring Risk

4.1 Strategic and Operational Risks for all areas should be identified through risk identification workshops within each business group. The impact and likelihood for each risk are considered, before and after controls, and a 1 to 6 scoring mechanism is used to give a position on a 6 X 6 matrix with scores ranging from 1 to 36. To ensure consistent application, the Council has developed a Risk Management Template (Appendix D) and criteria for the impact and likelihood scores to be used (Appendices B and C).
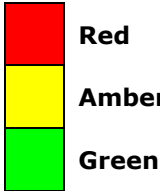
4. Risk Before and After Controls

5.1   In order to assess the effectiveness of controls (also known as risk management or mitigation strategies), risk is first scored before considering the operation of the Council's controls - this is termed the 'Inherent Risk Score'. For each risk, the controls in place are then identified and assessed and the risk score is generally reduced to arrive at the 'Residual Risk Score'. Further guidance is available in the 'Risk Management Guidance Document'.

5.2   The control should either reduce the likelihood that a risk will occur or the impact were it to occur. Residual risk is what remains after considering controls. Where the score after controls is still at an unacceptably high level, additional actions may be required in order to reduce the risk level further.

5.3   The Council's objective is to optimise controls, so that the most cost-effective controls are in place for each risk and the cost versus the benefit of the control is considered. This may mean that certain risks have a high residual score because the cost of reducing the risk still further is disproportionate to the potential cost if the risk actually happens.

5.   Monitoring Risks

6.1   Risk registers will be kept up to date through regular reviews by Business Managers and BGMTs, so that they consider changes in the risk profile of their own departments.

6.2   The RMG will review the risk registers on a regular basis, and the MB and Audit Committee will review the risk registers every six months. The update will consider new risks, changes to existing risks, changes to or additional controls, and changes to risk scores. Triggers for significant changes to risk registers will include new regulations, implementation of new projects, high staff turnover, changes in the external environment, risk events, and Internal Audit reviews.

Measuring and management of Risks

6.3 Using the framework above, a consistent methodology for measuring and scoring risks is applied throughout the Council. Together with the level at which they need to be managed. This can be read against the following scores shown on the table below:

Likelihood		Impact					
	6	6	12	18	24	30	36
	5	5	10	15	20	25	30
	4	4	8	12	16	20	24
	3	3	6	9	12	15	18
	2	2	4	6	8	10	12
	1	1	2	3	4	5	6
		1	2	3	4	5	6

- Red
- Amber
- Green

- A residual risk score of 9 or less is considered acceptable to the Council and will require no further action other than to ensure the relevant controls are operating effectively. Business Managers should however review the controls for low risk areas carefully to ensure there is not over control.
- A residual risk score of 10 to 23 will require the implementation of additional controls unless subject to RMG agreement and acceptance.
- A residual risk score of 24 or more will require the implementation of additional controls unless subject to MB and Audit Committee agreement and acceptance.
- Where the impact of risk is considered catastrophic (impact score of 6) and/or the likelihood is considered improbable (likelihood score of 1), these will be submitted to RMG for review and agreement.

6. Reporting Risks

7.1 The Management Board (MB) will each year approve the top risks, 'risk appetite' and reporting protocols as part of the annual planning process in October. This will entail confirming the size of risk – impact and likelihood guides (Appendices B and C) together with the risk appetite detailed above.

7.2 The MB will also be required to review and sign off the residual risk scores appearing in the red area on the risk matrix above in May, together with the draft statement on internal control, and in November each year. The Audit Committee will receive bi-annual reports on the adequacy of the policies and actions in place to manage those top issues with 'red' residual risk.

7.3 In order to provide the MB and Audit Committee with the necessary assurance, the RMG will review and sign off the residual risk scores appearing in the red and amber areas on the risk matrix above in January, April, July and October each year. These reviews will also form the basis of the assurance statements required to support the annual statement on internal control.[1]

8. Project Management

8.1 As an integral part of the Council's project methodology all new projects require a risk register to be prepared at the outset of the project. At the beginning of the project, the focus is on identifying the key risks and what controls should be put in place to mitigate these risks. As the controls have not yet been implemented, it is the 'Inherent Risk Score' that is the primary focus as this is effectively the residual risk to the Royal Borough. As the project progresses and controls are implemented, the residual risk score falls.

8.2 New projects change the Council's risk profile and it is important that the RMG is made aware of these projects before implementation or significant investment/ outlay has been made. It is expected that an inherent risk score of 30 or more will be approved by the MB and reported to the Audit Committee, as appropriate.

8.3 The use of an inherent risk score of 30 rather than 24 reflects the fact that risks are being looked at before controls. Any residual risk scores that are scored at 24 or greater at the time the project is implemented would require MB and Audit Committee review through the normal process.

9. Roles and Responsibilities Summary

The Town Clerk and Chief Executive

---

[1] This statement is a requirement of the Accounting and Audit Regulations

9.1 The Town Clerk and Chief Executive is ultimately responsible for the management of risks and the system of internal control across the Council's business.

9.2 In discharging this responsibility, the Town Clerk and Chief Executive is advised by the Audit Committee and MB (which is in turn advised by the RMG). To enable the Town Clerk and Chief Executive to sign off the annual statement on internal control, the Town Clerk and Chief Executive receives statements of assurance from Executive Directors, in relation to key risks and internal control within their sphere of responsibility, and from the Head of Internal Audit in relation to the whole system of internal controls within the Council's business.

9.3 Day-to-day management responsibility for implementation of the Council's risk management strategy is delegated to a nominated Executive Director who reports to the Town Clerk and Chief Executive on progress.

10. Role of the Members

10.1 Under the Constitution, the lead Member for Risk Management is the Cabinet Member for Finance and Property.

10.2 Members are responsible for reviewing the adequacy of the overall risk management strategy through the review of reports by the Audit Committee.

10.3 Cabinet Members should ensure that they are satisfied that Key Decisions made have been subject to appropriate formal risk assessment. They should satisfy themselves that risk registers for their areas of responsibility are maintained appropriately and that high-level risks are controlled accordingly.

10.4 Members assist the MB by bringing an independent perspective to the identification and management of the risk strategy and the delivery of objectives by ensuring good governance practice.

11. Role of the Audit Committee

11.1 The MB and the individual Business Groups are responsible for reporting to the Audit Committee on the assessment of the internal control system. The Audit Committee will receive reports from the RMG, the Head of Audit and the Risk and Insurance Manager on the management of key risks, the application of the risk management process throughout the Council. The Audit Committee will review current Key Strategic and Operational risks and risk control action plans on a regular basis.

12. Role of the Management Board

12.1 The MB is responsible for developing and overseeing the Council's risk management strategy, for identifying and evaluating strategic risks and designing, operating and monitoring a suitable system of internal control. In this role, the MB is supported by the RMG.

13. Role of the Risk Management Group

13.1 The RMG carries out a variety of functions:

- Act as a steering group to oversee the embedding of risk management into Council and Business Group/ Departmental policies and to be 'drivers' of the process.
- Provide an ongoing review of the risk management strategy for the Council.
- Take proactive measures to oversee the inclusion of risk management in the Council's improvement planning activities and Business Group Management Teams' agendas.
- Identify and profile the Councils' key strategic and generic risks and be responsible for setting up and maintaining the Council's Risk Register.
- Formulate action plans to deal with cross-departmental strategic and operational risks.
- Set up and provide training, advice and support to the BGMTs.
- Prepare regular progress reports to the MB.
- Ensure that all appropriate staff have risk management training and guidance.

14. Role of Executive Directors and Business Group/ Departmental Managers

14.1 Executive Directors are responsible for ensuring the proper management of risks within their business groups/ departments and, when requested, giving assurance to the Town Clerk and Chief Executive. Annual assurance statements are required to support the annual statement on internal control. Executive Directors are also responsible for cascading the implementation of the risk management strategy within their business groups/departments.

14.2 Business Group/Service Managers are responsible for identification of bottom up operational risks and self-assessment processes as an embedded feature of day-to-day business processes. They are required to provide assurances to their Executive Directors in order to allow them to provide the appropriate assurances to the Town Clerk and Chief Executive.

15.   Role of the Business Group Management Teams

15.1 The BGMTs will be responsible for implementing risk management techniques to embed risk management into their services.

16.   Role of the Head of Audit and Risk and Insurance Manager

16.1 The Head of Internal Audit and the Risk and Insurance Manager supports the Deputy Town Clerk in developing the risk management framework, including the Strategy within the Council and reports to the MB, Audit Committee and RMG on progress.   Detailed implementation is led by the RMG.

16.2 Internal Audit will undertake an independent review of the effectiveness of risk management and internal control and will report the results to the Audit Committee annually.

16.3 The Risk and Insurance Manager will support the risk management process by reporting to Management Board on the key risks identified by BGMTs as part of the annual planning process. The Risk and Insurance Manager will monitor the Corporate Risk Register and will provide reports and advice to the MB, RMG, Chief Officers, Business Group and Departmental Managers on the assessment of risk, design of controls to mitigate them and risk management activity generally.

17.   Role of Business Group Risk Champions

17.1 The Risk Champions nominated within each Business Group provide the following role:

- To facilitate the identification, assessment and prioritisation of business group risks, linking them to both the Corporate Objectives and Business Group Objectives
- To monitor and report on progress of Risk Management Action Plans and formally report to the Risk Management Group, Business Group Senior Management Team and Audit Committee.
- To take responsibility for regularly reviewing and updating the risk register (reappraise existing priorities, record new risks and remove historic risks).
- To provide advice and assistance to officers undertaking risk management assessments
- To facilitate the assignment of risk responsibility in the Business Group

- To identify and exchange information on emerging risks with RMG; and
- To identify risks to new projects/changes to service delivery, as appropriate.

Categories of Risk Appendix A1

The following categories of risk , while not exhaustive, provide a framework for identifying and categorising a broad range of risks the Royal Borough could face.

Strategic Risks		
Those risks relating to the achievement of the corporate objectives and service plans		
Risk	**Risk Definition**	**Examples**
Policy	Delivery of central/local policy or commitments	• Decisions based on incomplete/incorrect information • Too slow to modernise/ innovate • Community planning oversights/errors
Economic	Ability to meet Council's financial commitments	• UK/regional economic cycles • Missed business or service opportunities • Unreliable accounting records • Material misuse of resources or fraud • Cost of capital • Financial impact of uncontrollable legislative or other policy changes
Social	Ability to deliver objectives due to social factors	• Demographic change • Crime and disorder
Technological	Ability to optimise benefit from or capacity to cope with pace or scale of technology change	• Obsolescence • Inappropriate IT strategy • Inability to implement change • Major IT or project failure
Legislative Regulatory	Ability to manage current or potential changes in UK and/or EEC law/regulation	• Breaches • Inadequate response to legislative changes
Environmental	Risks relating to environmental consequences of pursuing strategic objectives. A lack of innovation in favour of tradition may squander opportunities	• Noise, contamination, pollution • Impact of planning and transport policies • Failure to buy low polluting vehicles in procurement • Failure to achieve best

	to reduce waste and pollution.	energy efficiency in new buildings
Competitive	Risks affecting cost, quality and/or ability to deliver best value	• Failed bids for government funds/grants • Failure to demonstrate best value • Weak market supply
Customer/Citizen	Ability to meet current/changing customer needs and expectations	• Lack of consultation • Image
Partnership	Ability to work successfully with another independent organisation to achieve common ambitions	• Divergent underlying goals • Cultural differences prevent effective communications • Levels of partner commitment

Operational Risks		
Those risks relating to the day-to-day operation of a service or support function		
Risk	**Impact**	**Examples**
People - Professional/Management	Risks associated with nature of each profession	• Poor management processes • Poor service provision
Legal	Risks related to decision-making, possible breaches of legislation and compliance with case law	• Breaches • Exposure to liability claims
Financial/Budgeting	Risks associated with financial planning and control and adequacy of internal funds	• Missed funding opportunities • Inadequate financial control • Fraud and error
Property/Physical Assets	Risks related to fire, security and health and safety (buildings, vehicles etc.)	• Loss of assets • Damage to assets • Non-compliance with Health and Safety legislation
Third party Suppliers	Risks associated with failure of partner organisation to meet contractual obligations	• Over-reliance on key suppliers • Quality issues • Failure of contractors to deliver services
Partnership	Risks arising from the need to act collaboratively with another independent organisation.	• Budget, staffing or reorganisation issues affect the commitment of one of the partners. • Incompatible management or IT systems frustrate successful collaboration
Reputation	Risks relating to the Council's reputation	• Loss of image • 'Serious' mistakes

		taken up by the press/media
Technological	Risks relating to reliance on IT equipment and/or machinery	• IT security breach • Lack of adequate Disaster Recovery arrangements
Information	Risks relating to loss /corruption of records	• IT system failure • Accidental or deliberate destruction • Erroneous or malicious modification

Size of Risk - Impact   **Appendix B**

Descriptor	Impact Guide
1. Insignificant	No regulatory consequence No impact outside single objective / local system No reputational damage or adverse publicity Financial loss up to £10,000
2. Minor	Minor regulatory consequence Some impact on other objectives, processes or systems Minor/limited reputational damage or internal adverse publicity Financial loss up to £50,000
3. Significant	Significant regulatory consequence Impact on many other objectives, processes or systems Significant reputational damage or local adverse publicity Financial loss up to £100,000
4. Serious	Substantial regulatory consequence Impact on strategic level objectives Serious/widespread reputational damage or national adverse publicity Financial loss up to £500,000
5. Major	Major/severe regulatory consequence Impact on strategic level objectives Major/severe reputational damage or national adverse publicity Central Government interest/administration Financial loss up to £1 million
6. Catastrophic	Catastrophic regulatory consequence Impact at strategic level Catastrophic reputational damage or national adverse publicity Central Government interest/administration Financial loss above £1 million Closure/transfer of business

Size of Risk - Likelihood   **Appendix C**

Descriptor	Likelihood Guide
1. Improbable	A once in a lifetime event
2. Remote	A once in ten years event
3. Occasional	A once in five years event
4. Probable	A once in two years event
5. Likely	Likely to occur annually
6. Will Occur	Definitely will happen in next 12 months

Risk Title and Full Description of Risk	The risk should not be an action
Risk Type	i.e. Economic, Reputation, Social, Technological, Legal
Corporate Aim/Objective	Link the risk to the corporate aim/objective and ask yourself 'How will this risk affect Corporate Objectives?' of Responding to residents, Really good services, Renewing the legacy
Service Objective	Link the risk to Service Objectives and ask yourself' How will this risk affect service objectives?' e.g. protecting vulnerable people etc.

Risk Owner **Date of initial Identification of Risk**	This should be a member of the senior management team.	**Risk Register Ref:**	Chris Robbins to advise

Inherent risk score		
Likelihood Catastrophic (6) Insignificant (1)	**Impact** Will Occur (6) Improbable (1)	**Total** **Likelihood x impact**

Present Risk Controls	Existing controls in place, which mitigate against the risk occurring. Consider the risk and identify what is in place currently to prevent the risk, ask yourself; will this help stop this risk happening? Ask the question; will this control actually help to stop this risk occurring? **Once these risks controls have been identified this is the time to re-evaluate the risk in terms of likelihood and impact.**
Confidence level on existing controls	**High / Medium / Low** Key High=Very Confident that controls are effective. Medium=Fairly Confident that controls are effective Low= Not confident that controls are effective

Residual risk score		
Likelihood Catastrophic (6) Insignificant (1)	**Impact** Will Occur (6) Improbable (1)	**Total** **Likelihood x impact**

Priority Action Ranking	Critical/Act Plan Housekeeping/Improve Monitor/ Accept Priority is determined from the residual risk score by using Likelihood x Impact matrix	

Additional Risk Control Actions Required	Target Date	Responsible Officer
List the actions required to mitigate the risk identified		

General Comments	

Decision	Control Risk, Retain Risk, Accept risk etc. Having reviewed the risk and controls a decision should be made as to whether or not the risk should be accepted with no action or if actions should be taken to reduce it.

Reviewed By (Executive Director)	I confirm that I am satisfied with progress in respect of the actions identified above.
Date of Review	Signed
Date of Next Review	

Please ensure a copy of this report is submitted to Chris Robbins.

Members
Hold Management Board accountable for risk management activity

Business Group Management Teams - (BGMT's) and Risk Champions
- Assess & prioritise risks (to Business Group Plans and objectives)
- Appoint a Risk Champion
- Monitor Progress of RM Action Plans and report to RMG.
- Regularly review and update the risk register (reappraise existing priorities, record new risks and remove historic risks)
- Inform & involve employees in the RM process.
- Facilitate the assignment of risk responsibility in the Business Group
- Identify and exchange information on emerging risks with RMG
- Identify risks to new projects/changes to service delivery etc.

Management Board (MB)
- Ensure that the Organisation manages risk effectively through corporate strategy
- Manage and review action taken in respect of strategic risks.
- Monitor and review reports prepared by the RMG in respect of Business Groups.

Risk Management Group (RMG), Risk Manager and Internal Audit
RMG to report to MB every six months including:
- Business Group reports on risk management
- Trends and coming events
- To champion Best Practice in the management of risk

Form sub groups for projects e.g. continuity planning, issue advice on common themes identified and liaise with external agencies and authorities

Risk Manager: to facilitate and monitor the risk management process, co-ordinate risk management training and the work of the RMG, maintain the corporate risk register

Risk owners/ Service Managers
Manage risk in particular service areas & report to BGMT

Employees
Liase with line manager to assess risks in their job
Undertake responsibilities within RM guidelines

1