

**GREATER MANCHESTER INTEGRATED TRANSPORT AUTHORITY**

**COMMITTEE:** Audit Committee

**REPORT OF:** Clerk to the Authority

**DATE:** 12 February 2010

**SUBJECT:** Draft GMITA Risk Strategy

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**Purpose of Report**

To present an outline draft risk strategy for discussion with the Committee.

**Recommendations**

Members are recommended to:

1. Discuss the proposed management arrangements and register of key risks and assurance measures set out in the attached draft strategy and agree a final strategy for future management by the Committee; and
2. In line with the proposed strategy, to request the Clerk and Treasurer to prepare a progress report to each subsequent meeting of the Committee, setting out any changes in the risk register.

**Background Documents**

Previous reports on risk to this Committee, held on file by the GMITA Secretariat, Room 308, Town Hall, Manchester.

Report to Audit Committee, 16 October 2009 on GMITA Risk Management.

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## **Background**

1. Members will be aware that the terms of reference for this Committee, include the responsibility to oversee the effectiveness of the Authority and Executive's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements.
2. In discharging this duty, the Committee has previously received periodic reports against a pre-agreed register of key risks and challenged/advised officers as appropriate on measures to mitigate these risks.
3. In 2008/9, the Committee requested the Internal Audit function of Manchester City Council, which acts on behalf of the Authority, to carry out a review of these risk management arrangements.
4. A report on the findings of this review was considered at length by the Audit Committee at its last meeting on 16 October 2009. In considering the findings of the Internal Audit review, Members agreed that a new approach to risk management should be adopted by the Authority based around a comprehensive risk management strategy.

## **Draft Risk Strategy**

5. The attached document presents a draft risk strategy for Members' consideration. The strategy is based on a template recommended by Internal Audit officers. The approach set out in the strategy involves a cycle, within which risks are identified; analysed, evaluated and prioritised; assurance measures and actions are agreed and then monitored.
6. At the meeting, Members will be led through a workshop exercise by the Head of Internal Audit to assist them in (a) considering whether the initial register of key risks set out in the draft strategy are comprehensive, (b) considering the impact and likelihood of risks; and (c) advising officers on any further assurance measures that they see as appropriate in addition to those proposed in the draft register.
7. Having concluded the workshop exercise and agreed the register, the Committee would then receive update reports to each future meeting on key issues arising from the register and mitigation actions.

## **Recommendations**

8. A full set of recommendations is presented on the frontsheet of this report.

**Sir Howard Bernstein**  
**Clerk to the Authority**

# **DRAFT GMITA RISK MANAGEMENT STRATEGY**

## **PURPOSE**

- 1 The Authority recognises that effective risk management is an important element of a robust corporate governance framework and is therefore committed to:
  - Developing and maintaining a systematic approach for the identification, evaluation and cost effective control of the risks that threaten the achievement of the Authority's corporate objectives.
  - Working co-operatively with key partners, particularly the Passenger Transport Executive (PTE), in the identification and management of risks.
  - Ensuring that effective risk management is embedded in the business processes.

## **OBJECTIVES**

- 2 The objectives of this strategy are to:
  - Ensure that the risks to the achievement of the Authority's corporate objectives are eliminated or reduced to an acceptable level.
  - Ensure other risks to reputation, assets, finances and people are appropriately managed.
  - Raise awareness of and integrate risk management into the culture of the Authority's Members and Officers.
  - Manage risk in accordance with best practice by identifying roles and responsibilities.
  - Maintain effective stewardship of the Authority's funds and demonstrate good corporate governance.

## **IMPLEMENTATION**

- 3 The Authority will achieve these objectives by:
  - Approving this strategy.
  - Requesting the Clerk and Treasurer to establish and maintain the risk management review framework identified in this strategy.
  - Including risk management as a standing agenda item at each Audit Committee meeting and appropriate meetings of the Authority, supported by reports from Officers.
  - Continuing to demonstrate the application of risk management principles in practice.
  - Undertaking risk management training for Members and Officers.
  - Maintaining documented procedures for the control of risk.
  - Monitoring risk management arrangements on an ongoing basis and periodically reviewing risks.
  - Embedding risk management into business processes.

## DEFINITION AND CATEGORIES

### 4.1 Definitions

- **Risk** is a combination of the likelihood of something happening and the consequence for business objectives.
- **Risk Management** is the process by which risks and potential opportunities are identified, evaluated and controlled.

### 4.2 Categories of Risk

The Audit Commission and CIPFA identify 2 categories of risk, namely strategic and operational. Strategic are those risks to the medium and long term goals and objectives affecting Chief Officers and Members. Operational are those risks and hazards encountered in the daily course of work affecting managers and staff.

In the case of the Authority, most operational risks are managed by GMPTE in the discharge of policies, services and projects determined by the Authority.

Examples of both strategic and operation risks are given below:

- Reputation – affecting the reputation and public perception, including efficiency and effectiveness.
- Financial – strategic financial issues.
- Legislative/political – current or potential changes to UK and European Law, breaches of legislation and failure to deliver local and central government policy.
- Service provision – strategic issues, including Chief Officer appointments.
- Human Welfare – loss of life, large scale major illness.
- Projects – non delivery to time/cost, outcomes and outputs not achieved.
- Environment – long/short term effects on the environment or social impact or works.
- Stakeholder - the pursuance of rights or entitlements.

Strategic and operational risks can arise from not making the most of opportunities to deliver better and more cost effective services.

## RISK MANAGEMENT PROCESS

5.1 The cycle overleaf illustrates the steps taken in the risk assessment process which in its simplistic form, answers the following:

- What can go wrong?
- What is the likelihood of it going wrong?
- What is the impact should it go wrong?
- What can be done to eliminate the threat?
- What should be done to reduce the threat's likelihood or impact?

## The Risk Management Cycle:



5.3 Risks will be identified using a facilitated risk identification workshop. The process will include:

- Agreeing objectives and participants (Members and Officers) beforehand;
- Issuing objectives to participants prior to the workshop to ensure a common understanding of what is to be achieved;
- Agreeing the objectives against which risk is to be identified;
- Using a risk management expert to facilitate the event; and
- Adopt a brainstorming approach to identify the most critical risks.

5.3 The risk prioritisation is based on the following scoring system.

## Risk Matrix

		Consequence				
		5	4	3	2	1
Likelihood	5	25	20	15	10	5
	4	20	16	12	8	4
	3	15	12	9	6	3
	2	10	8	6	4	2
	1	5	4	3	2	1

### Legend:

Score of 25 equates to **Extreme Risk**: Risk needs to be monitored, reviewed and actioned proportionate to the assessment by officers and the Audit Committee. Risk to be actively managed and tracked by the Audit Committee.

Scores of 20-15- **High Risk**: Risk to be escalated to the Audit Committee with mitigating action plan. Risk to be actively managed and tracked by the Audit Committee.

Scores of 12-6- **Medium Risk**: Risk to be captured on the Risk Register and progress with mitigation to be tracked by the Audit Committee.

Scores of 5 and below- **Low Risk**: Risk to be removed from register and managed within appropriate services.

## Risk Impact Details

Name	Description
Major	Loss of £1m +; effective service delivery is no longer achievable, fatality of staff, visitor or public; reputation damage is irrecoverable i.e. regulatory body intervention.
Significant	Loss of £50k to £1m; effective service delivery is disrupted in specific areas of the business; multiple serious injuries requiring professional medical treatment; reputation damage occurs with key stakeholders.
Moderate	Loss of £100k to £500k; delays in effective service delivery i.e. adjustments to work programmes in up to one week or staff long term absence; injury to an individual(s) requiring professional medical treatments; reputation damage is localised and minor.
Minor	Loss of £20k to £100k; minor disruption to effective service delivery i.e. staff in unplanned absence for up to one week; minor injury; no requirement for professional medical treatment; slight damage to reputation.

Immaterial	Loss of up to £20k; little effect of service delivery; no health and safety impact; no damage to reputation.
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## Likelihood

Description	Probability	Indicators
<b>5. Highly Probable</b>	> 80%.	<ul style="list-style-type: none"> <li>Is expected to occur in most circumstances</li> <li>Circumstances frequently encountered – daily/weekly/monthly/annually</li> <li>Imminent/near miss</li> </ul>
<b>4. Probable Likely</b>	> 60% - 80%	<ul style="list-style-type: none"> <li>Will probably occur in many circumstances</li> <li>Circumstances occasionally encountered but not a persistent issue (e.g. once every couple/few years)</li> <li>Has happened in the past or elsewhere</li> </ul>
<b>3. Possible</b>	> 40% - 60%	<ul style="list-style-type: none"> <li>Not expected to happen, but is possible (once in 3 or more years)</li> <li>Not known in this activity</li> </ul>
<b>2. Unlikely</b>	> 20% - 40%	<ul style="list-style-type: none"> <li>May occur only in exceptional circumstances</li> <li>Has rarely / never happened before</li> <li>Force majeure</li> </ul>
<b>1. Remote</b>	< 20%	<ul style="list-style-type: none"> <li>The risk will not emerge in any foreseeable circumstance</li> </ul>

5.4 The evaluation process will highlight the key risks that require urgent attention. However, all the risks need to be considered and action agreed, even if this is to take no action at the current time. The options are either to: Tolerate, Treat, Terminate or Transfer each risk.

- **Tolerate the risk (accept it)** – some low scoring risks may be considered as acceptable, but these need to be reviewed on a regular basis to confirm that the circumstances have not changed.
- **Treat the risk (reduce by control procedures)** – the risk can be considered acceptable provided the control mechanisms work.
- **Terminate the risk (cease or modify the method of delivery)** – where risks are unacceptable and control mechanisms will not provide adequate security, the activity or the method of delivery must be modified.
- **Transfer the risk** – through insurance or financial contingency provision.

5.5 The risk register will be monitored and reviewed by the GMITA Policy Team. New risks will be added to the register where appropriate and assigned an individual risk owner. An updated risk register will be provided as a standard report on the ITA Audit Committee.

- 5.6 **Link to the PTE** – It is important that the main strategic and operational risks identified for the Authority are linked to the PTE risk management processes. This is achieved through the Clerk and Treasurers attendance of the PTE Audit and Risk Committee and the relationship between the Head of Internal Audit and Risk Management for ITA and Head of Internal Audit and Risk Manager at the PTE.

## **RISK MANAGEMENT ROLES AND RESPONSIBILITIES**

### 6.1 The Authority

The roles and responsibilities of the Authority are:

- To ensure that a comprehensive approach to risk management is developed and implemented by the Authority and the Executive.
- To oversee the effective management of the Authority's risks managed by the Clerk to the Authority and Treasurer.
- To obtain assurance over the effective management of those risks managed by the Director General.

### 6.2 The Clerk and Treasurer

- To support and develop the risk management culture of the Authority's Policy Team. The Policy Team in partnership with the PTE support the Authority's strategic leadership and corporate governance roles.
- To develop and maintain a risk management framework within the Policy Team.
- To maintain effective links with the PTE on risk management and to report as appropriate to the Authority. The Clerk and Treasurer is a non-executive director of the PTE and is the Chair of the PTE Audit and Risk Committee.

### 6.3 Policy Team

The risk management framework established by the Clerk and Treasurer allocates the following responsibilities to the Policy Team:

- Initial identification and evaluation of risks;
- Registration of risks;
- Evaluation of effectiveness of controls;
- Action planning to mitigate the impact of risks on the achievement of the Authority's objectives;
- Reporting to Audit Committee;
- Preparing changes to this policy; and
- Providing guidance and training for staff on risk awareness.

## **MONITORING AND REVIEW**

- 7 The Authority will monitor the effectiveness of this policy and will receive a copy of the latest risk register and a report from the Clerk and Treasurer at each Audit Committee meeting.

## DRAFT RISK REGISTER FOR DISCUSSION

Risk No	Risk Description	Risk Ranking	Risk Owner	Assurance measures	Action to Address			Review Date
					Action Required	Responsible Officer	Date Required	
<b>Reputation:</b> affecting the Authority's reputation and public perception, including efficiency and effectiveness								
	<p>Failure to meet ITA statutory duties</p> <p><i>Would risk confidence of community and local/central government confidence in the ITA, and impact on ability to obtain funding</i></p>		Clerk	<p>The ITA reviews its constitution on an annual basis</p> <p>The ITA Policy Priorities identify statutory duties as clear priorities for both budgets and activities</p> <p>The constitution is policed by the ITA Standards Committee</p>				
	<p>Failure to maintain a working relationship with the PTE</p> <p><i>Would risk mismatch between ITA objectives and PTE delivery</i></p>		Clerk	<p>GMPTE provides regular reports to ITA Committees, supported by ongoing working between ITA and PTE officers, to ensure a consistent fit between ITA objectives and PTE activities</p>				
	<p>Failure to maintain a working relationship with the ten Greater Manchester Local Authorities</p> <p><i>Would risk settlement of an appropriate levy/budget and impact on scope for partnership working on revenue and capital activities</i></p>		Clerk	<p>Regular dialogue is maintained at both Member and Officer</p>				
	<p>Failure to achieve objectives of the Local Transport Plan</p> <p><i>Would risk failure to achieve core ITA objectives and could impact on future years' capital settlements</i></p>		Clerk	<p>Progress reporting against KPIs is provided to the Policy and Resources Committee</p>				

	<i>from central Government</i>							
<b>Financial:</b> strategic financial issues								
	<p>Failure to maintain spending within agreed budgets (revenue and capital)</p> <p><i>Would risk reduced ability to deliver budget objectives and impact on the ability to secure adequate funding for transport in the future</i></p>		Treasurer	<p>Revenue budget monitoring is undertaken by the Policy and Resources Committee</p> <p>Capital programme monitoring is undertaken by the Capital Projects Committee</p>				
	<p>Inadequate debt finance arrangements to cover borrowing for capital schemes</p> <p><i>Would risk a negative impact on cash flow and the wider revenue budget</i></p>		Treasurer	<p>Finance management strategy is scrutinised by then Audit Committee</p>				
<b>Legislative/Political:</b> current or potential changes, failure to deliver central and local policy								
	<p>Failure of ITA to make effective and timely decisions</p> <p><i>Would risk missed opportunities and loss of credibility with local and central stakeholders</i></p>		Clerk	<p>The Authority reviews its constitution and decision-making processes on an annual basis.</p> <p>These arrangements have been bolstered by the new Committee Improvement Project arrangements</p>				
	<p>Failure of officer capacity to support ITA decision-making processes</p> <p><i>Would risk ineffective decision-making</i></p>		Clerk	<p>Authority support needs are considered as part of the annual ITA budget-setting process</p>				
	<p>Failure to maintain an effective relationship with</p>		Clerk	<p>GMITA Lobbying Strategy agreed annually by the</p>				

	key Central Government departments, Ministers and MPs  <i>Would risk sub-optimal settlements from national funding arrangements and legislative change that does not fit with local transport policy objectives</i>			Authority and supervised by the Chair of the Authority				