

**Joint Report of the Chief Constable and Chief Executive to the
Chair and Members of the Audit and Internal Control Panel
20th October 2011**

**Executive Officers: David Pickard, Temporary Deputy Chief
Constable
Jeremy Holderness, Acting Chief Executive**

**Presenting Officer: Dr Neville Cameron, Service Improvement
Manager, CPA**

Status: For Discussion

Risk Appetite of Cleveland Police & Cleveland Police Authority

1 Purpose

- 1.1 To provide Members with an explanation of the influence of risk appetite in the decision making processes of Cleveland Police Authority and the Force.

2 Recommendations

That Members:

- 2.1 Agree for the Joint Risk Management Group to further to assess the elements of Risk Appetite, as dictated by HM Treasury, to assist with risk management in Cleveland Police Authority and the Force and report back to the Audit & Internal Control Panel.

3 Reasons

- 3.1. At the Joint Risk Management Group held on 28th March 2011, a discussion and presentation took place on the subject of *Risk Appetite* and whether this

is applied across Cleveland Police Authority (CPA), the Force and its Strategic Partners.

Risk Management Process within Cleveland Police Authority and the Force

- 3.3 The Risk Registers of both the CPA and the Force are scrutinised and managed at the highest level.
- 3.4 The Police Authority monitor and provide routine maintenance of the CPA Risk Register and Risk Action Plan through the Leadership Panel, reporting updates at alternate Audit & Internal Control Panels and at the Joint Risk Management Group, held with the Force every two months.
- 3.5 In the Force Risk Management arrangements are set out in the Corporate Risk Management Policy at Section 3.2 of the Corporate Governance Framework. The Deputy Chief Constable is accountable for risk at an ACPO level. The Head of Corporate Planning & Governance is responsible for the day-to-day management of the Force's Risk Registers, both on a Strategic and Corporate level. This includes by linking in with our strategic partner, Steria, who provide advice and training via the recently outsourced Resilience and Operational Planning Service and monitor and update the risk documents in respect of legacy risks.

Definition of Risk Appetite

- 3.6 The HM Treasury publication 'Thinking About Risk: Managing Your Risk Appetite: A Practitioners Guide'¹ describes risk appetite as "*the amount of risk that an organisation is prepared to accept, tolerate, or be exposed to at any point in time.*"
- 3.7 The guidance continues that "*in general, if managers of an organisation are running the business with insufficient guidance on the levels of risk that are legitimate for them to take, or not seizing important opportunities due to a perception that taking on additional risk is discouraged, business performance will not be maximised, and business opportunities will not be taken. At the other end of the scale, an organisation constantly erring on the side of caution (or one that has a risk averse culture) is one that is likely to stifle creativity and is not necessarily encouraging innovation, nor seeking or exploiting opportunities. Risk taking should therefore be clearly calculated with a view to achieving defined rewards.*"
- 3.8 "*Risk appetite is about taking well thought through risks where the long-term rewards are expected to be greater than any short-term losses. Indeed, it may even be appropriate in some instances to incur a loss if this paves the way to success in the long run.*"

¹ Crown Copyright. November 2006.

3.9 According to the HM Treasury Guidance, clearly articulating an organisation's risk appetite can have definite business benefits through:

- *Supporting and providing evidence of the decision-making processes.*
- *Demonstrating how each element of the business contributes to the overall risk profile.*
- *Showing how different resource allocation strategies can add to or lessen the burden of risk.*
- *Supporting the approvals process.*
- *Identifying specific areas where risks should be removed.*
- *Transparency and consistency of business decisions.*
- *Improved understanding of risk-based budgets.*

Risk Appetite in Cleveland Police Authority and the Force

3.10 The current risk appetite of the Authority and Force was demonstrated by the Risk Matrices, shown in Appendices 1 and 2. The risk appetite is signified by the definition of those risks outlined in "red". Currently those risks scoring 12 or above are designated as Strategic Risks, however, in an organisation with a higher or lower risk appetite this score would be set higher or lower to reflect the organisation's propensity for risk taking.

3.11 The Risk Appetite & Assurance guidance (shown in Appendices 1 and 2) is distributed to Risk Champions in the Force and Authority as part of risk management training. It outlines risk's appetite in terms of *Timescales, Resources* and *Assurance* and differing grades (*Primary, Contingency, Housekeeping, Low*). This guidance is applied when addressing and rating risks in every department and activity.

3.12 In order to assess in detail the elements of the HM Treasury publication and their applicability to risk that Cleveland Police Authority and its Force is "*prepared to accept, tolerate, or be exposed to at any point in time*", an assessment must be undertaken of the current risk management process for possible adoption.

3.13 It is therefore the intention of Joint Risk Management Group to assess the elements of Risk Appetite, outlined in the HM Treasury document, and report its findings back to the Audit & Internal Control Panel in February 2012.

4. Implications

Sustainability – Future Management of Risks

4.1 The Joint Risk Management Group meets bi-monthly in 2011 to assist in the management of risk across both Authority and Force. This promotes the

embedding of risk management within integrated business and financial planning processes.

Financial Implications

- 4.2 There are no direct financial implications.

Diversity and Equal Opportunities

- 4.3 There are diversity and equal opportunities implications in that this is an area of business risk that is monitored by the Police Authority.

Risk Management

- 4.4 The ability to identify and manage its risks will enhance the Authority's capability to promote openness and accountability, promote corporate governance and performance improvement.

Human Rights

- 4.5 There are no direct human rights implications in this report.

5 Conclusions

- 5.1 This report outlines the elements of Risk Appetite, as outlined in the HM Treasury publication 'Thinking About Risk: Managing Your Risk Appetite: A Practitioners Guide' and assesses how risk is reported, managed and maintained by the Force and Police Authority.
- 5.2 The HM Treasury elements of risk appetite will be assessed by both the Force and Authority through the Joint Risk Management Group, for applicability in the current risk management process and report its findings back to the Audit & Internal Control Panel in February 2012.

Jeremy Holderness
Acting Chief Executive

David Pickard
Acting Deputy Chief Constable

Risk Scoring Matrix

Contingency Group
Where risk management will ensure that contingency plans are in place

Primary Group
Where risk management should focus most of its attention

Impact

5. Catastrophic	5	10	15	20	25
4. Significant	4	8	12	16	20
3. Moderate	3	6	9	12	15
2. Minor	2	4	6	8	10
1. Insignificant	1	2	3	4	5
	1. Negligible	2. Rare	3. Unlikely	4. Possible	5. Probable

Likelihood

Low Group
Where risk is so minimal it does not demand specific attention

House Keeping Group
Basic mechanisms should be in place - Risk Management will confirm

Risk Appetite and Assurance

4.7 The risk scoring matrix reflects CP's current tolerance to risk i.e. what constitutes a high risk, taking into account the risk scoring criteria set in connection with impact and likelihood.

<p>Primary</p> <p>Timescales</p> <ul style="list-style-type: none"> -Full assessment of the control weaknesses and immediate identification of actions to be implemented including cost benefit analysis -Actions fully implemented within 3 months <p>Resources</p> <ul style="list-style-type: none"> -Use of all available resources to implement the required actions as a priority over and above day to day responsibilities (ensuring this does not impact on the controls of other risks) <p>Assurance</p> <ul style="list-style-type: none"> -No assurance work required as focus should be on implementing actions -Assessed externally by PURE and HMIC -Briefing to Force Executive / PA members 	<p>Contingency</p> <p>Timescales</p> <ul style="list-style-type: none"> -Mitigating actions to be implemented within 6 months where risk reduction possible <p>Resources</p> <ul style="list-style-type: none"> -Re-prioritise existing work loads to accommodate the implementation of required actions -All risks to be owned by Senior Management <p>Assurance</p> <ul style="list-style-type: none"> - Quarterly sign-off of existing controls effectiveness by Management -Independent assurance obtained within the next 6 months. - Followed by at least an annual review - Assessed externally by PURE and HMIC
<p>House Keeping</p> <p>Timescales</p> <ul style="list-style-type: none"> -Mitigating actions to be implemented within 12 months where risk reduction possible <p>Resources</p> <ul style="list-style-type: none"> -No further resources allocated over and above day-to-day roles and responsibilities and assurance mechanisms <p>Assurance</p> <ul style="list-style-type: none"> -Six monthly sign-off of existing controls effectiveness by management - Independent assurance obtained bi-annually - Assessed externally by PURE and HMIC 	<p>LOW</p> <p>Timescales</p> <ul style="list-style-type: none"> - No further action required <p>Resources</p> <ul style="list-style-type: none"> - Reliance placed on existing control procedures that are in place <p>Assurance</p> <ul style="list-style-type: none"> -Six monthly sign-off of existing controls effectiveness by management. -Independent assurance obtained bi-annually