



MIDLOTHIAN COUNCIL

**RISK MANAGEMENT
GUIDANCE FOR ELECTED
MEMBERS**

January 2013

CONTENTS

CONTENTS

1. Purpose of this Guide
2. Background
3. Role of Elected Members in Risk Management
4. Our officer risk specialists
5. Basics of Risk Management in a Local Authority
6. Where we are now as a 'Risk Aware/Risk Managed' Local Authority
7. Cabinet Members – Risk Guide
8. Performance and Scrutiny Committee Members – Risk Guide
9. Audit Committee Members – Risk Guide
10. Elected Members on Arms Length Bodies – Risk Guide

Version Control

1	April 2004	Initial setting up of the guide
2	May 2006	Adjusted to take account of changes to post holders
3	September 2008	Minor changes
4	November 2011	Minor changes
5	January 2013	Guide shortened and refocused

Policy Statement

Elected Members of Midlothian Council are encouraged to read this brief guide as it will focus attention on their risk management responsibilities.

As Midlothian Council transforms and improves services from constrained budgets, it is essential that Elected Members, whatever their role within the Council, are fully briefed in their risk management responsibilities.

Proper control of risk within Midlothian Council makes it a more efficient and mature Local Authority. In this guide, we give you a quick run through of the basics and essentials.

Cabinet is to approve a revised Risk Management Policy at its meeting in February 2013, along with a mid-year risk management performance report and a Risk Control Programme for 2013/14.

The drivers behind local authority risk management are many but include:-

- **Local Government (In Scotland) Act 2003 and its associated best value guidance;**
- **We can see the benefits and want to do it;**
- **We are doing it anyway so let's demonstrate it properly;**
- **Government inspection bodies expectation.**

Local authority risk management is little different to risk managing your own house – insurance, repairs and maintenance, smoke alarms, pets controlled, wind and watertight, proper security, pay mortgage or rent on time. If suitable controls are in place, then you have a safer and secure home.

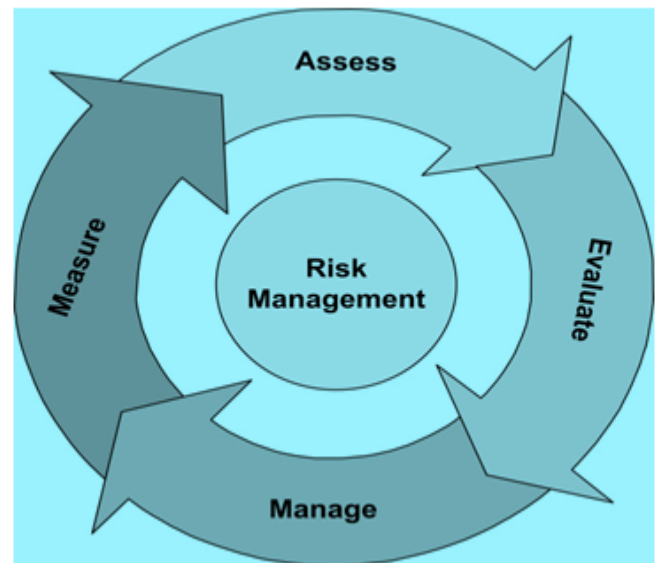
1. PURPOSE OF THIS GUIDE

The purpose of this guide is to give you, Elected Members:-

1. An insight into Risk Management in a typical Local Authority and its organisation here;
2. Confidence in your promotion of Risk Management principles;
3. Confidence that officials, on your behalf, are controlling risk and opportunities properly; and
4. A guide on your specific roles in Risk Management within the Council.

In law, Risk Management has to be systematic, demonstrable and overt, and it is a constant cycle of assessment, evaluation, management and measurement.

This guide provides you, our Elected Members, with the basics in Risk Management. It is also a useful reference-document for officials, as you work together with them in spotting and then controlling risk.



The above diagram can be found in any best practice and national standard on risk management. It applies to both the private and public sectors.

2. BACKGROUND

Best Value

Before the statutory duties of 'Best Value and Community Planning' came along in 2003/04, the management of risk largely relied on a solid health and safety regime (to protect members of staff and the public) and insurance (to damage limit the impact of an event and transfer the risk). This was referred to as 'traditional' risk management and was mainly a reactive approach. It was assumed that every manager in the Council, whatever their role, were managing risk. Risk management of course is strongly linked to management.

'Best Value' legislation brought a whole new dimension and introduced an 'up front' approach, one of pro-action, minimising risk wherever possible before it happens and in certain circumstances taking risk in a controlled manner. The now famous text from the Government guidance said that '*a Council that does not take risk is unlikely to achieve best value*'.

Best value guidance stipulates that we must embed a systematic, demonstrable and holistic approach to the management of risk and focus on two things, basically to ensure that:-

- (a) the Council's aims and objectives are not impeded. This includes the proper protection of assets and their use to their full potential; and
- (b) the Council grasps all opportunities in a controlled way and takes risks (Councils should aspire to be 'innovative' and 'enabling')

This new approach is referred to as 'Enterprise Risk Management (ERM)', focusing on every major risk area in the Council and seeing where we can take risk to achieve improvement and advance the well-being of the area.

You will see that risk management is embedded into:-

- The work of the statutory Community Planning Partnership;
- The Single Outcome Agreement and the Midlothian Single Plan;
- All operational services;
- All major construction projects;
- All major computer projects;
- The Business Transformation Programme;
- All matters of a corporate and strategic nature;
- Health and Safety in terms of 'prevention'; and
- Emergency Planning and Business Continuity in terms of 'prevention' and 'damage limitation'



Therefore effective risk management requires discussion and time dedicated to it, which is what

we do in various shapes and forms.

Corporate Governance

Best Value legislation wasn't the only driver for change.

As a result of financial scandals in the 1980s and 1990s (Barlow Clowes; Maxwell; Enron USA; BCCI Bank and Barings Bank), a series of reports (Cadbury 1992; Hempel 1998; Turnbull 1999) recommended that Corporate Governance, of which risk management is an integral part, be introduced in large private sector organisations.

In all of the instances referred to above, top management had unfettered power to make (adverse) decisions (Maxwell being one good example) and in some cases like Barings Bank top management allowed an employee to take actions without proper controls being in place. In the case of the BCCI Bank causing problems for some UK Councils, the

this led nationally to all UK Councils now following a Standard Code of Practice on Treasury Management. 'Governance' became, and is now widely accepted, as an essential buzz word. Activities in the banking sector of recent times, genuinely raised concerns about governance and risk management. **The message has become relatively simple:-**

Poor governance = uncontrolled risk

Good governance = controlled risk

Following reports from the Audit Commission of England and Wales ('Worth the Risk') and the Accounts Commission for Scotland ('Shorten the Odds') this expectation (of better governance) was extended to the public sector. The Society of Local Authority Chief Executives (SOLACE) and the Chartered Institute of Public Finance and Accountancy (CIPFA) recognised the importance and relevance of risk management to Governance and the Modernising Agenda. Authorities were required to develop a Code of Corporate Governance and make annual statements on compliance and include risk management within that Code. Risk management is one of the areas assessed by External Audit in Annual Reports and Best Value inspections.

Therefore Midlothian Council has a **Code of Corporate Governance** which can be viewed on the Council's website and makes an **Annual Governance Statement** and attaches it to the published accounts.

External Audit has to agree the Annual Governance Statement, and can suggest changes. In recent years, External Audit has indicated that it is satisfied that Midlothian Council's assurance system is able to identify any governance and risk management weaknesses and report and rectify these accordingly.

The Council's Code of Corporate Governance is currently being updated.

Risk Awareness, Identification and Control



The above illustration can be a meeting, called a **Risk Workshop**, where risks are identified, registered, evaluated and discussed. Midlothian has a lengthy history of risk workshops which has helped install risk management as a permanent feature.

Over the years, risk workshops have been very helpful and have included:-

2004 – Chief Executive and Directors identifying and registering Strategic Risks;

2004 – Initial Risk Assessment of the Social Housing Programme

2005 - Library Services, analysing the risk of lack of investment in book stocks, which led to extra investment

2006 – Risk Workshop with consultants to analyse the merits of Sport and Leisure Services being converted into a Trust.

2006 – Risk workshops in preparation for the Planning and Housing Acts, major pieces of legislation.

2007 – Project risk workshop in preparation for the installation of the Framework computer system to control case management in Community Care and Children and Families

2008 – Risk workshop to discuss security and safety of staff in Council reception areas

2010 – Risk discussion with Chief Executive to realign the Corporate Risk Register

2010 – Risk Workshop to analyse the implications of the Bribery Act and how it should be installed in the Council's culture.

2010 – New Heads of Service appointed and Risk Workshops held with them to refocus their operational and service risks. Quarterly meetings held to discuss these risks.

These workshops are ongoing and one recent example (2012) has been the risk assessment into the challenging Welfare Reform Bill.

You, as Elected Members, are generally not involved in risk workshops or risk assessment but you should be aware that such events are taking place. You should also ask about them.

Risk workshops, risk discussions and the work of the Council's Risk Management Group are generally productive in being able to 'bottom-out' all risk exposures and identify controls and actions. Part of this process is to identify and evaluate risk within new or existing policy.

Benefits of Effective Risk Management

1 – Security of the assets of the organisation.

2 – Security of well being of employees and service users.

3 – Protecting the reputation and image of the organisation.

4- Preventing litigation and criminal prosecution.

5- Preventing corruption, fraud and financial losses.

6 – Minimising the overall cost of the risk to the organisation.

7- Protecting the quality and service delivery.

8 – Managing organisational, political and technological changes.

9 – Ensuring the integrity of the organisation.

10 – Ensuring sound ethical conduct and probity



Therefore the Council, when making policy, making decisions, running services, managing projects, controlling finances is not 'throwing the dice'. All these matters are controlled, within the finite resources available to the Council. This is risk management at work.

3. ROLE OF ELECTED MEMBERS IN RISK MANAGEMENT

You, the Elected Members of the Council, have the ultimate authority over the strategic and business affairs of Midlothian Council. You approve the mechanisms to demonstrate the statutory duty of Best Value; you approve budgets, approve the Council Tax, House Rents and Fees and Charges levels and approve aims and priorities in support of your political manifesto and Government direction.

Therefore, you as Elected Members, have ultimate responsibility over the management of risk and this means that like everyone else involved with Midlothian's business affairs, you should be risk aware.

In sections 7-10 there is guidance for your specific roles.



The typical Elected Member role is to put the Council's risk management firmly under the microscope.

Why?

Because you are ultimately responsible for it.

4. OUR OFFICER RISK SPECIALISTS

This section gives you information on who, apart from yourselves and Senior Management, are the key players in the management of risk, notwithstanding that all our employees should be risk aware.

Whilst not joined up within one team, the Council's specialists in risk work very closely and often liaise on a daily basis:-

- Risk Management Facilitation and Coordination
- Internal Audit
- Health and Safety and Employee Well-Being
- Insurance
- Contingency Planning (Emergency Planning and Business Continuity Management)
- Monitoring Officer, the Head of Customer Services
- Section 95 (Chief Financial Officer) who is the Head of Finance and Human Resources,
- Information Security and Data Custody

All these disciplines are represented at the Council's Risk Management Group, which meets every six weeks.

The External Auditor, currently Grant Thornton LLP, and Audit Scotland, through the Local Area Network and Shared Risk Assessment, have a locus over the management of risk within the Council.

Officers looking after vulnerable clients, or dealing with criminal matters, apply the technique of risk assessment on a daily basis.

Elected Members need to be confident that the above, and other officials, are managing risk well.



Any of the disciplines mentioned above can be contacted for assurance on the risk management work being carried out.

While not risk management specialists as such, the Executive Officer and Programme Manager on the Business Transformation Programme have a major task in controlling risk in the Business Transformation Programme and Elected Members on the Business Transformation Steering Committee have a major task in interpreting any major risk issues presented to them.

Moreover, each Head of Service has an operational risk register, and also some project risk registers, to control and they are obliged to review these every quarter, projecting when risks can be lowered to an acceptable risk tolerance.

The Corporate Management Team bi-monthly is presented with the Corporate Risk Register containing about twelve risks that are generic across the Council.

The Community Planning Working Group also controls a community planning risk register.

Risks scored high are automatically reported during quarterly performance reporting. This entails scrutiny by Heads of Service, Directors, the Chief Executive and you, the Elected Members.

5. BASICS OF RISK MANAGEMENT IN A LOCAL AUTHORITY

Risk Assessment

This is applied to every operational service, every corporate risk, every theme (eg data protection) and every major project.

Risk Assessment hinges on two variables – Likelihood and Impact. In other words, how likely is an event going to happen, and if it did happen what would be the impact?

Impact

Critical			
Major	x x	x x	x x
Moderate	x x x		x
Minor		x x	x
Insignificant			
	Low	Medium	High

Likelihood

The above grid, whilst a hypothetical example, could be a risk scenario faced by any Service Manager and therefore, in accordance with the Council's risk performance system, the Manager, Head of Service and Director should be taking steps to reduce risk exposure further. In other words several risks are on the right hand side of the grid and require attention.

Divisions have more detailed guidelines to follow in scoring risks consistently and the Risk Manager does 'the rounds' to monitor consistency. Elected Members will appreciate that if all levels of Management are managing risks successfully then we are in a stronger position to demonstrate best value and avoid any setbacks.

If there is residual risk left after all existing control measures are put in place we have decisions to make:-

Whether to:-

- Accept the risk and carry it (eg the risk of serious weather damage to a building is low but the impact would be critically high. In essence this comes out as a medium score but there is not a lot we can do to prevent it. The risk is therefore accepted and 'carried', relying on insurance cover, and better weather);
- Transfer it to another party; for example with insurance and PPP Schools' contractors;
- Treat it with EXTRA control measures, especially in potential 'hotspots'; or
- Avoid it altogether

Multi-Service Local Authority

If we were an oil company we would probably concentrate on risks in relation to trial drilling, drilling, refineries, production, health and safety, environmental pollution, competition and sales. If we were a food chain we would concentrate on quality, hygiene, supply chains, competition.

A Local Authority is different. At the last count we had over 70 separate services to run and the vast majority of these services are not subject to competition but carry generic and service-specific risks. The collection of refuse is totally different to the collection of Council Tax (yet they both 'collect') and this is an illustration that all services have a range of different risks. At the last count in the risk computer system, we had over 300 risks registered, the vast majority controlled.

Nevertheless, despite our authority being multi disciplined with a lot of different risks, we have methodically given all levels of Management

training in risk assessment, risk management and the risk management framework so that all officers are risk aware.

To finish this section of the guide we are referring Elected Members to a few miscellaneous topics.

Risk Register

A risk register for a service, a theme or a project is the best way to review risk exposure and risk registers have become an important management tool and a barometer of risk. Blue is excellent, green is good, yellow is 'county average' and red is dangerous.

Internal Control

This is the day to day control measure regime that maintains accuracy, correctness, stewardship and accountability. It includes authorisation of important documents, internal check, segregation of duties, review of management information and exception reporting. We have an e-learning solution by the name of MILO – Internal Control and officers are obliged to embrace it.

Insurance

Having decided that we cannot carry the loss of a school due to fire, losing an expensive recycling vehicle in an accident, a pedestrian being seriously affected by our machinery, vehicles and staff, an employee lodging an expensive liability claim against us, we have insurance policies for these events.

We also have insurance for school trips

Our main insurers across the liability exposure are Zurich Municipal, Traveler's, RMG and Royal Sun Alliance.

Our insurance brokers are Willis UK

Insurance is a risk transfer concept and can only ever be a 'back up', 'damage limitation' control measure. Risk management attempts to 'prevent' incidents that could lead to expensive insurance claims.

Business Continuity Management (BCM)

New Elected Members will learn about the Civil Contingencies Act and how we are obligated in law to risk assess our services and ensure that they could be applied swiftly in a community emergency or be recovered quickly in a Midlothian Council incident (eg loss of a building due to fire).

Having 'lost' a wing to fire at Lasswade High School in 2006, along with other Councils, we have 'experience', and our BCM is becoming more sophisticated to combat the main risks which are:-

- Loss of buildings
- Loss of staff eg Pandemic flu
- Loss of computer networks and systems
- Loss of supply chains

The Contingency Planning Group, chaired by the Director, Corporate Resources, is leading on BCM as we improve our approaches to both 'prevention' and 'damage limitation'

'Downside' Risk

Commonly referred to as 'battening down the hatches' this is a major ingredient in risk management. If we have a risk, we wish to control the 'downside' of any likelihood and impact. For example, for the risk of employees not being paid on time, we have strong control measures in place in the Payroll service to avoid such problems

'Upside' Risk (or Opportunities)

This is applied when the Council intends to be innovative, enabling and take risks. The Shawfair project is one example. There is an element of risk in any major joint venture or project, yet the benefits are generally very appealing and benefit the community (eg new social housing).

By managing the 'downside' risks, potentially 'risky' initiatives become less risky.

6. WHERE WE ARE NOW AS A 'RISK AWARE/RISK MANAGED' LOCAL AUTHORITY

History

2005	Internal Audit reported that our risk management was 'Risk Defined' indicating that policy, strategy and processes were in place for risk management but residual risk above the set risk tolerance existed
2005-6	The Council received nation risk management awards for its compliance and effort
2008	Best value inspection 1 reported that our risk management system was mature
2011	Best value inspection 2 reported that our risk managed continued to be embedded
2005-date	External Audits (Audit Scotland and now Grant Thornton) generally commend the Council's risk management

Other Scottish Local Authorities

We benchmark with other Scottish Local Authorities on our risk management performance and in particular have developed close

'comparing notes' relationships with East Lothian, West Lothian, Renfrewshire and South Lanarkshire Councils.

ALARM

The national body, the Association of Local Authority Risk Managers (ALARM) is a useful benchmarking outlet and the Council has been a member for several years.



Elected Members have a critical role in the success or failure of Midlothian Council's risk management.

7. CABINET MEMBERS - RISK GUIDE

Main Responsibilities and Questions to Ask

1. Have we approved the Risk Management Policy, Strategy and Control Framework;
2. Have we approved the Annual Risk Control Programme;
3. Are the above documents understandable and easy to access;
4. Do we get performance monitoring reports on risk management;
5. Does it appear that high risks are being risk-controlled;
6. When we approve policy and make important decisions, is the risk implications properly set-out in the reports;

7. In Cabinet portfolio roles, is there sufficient opportunity to discuss risk management with the Director;
8. Is it clear that any threat to corporate and service priorities is measured and controlled;
9. Is it clear that we, and senior management, are adequately dealing with risk issues raised by External Audit or other External Inspection bodies; and
10. Are senior management reporting that sufficient resource is available to the risk disciplines listed in section 4?

8. PERFORMANCE REVIEW AND SCRUTINY COMMITTEE – RISK GUIDE



Main Responsibilities and Questions to Ask

- Are high risks properly reported each quarter;
- Am I getting assurances that these are being managed and controlled and an end-date (for low risk) is in sight;
- Is there anything within the 'challenges' part of the quarterly performance reports that looks risky for the future;
- Likewise, within the detailed pages of the quarterly performance report, is there anything that looks to be less than risk-controlled; and
- Are risk issues raised in external inspection reports being adequately dealt with?

9. AUDIT COMMITTEE – RISK GUIDE

Main Responsibilities and Questions to Ask

1. As promoters of robust risk management, governance and internal control, am I able to do this and make a difference;
2. Have I been adequately trained in risk management;
3. Have other elected members been adequately trained in risk management;
4. Is it my impression that risk management is being rolled out properly to employees across the Council and everyone is risk aware and risk managing;
5. Is the Council and management adequately dealing with risk issues highlighted by External and Internal Audit;
6. Is it clear that management are robustly installing External and Internal Audit recommendations;
7. Do you recognise that if buy-in to risk management across the Council is inadequate, that senior management will have the means to rectify this;
8. Do you think that Council officials are adequately highlighting risks in the future, or presently emerging;
9. From the reports you receive, do you think the Council's financial governance is robust;
10. From reports you receive, is it clear that the Council's finances are balanced, controlled and any future risk is properly assessed;
11. Do you think the Council is borrowing too much;
12. Is it clear that the Council has agreed an acceptable level of risk to be carried';
13. Do you think that the Council's Counter Fraud and Corruption culture is robust;
14. Do I receive details each year of fraud statistics and are the figure too high;
15. Do I get an annual opportunity to judge the performance of the Audit Committee;
16. Am I content that the Corporate Risk Register is controlled properly by the Corporate Management Team and do I have sufficient opportunity to view and comment on it;
17. Do I understand what a risk register is, and is meant to do;
18. Am I satisfied that the Council has an adequate Code of Corporate Governance and do I have an opportunity to review the Annual Governance Statement (AGS);
19. Is there a link each year between the respective AGSs;
20. Is it clear that the Council is following agreed risk management standards/best practice and is adequately benchmarking;
21. Do I have a suitable opportunity to review the annual risk control programme based on the risk management performance indicators;
22. Is there anything of concern arising from the Risk Management Group and Contingency Planning Group minutes;
23. Am I satisfied, whenever I read reports to Elected Members, that the 'Risk Implications' section provides sufficient information;
24. Do you think the Standards Committee is doing enough to reduce the risk of poor standards in public life; and
25. Am I satisfied that management is properly assessing any risk management issues in new legislation?

10. ELECTED MEMBERS ON ARMS LENGTH BODIES – RISK GUIDE

Main Responsibilities and Questions to Ask

Elected members represent the Council on a significant number of external bodies and partnerships, too

many to list here but definitely of a wide nature.

The same principles of risk management apply to this representation.

We should only be engaging with other bodies that are risk aware, risk managed and having the means to highlight significant risks. Therefore, as elected members on these arms length bodies always look for:-

- Robust governance;
- Good internal control;
- Demonstrable risk management; and
- A robust focus on performance

Should you find any issues in bodies you are involved with, you must report your concerns to Midlothian's senior management.

THANK YOU FOR READING THIS RISK MANAGEMENT GUIDE

(A copy is also held on the Intranet. Go to Finance > Frequently Asked Questions or FAQs > Risk Management > Risk Management – Guide for Elected Members)

This guide can be read in conjunction with another guide available to officers, which can also be found on the Finance Intranet, entitled Risk Assessment Guidance

Risk Management Facilitation and Coordination Services, Corporate Resources Division.
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