Appendix 2a

RISK MANAGEMENT STRATEGY

Building ambition, Building Confidence, Building Resilience

INTRODUCTION

The management of risk is a crucial aspect of internal control and therefore a key element of good governance in any organisation. "Governance" is a well recognised term but an often misunderstood concept. Many people see it simply as the rules and controls in place within an organisation (sometimes perceived as barriers to activity) but it is in fact much broader; it encompasses the culture, leadership, values, systems, processes, controls and resources of an organisation and more importantly, how these are directed and managed to enable the organisation to achieve its objectives and defined outcomes. Far from being a barrier to getting things done, good governance is the key enabler for organisational success.

To be effective, any risk management process must create value by increasing the ability or likelihood of achieving aims and objectives. In the context of local government, robust risk management creates value through facilitating better decision making, more effective internal control, service improvement, change and innovation. To achieve this, however, the management of risk and the setting of controls must be directly linked to the priorities and objectives of the Council, integrated into all of our business processes and implemented consistently across the whole organisation.

Many organisations, across all sectors, make the mistake of treating risk management as a compliance driven, stand-alone function; perceived as "centrally" owned and somewhat detached from day to day operations. This approach undermines the ability of these organisations to derive the most value from the risk management processes. Risk reporting and monitoring becomes too resource intensive and complex and as a result the organisation has no comprehensive oversight of its risks. In many organisations the process of risk reporting and monitoring ends up being the output as opposed to the means to an end; that end being increasing the likelihood of the organisation achieving its objectives

Whilst the language around risk may be technical at times, integrated risk management as a concept is relatively straightforward and highly effective, if applied consistently and at every level throughout the organisation. Key to effective integrated risk management is the direct link of the controls to the objectives (as illustrated in the figure below). In summary;-

- What is it that you are trying to achieve? (business objective)
- What is likely to prevent or hinder you from achieving that objective? (key risks)
- In those circumstances what do you need the control to do to help eliminate or mitigate the risk? (the control objective)
- Develop, test, monitor and review the control to ensure that it is effective (Key Control)

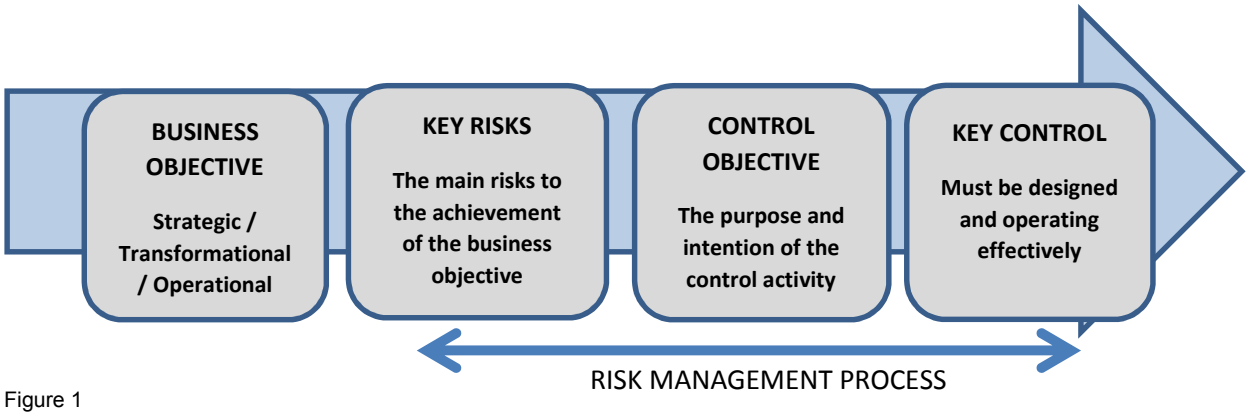


Figure 1

The integration of risk management with our business planning and performance management processes will ensure that the Council is best placed to identify emerging risk, manage and mitigate threats and exploit opportunities for change and growth. We must ensure that our risk vision, culture, appetite, governance and resources are aligned to the achievement of our objectives and support better risk intelligent decision making.

OUR RISK MANAGEMENT VISION

To be a risk intelligent Council where risk management is fully integrated into our decision making and business processes, enabling the Council to deliver more cost efficient and effective services, be innovative and enterprising, and to continuously improve.

OUR RISK CULTURE

We know that to be effective, process must follow culture. Changing our risk management processes and procedures will not create and deliver value to our organisation if our organisational culture remains static. Public sector bodies have traditionally had a culture of avoiding risk. In these changing and challenging times, however, Perth & Kinross Council and our public sector partners must become more risk intelligent in our approach to managing uncertainty, to enable us to exploit opportunities and maximise potential benefits, as opposed to being solely focussed on minimising potential threats.

If we are to continue to be successful, we must recognise that risk taking is not only inevitable but necessary. As an organisation we must also accept that some mistakes may be made along the way and acknowledge that a “blame culture” will stifle change and innovation and thereby hinder or derail any progress.

We understand that the tone set at the top is crucial to successfully developing a risk intelligent environment. At political and strategic level therefore we advocate proactive risk management throughout the whole Council.

We want to create an authorising environment where our elected members and staff understand the value of risk management and are supported to make appropriate risk based decisions and to take personal responsibility for the management of risk at every level. Key business risks will be monitored at the highest level but we will also be continuously reviewing the effectiveness of our risk management processes; responding positively to challenge and learning from mistakes.

We appreciate that developing a more risk intelligent culture takes time and will require meaningful changes to be made to our established ways of operating.

What does a risk intelligent organisation look like?

A risk intelligent organisation does not seek to eliminate risk, or even to minimise it in all cases. Instead it seeks to manage risk exposure across all parts of the organisation, so that, at any given time, it is incurring just enough of the right kind of risk to effectively pursue its goals and objectives.

A risk intelligent organisation:-

- understands that risk management must be integrated into core business processes
- assumes turbulence is inevitable and emphasises prevention and preparedness to improve organisational resilience and agility
- is vigilant for a broad range of opportunities and risks across the whole organisation
- acknowledges the need for specialist controls in some business areas, but where possible seeks to harmonise, synchronise and rationalise risk management and controls
- considers interactions among multiple risks as opposed to focussing on a single risk or event, and considers the combined impact
- creates a common risk language within the organisation so that there is a consistent method and approach to identifying, evaluating, monitoring and reporting risk across the whole Council
- encourages informed risk taking for value creation, rather than focussing on pure risk avoidance

To establish ourselves as a risk intelligent council therefore we must ensure that:-

- everyone understands the Council's approach to risk; its values, appetite and processes
- elected members and staff have the necessary knowledge and tools to enable them to make good risk-based decisions and manage risk appropriately and effectively, in their day to day activities
- we adopt and apply our risk management approach consistently across all business activities of the Council from strategic planning, to day to day operational service delivery
- within the Council we are all comfortable acknowledging and talking openly about risk and that we develop a common risk vocabulary that promotes shared understanding
- we all understand and promote the value that effective risk management can bring to the organisation
- we all take personal responsibility and recognise when we need to involve others
- we create a safe environment for individuals to constructively challenge others in respect of risk, including those in authority, without fear and retribution and we respond positively
- we are a learning Council, continuously seeking to improve our collective understanding of risk management, learning from our mistakes

OUR RISK CONTEXT

Perth & Kinross Council is a complex business, delivering a broad range of services to the community. As a public body it is highly regulated and accountable for its performance to a wide range of stakeholders and the community.

Despite significant financial constraints and a rapidly changing public sector landscape, the Council is under pressure not only to sustain current service delivery, but to meet ever increasing demand pressures, improve our performance, and deliver best value for our community. To simply remain sustainable we need to take a more entrepreneurial approach to how we do business. We must seek out and develop new and innovative ways to deliver their services, through partnerships and increased collaboration with the public private and third sectors. With enterprise, innovation and collaboration, however, comes additional uncertainty which will create a new and very different risk landscape for public authorities. The need for effective risk management within the Council, therefore, has never been more crucial.

This Risk Management Strategy sets out the Council's approach to risk management. It does not identify what our risks are or state how these should be managed as risk management should be a fluid and iterative process. Instead it sets the tone and direction for the organisation and provides the blueprint for how our risk management vision and objectives can be realised.

Our approach to risk management will be determined by our own risk environment; it is important that we understand our local context and the internal and external factors that shape or influence our risk environment.

- Internal factors include our culture, standards and values, our resources and capabilities, our governance arrangements, our internal stakeholders, contract, commissioning and partnership arrangements, our strategic aims and objectives.

- External factors include decreasing budgets, a rapidly changing policy environment, increasing pressure on public services, an ambitious national public sector reform agenda, challenging national targets and outcomes and a legislative drive towards empowering communities to have more influence and control on decision making and the delivery of local public services.

These factors need to be known, understood and evaluated before we can manage risk effectively within the organisation.

OUR RISK APPETITE

Knowing and understanding our risk appetite is crucial to the effectiveness of our risk management process. Risk appetite is the amount of risk that an organisation is willing to accept in pursuit of its objectives. Organisations will have different risk appetites depending on their sector and risk culture and even within each organisation, a range of appetites exist for different risks which may change over time. As risk is such a dynamic thing, it is impossible to make a definitive appetite statement. The impact of uncertainty can vary widely depending upon specific circumstances at any given time.

Our Risk Appetite Statement provides stakeholders with an understanding of the parameters within which Perth & Kinross Council will tolerate certain key business risks. It is designed to guide and support elected members and staff to make better risk based decisions in their day to day activities to enable the Council to achieve its goals and support sustainability. A more detailed Risk Factor Impact Table which helps determine appetite is contained within the Risk Management Toolkit.

OUR APPROACH

Risk management standard

The approach is based on best practice industry standards including the International Standard in Risk Management – ISO: 31000 and the Office of Governance & Commerce (OCG) Management of Risk Guidance (MoR) and the Association of Local Authority Risk Managers, (ALARM). More information about the standard is contained within the Risk Management Toolkit.

Risk categories

Local Government is a complex business presenting a wide and diverse range of opportunities and threats to the achievement of our objectives. Our approach categorises risks which the Council must manage as:

1. **Strategic:** risks which potentially impact upon the Council's ability to achieve its corporate objectives

2. **Transformational:** those risks related to programmes of change and specific projects

3. **Operational:** risks which impact upon the Service's ability to deliver its services and support functions

Risk factors

Whilst we have 3 broad categories of risk to consider, the factors which impact upon these are wide ranging and diverse. Threats and opportunities to our strategic, transformational and operational objectives can emerge from a number of areas. Similarly the consequential risks can impact a number of areas.

Whilst this list is not exhaustive, for the purposes of our Risk Management Framework, our most common risk factors relate to:-

- **Human Resource**
- **Legislation & Compliance**
- **Finance**
- **Information Technology & Security**
- **Reputation & Public Image**

Other risk factors include:

- **Property & Assets**
- **Environment**
- **Partnership & Collaboration**
- **Contract & Procurement**

These risk factors and how we assess their potential impact are explained in more detail in the Risk Appetite statement.

Risk management process

The Risk Management Process is a core component of the Risk Management Framework. It provides a structured approach to the identification, evaluation and management of risk at every level within the organisation. It enables the Council to prioritise risks in a consistent manner based on an impact/likelihood matrix analysis. By taking an integrated, organisation wide approach to the management of risk, the Council will be better placed to realise potential benefits and achieve greater value from the risk management process as a key driver in service performance and improvement.

There are seven elements in the Risk Management Process

1. **Establish the context**
2. **Risk Identification**
3. **Risk Analysis**
4. **Risk Evaluation**
5 **Risk Treatment**
6 **Monitor and Review**
7 **Communication & Consultation**

Each of the elements are described in detail in the Risk Management Toolkit. The Risk Management Process as a whole is illustrated at Figure 2 below

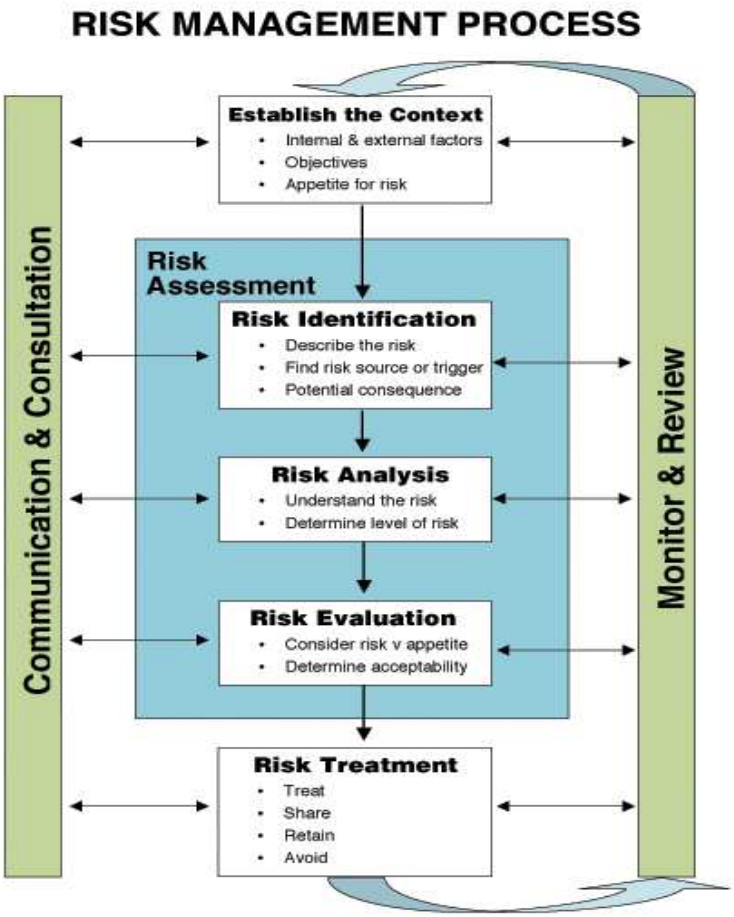


Figure 2

If Perth & Kinross Council is to derive real value from its risk management process then it must be a fluid and ongoing process, implemented by people at every level of the organisation. It is important that we have sight of our risks both vertically and horizontally across the organisation as a whole. This organisation wide approach to risk management ensures that our risk resources and capabilities can be deployed to maximum effect and aligned to the Council's strategic aims.

The Risk Management Framework should be used proactively to identify threats and opportunities to the achievement of our corporate and community objectives. It should be an intrinsic part of our business planning and performance management processes at strategic, operational and interagency level. Risk management is dynamic therefore it cannot be a 6 monthly or annual stand-alone process for the purposes of reporting; it must be embedded into our day to day business activities.

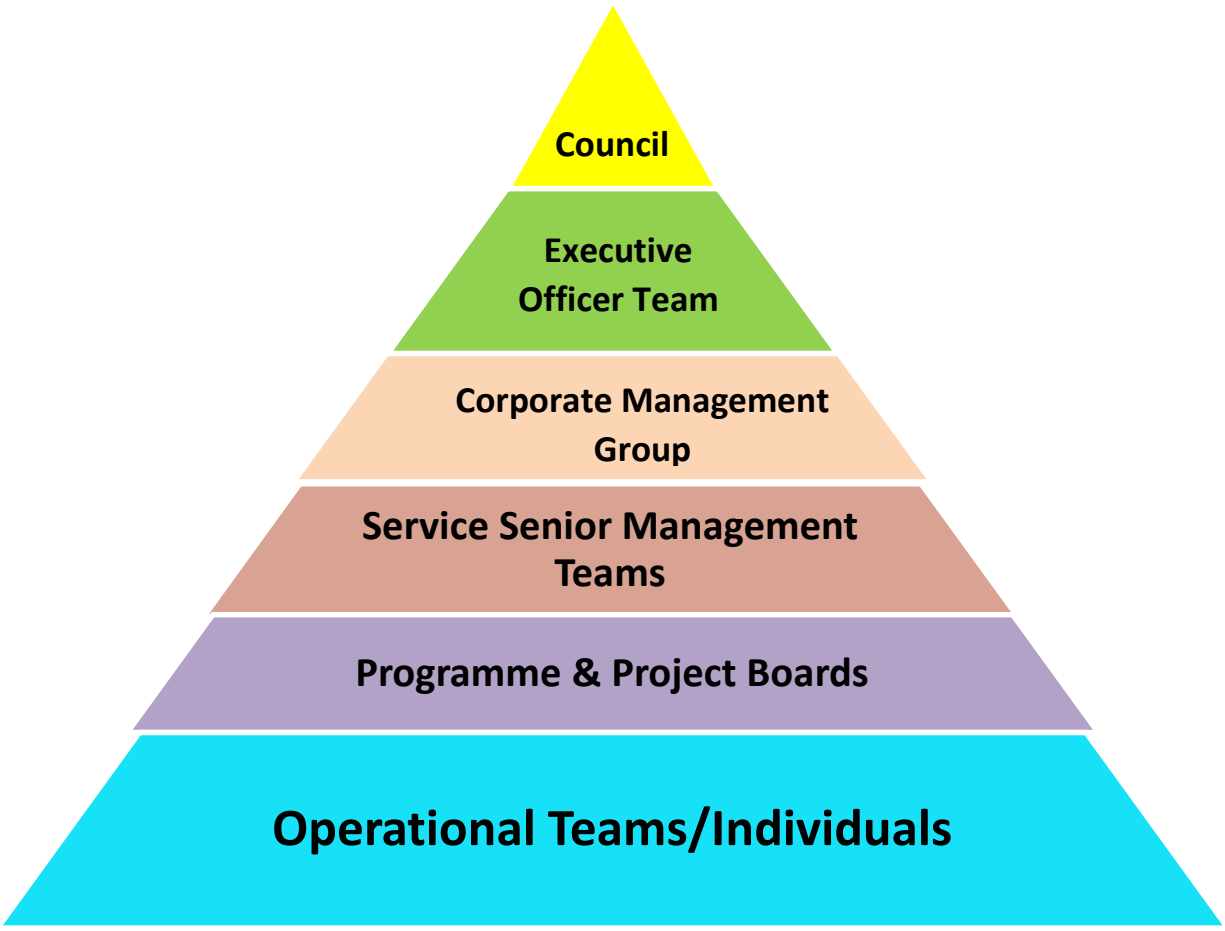
The purpose of Risk Management is to eliminate the barriers to our success. If risk management is to be a true enabler of improved organisational performance, it is vital that individuals recognise that risk management is a means to that end – and the process is not an end in itself.

OUR RISK GOVERNANCE STRUCTURES

While it is important to ensure that the Council is '*doing risk management right'*, it is equally important to '*do the right risk management'*. This includes having processes in place so that the appropriate levels of management have oversight of the different levels of risk across the department. The risk hierarchy defines accountability for identifying, treating, monitoring, communicating and managing risks throughout the organisation.

It is vital that risk is managed effectively at every level of the organisation. This means that risk must be fully integrated into our business processes and system to ensure that risk is being identified, managed and reported at each level. Accountability for risk will depend upon the nature of the risks.

The Council's integrated business planning system cascades from the Community Plan and Corporate Plan through to Service and programme plans, operational team and project plans, and then distilled into individual performance and development plans. The planning cycle provides an opportunity for the Corporate Management Group and Service Management Teams to undertake analysis regarding emerging or known risks that may impact on their purpose and objectives.



Strategic Risk: May have a positive or negative effect on achieving the Council's strategic objectives.

Transformational Risk: May have a positive or negative effect on the ability of the Council or the Service to deliver its programme or project objectives

Operational Risk: May have a positive or negative effect on the ability of the Service to deliver its operational objectives.

Priority 1 EXTREME	Priority 2 HIGH	Priority 3 MANAGEABLE	Priority 4 ACCEPTABLE
Risk remains extreme or high even after all identified controls and treatments have been applied	Risk is high after controls have been applied, but can be reduced with further treatments	Appropriate controls keep the risk medium	Appropriate controls keep the risk low / negligible

Risk hierarchy

- **The Council** agrees the Risk Management Framework comprising the Risk Management Policy, Strategy and Appetite statement for the organisation, and with the Executive Officer Team (EOT) it champions the risk management principles, establishes the risk appetite and sets the tone for how risk will be managed across the whole organisation.

- **The Executive Officer Team is** responsible for implementing the Risk Management Framework at strategic level, reviews risk evaluation against organisational risk appetite and ensures that risk management is integrated into the Council's business processes and practices. The EOT manages Priority 1 Strategic Risks and monitors any other high priority risks which have been escalated to it by the Corporate Management Group (CMG) in accordance with the Risk Management Framework

- **The Corporate Management Group (CMG)** manage strategic risks and monitor Priority 1 & 2 transformational risks and those operational risks which have a cross service impact or potentially impact upon the delivery of strategic objectives. The CMG ensures that the Risk Management Framework is implemented and integrated into operational business practice across the organisation. The CMG will escalate Priority 1 Strategic Risks to the EOT, and the CMG can also escalate high priority Transformational or Operational Risks which may impact upon the delivery of the Council's strategic objectives.

- **Service Senior Management Teams** implement the risk management framework and integrate effective risk management into their business processes and practices. They ensure that risks are identified against the delivery of strategic and operational objectives, and are the key lever for the escalation of risks to the CMG if they can no longer be effectively managed within the service or present a wider organisational or strategic risk. They also monitor high priority transformational risks which impact upon their business areas.

- **Programme & Project Boards** manage all risks associated with the delivery of change programmes or specific projects. Ensure that Priority 1 & 2 risks are escalated to :-

    - the CMG if they have an impact upon the delivery of a strategic objective or if they potentially impact upon the operational objectives of more than one Service; or

    - The Service Senior Management Teams if they will impact upon operational targets or objectives for that Service.

- **Operational teams** are responsible for ensuring that the risk management framework is implemented at operational level. They are responsible for the management of the day to day risks associated with delivery of the service or support function. They provide reasonable assurance to Senior Management Teams that the main tactical and operational risks arising from service operations are identified, assessed, managed and monitored. They ensure that Priority 1 & 2 operational risks are escalated to the Service Senior Management Teams for monitoring and review.

- All individuals within the organisation are responsible for complying with the Council's risk management framework and ensuring that they undertake training appropriate to the level of risk that they are managing.

OUR RISK ASSURANCE FRAMEWORK

Our risk hierarchy is designed to ensure that our risks are effectively managed and monitored internally throughout the organisation.

As risk management is an integral part of the Council's internal control system and governance framework, however, we must also be able to provide assurance as to the effectiveness of our risk management process to external stakeholders.

The risk assurance framework can be thought of as "lines of defence" in terms of mitigating and managing risks.

- **The first line of defence in** any organisation is the risk culture. The tone that we set at the top will be the foundation for good risk management. We must all communicate our risk approach and values consistently across the Council at every level and reinforce this by our actions and behaviours.

- **The second line of defence** are the management teams/ programme boards/ projects teams who own the risks ("process owners") and are responsible and accountable for the identification and management of the risks within their areas.

- **The third line of defence** are those with oversight responsibility – this will be the Senior Management Teams / Corporate Management Group / Executive Officer Team depending upon the nature and level of the particular risks.

- **The fourth line of defence** comes from the Council's corporate control and compliance functions such as Finance, Legal, HR, Corporate Risk, Procurement, Information Technology, Information Security & Compliance, and Health & Safety. These functions must collaborate with process owners to develop and monitor controls to mitigate identified risks. They also play a key role in independently evaluating risk and alerting management to emerging risks.

- **The fifth line of defence** are our internal and external audit functions which review controls and management procedures, identify issues and improvement opportunities and evaluate the overall design and effectiveness of the Council's internal control processes.

- **The final line of defence** is the Council's Audit & Scrutiny Committees. The Audit Committee oversees the Council's risk management activities and the effectiveness of the internal controls. The Scrutiny Committee ensures that the risk management framework is aligned to the Council's objectives and supports continuous improvement in risk performance.

OUR COMMITMENT TO CONTINUOUS IMPROVEMENT

We are looking for our risk maturity to develop and grow. We recognise the importance of learning from mistakes and ensuring that our risk management framework remains vital and dynamic to meet the challenges of 21st Century local government. We will regularly monitor and review our risk management processes to ensure that:

- it remains relevant and fit for purpose as our internal and external context changes
- it is effective in mitigating threats and maximising benefits to our organisation and the community
- our risk criteria remain relevant is a rapidly changing public sector landscape
- as an organisation we can capture learning from our risk management activities
- we are achieving our expected risk management outcomes

More detailed processes for monitoring, reviewing and assessing our risk management maturity are detailed in the Risk Management Toolkit.