# Risk Management Process

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thanet
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# Contents

# 1. Introduction

Risk management is both a statutory requirement and an indispensable element of good management. As such, its implementation is crucial to the council and essential to its ability to discharge its various functions.

This risk management process has been designed to support members and officers in ensuring that the council is able to fully discharge its risk management responsibilities in a consistent manner. The Risk Management Strategy outlines the objectives, benefits and approach to the process to ensure that risks, both positive and negative, are successfully managed.

Risk management in Thanet District Council is about improving our ability to deliver outcomes for the community by managing our threats, enhancing our opportunities and creating an environment that adds value to ongoing activities.

Risk management is a key part of corporate governance. Corporate governance is the way an organisation manages its business, determines strategy and objectives and goes about achieving those objectives. Good risk management will help identify and deal with key corporate risks facing the organisation in the pursuit of its goals and is a key part of good management, not simply a compliance exercise.

To help with the process, this guidance document describes a simple methodology working through the following questions:
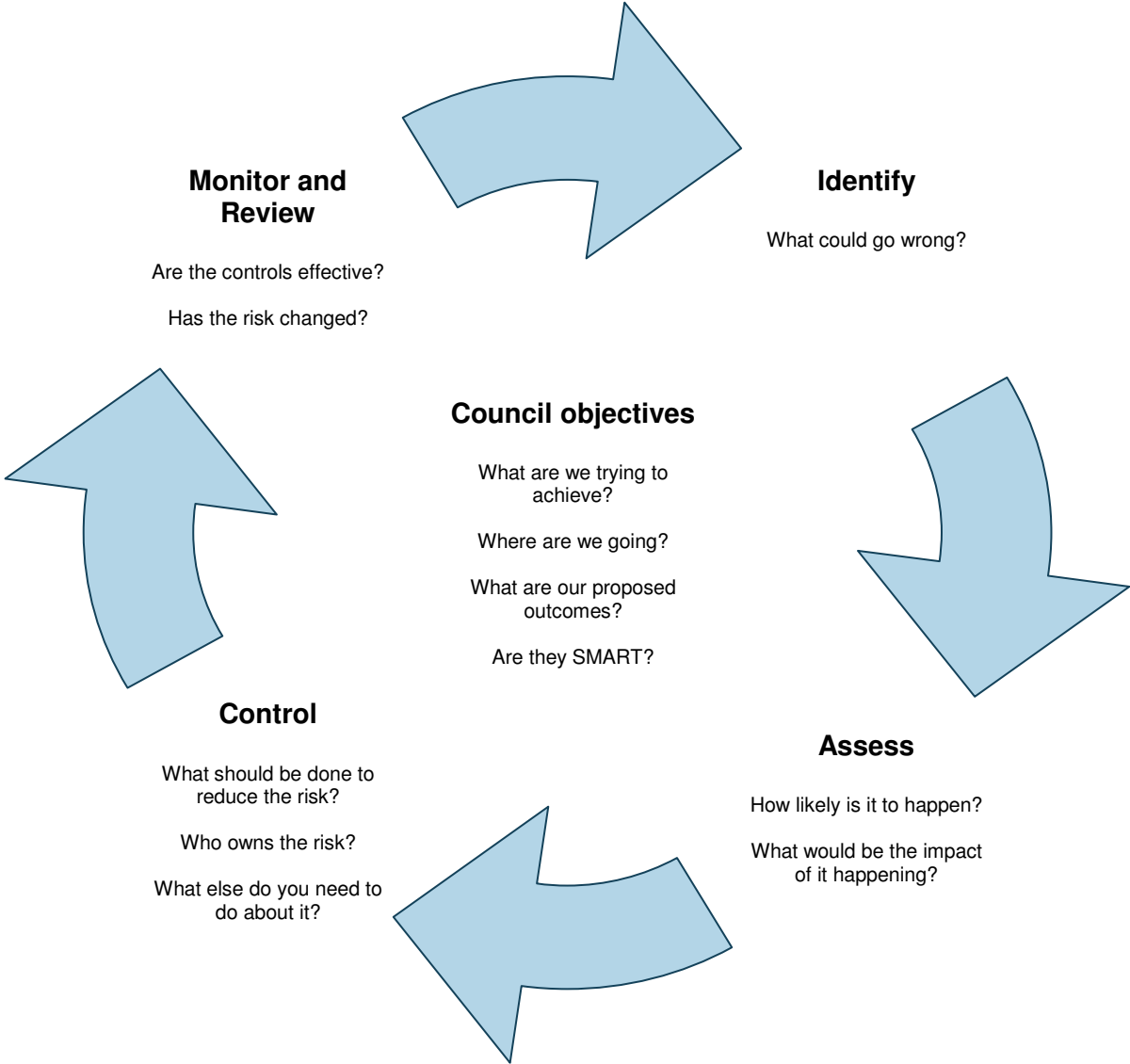- Are your objectives SMART?
  - **S**pecific
  - **M**easurable
  - **A**chievable
  - **R**ealistic
  - **T**ime bound
- What could go wrong?
- How likely is it to happen?
- What would be the impact of it happening?
- What should be done to reduce the risk?
- Who owns the risk?
- What else do you need to do about it?

# 2.   Risk Management Process

The starting point for risk management is a clear understanding of what the organisation is trying to achieve.  Risk management is about managing the threats that may hinder delivery of our priorities and core service provisions, and maximising the opportunities that will help to deliver them.  Therefore, effective risk management should be clearly aligned to the following processes:

•       Strategic planning
•       Financial planning
•       Policy making and review
•       Performance management
•       Project management
•       Partnership working

and should take into account the environment within which the council operates.

**Monitor and Review**

Are the controls effective?

Has the risk changed?

**Identify**

What could go wrong?

**Council objectives**

What are we trying to achieve?

Where are we going?

What are our proposed outcomes?

Are they SMART?

**Control**

What should be done to reduce the risk?

Who owns the risk?

What else do you need to do about it?

**Assess**

How likely is it to happen?

What would be the impact of it happening?

## 2.1  Identify

Identify the potential risks or opportunities that may arise.  Where taking risks that may benefit the organisation, managing these opportunities increases the chance of success and reduces the possibility of failure.  By managing our opportunities well, we will be in a better position to provide improved services and better value for money. Opportunities may also be referred to as outcomes or benefits, particularly when planning projects.

It may help to use the following structure to describe risks and opportunities "If …. then ….".

**For example**:

"If we do not review and manage our budget, then there is a risk that we will overspend."

"If the implementation of the new system is achieved according to the action plan, then the overall process will be more effective."

Risks will be considered under the following headings:

- **Corporate -** those which could impact across the whole council including those relating to partnerships.  These should be assessed by the Corporate~~Senior~~ Management Team and the Member Risk Management Champion and then reported to the Governance and Audit Committee on a regular basis.

- **Service -** those resulting from the council's activities focusing on risks arising from the people, systems and processes through which we operate. These are considered within the council's service plans.  In some instances operational risks may escalate to become corporate.

- **Project** ~~risks~~ - those risks associated with achieving a project within the required time, costs and resources, regardless of its size.  Risks and opportunities associated with the project must be clearly identified and managed.  (Further information can be obtained from the Project Management Toolkit).

Each risk needs to be allocated an owner who will be responsible for and lead on the management of that risk, taking forward any required action to minimise the risk.

## 2.2 Assess

Having identified the risks, it is then necessary to assess which are going to pose the greatest threat or opportunity, by looking at both the **probability** of the risk occurring and the **impact** that might result, producing the overall **risk rating**. These scores are not intended to provide precise measurements of risk but to provide a useful basis for identifying vulnerabilities or opportunities, ensuring that any necessary actions are undertaken.

Developing a standard methodology to score risks is intended to help ensure consistent, meaningful scores that can be used to assess risks.

The risk rating needs to be regularly reviewed to check that existing controls are effective and to assess any changes should new controls be established and the score should be amended to reflect this.

### Table 1 - Probability

| Rating | Score | |
|---|---|---|
| **Very likely** | 4 | • More than a 75% chance of occurrence.<br>• Regular occurrence.<br>• Circumstances frequently encountered. |
| **Likely** | 3 | • 41% - 75% chance of occurrence.<br>• Likely to happen at some point in the next 3 years.<br>• Circumstances occasionally encountered. |
| **Unlikely** | 2 | • 10% - 40% chance of occurrence.<br>• Only likely to happen once every 3 or more years.<br>• Circumstances rarely encountered. |
| **Remote** | 1 | • Less than a 10% chance of occurrence.<br>• Has never happened before.<br>• Circumstance never encountered. |

## Table 2 - Impact

| Rating | Score | |
|--------|-------|---|
| **Major** | 4 | • Major loss of service for more than 5 days.<br>• One or more fatalities.<br>• Major financial variation of more than £300k.<br>• Major national news item.<br>• Major impact on time / costs / resources.<br>• Affect the whole council. |
| **Serious** | 3 | • Loss of service for 3 to 5 days.<br>• Major injury to an individual / several people.<br>• Financial variation between £150k and £300k.<br>• Major local news / professional press item.<br>• Serious impact on time / costs / resources.<br>• Affect many service areas of the council. |
| **Significant** | 2 | • Loss of service for 2 to 3 days.<br>• Severe injury to an individual / several people.<br>• Financial variation of £50k to £150k.<br>• Local news / minor professional press items.<br>• Controllable impact on time / costs / resources.<br>• Affect 1 or few service areas of the council. |
| **Minor** | 1 | • Brief disruption to service for less than 1 day.<br>• Minor injury to an individual.<br>• Financial variation of less than £50k.<br>• Minimal news / press impact.<br>• Minimal impact on time / costs / resources.<br>• Affect Project Team only. |

## Table 3 – Risk Matrix

| | | Minor (1) | Significant (2) | Serious (3) | Major (4) |
|---|---|---|---|---|---|
| | Very likely (4) | Medium-Low (4) | Medium-High (8) | High (12) | High (16) |
| | Likely (3) | Medium-Low (3) | Medium-High (6) | Medium-High (9) | High (12) |
| Probability | Unlikely (2) | Low (2) | Medium-Low (4) | Medium-High (6) | Medium-High (8) |
| | Remote (1) | Low (1) | Low (2) | Medium -Low (3) | Medium-Low (4) |

Impact

## 2.3  Control

This stage of the process is to decide on a course of action to address the risks identified, to ensure that they do not develop into an issue, where the potential threat is realised.  There are four approaches that can be taken to address the risks that have been identified and assessed, these being terminate, transfer, treat and tolerate.

### Table 4 – Risk Appetite

| Level of Risk | Level of Concern | Recommended review pattern | Approach option(s) available | Other actions required |
|---|---|---|---|---|
| High | Very concerned | 1 – 2 months | Terminate Transfer Treat | Report to Governance and Audit Committee |
| Medium-High | Concerned | 3 – 4 months | Terminate Transfer Treat | |
| Medium-Low | Tolerate | 5 — 6 months | Terminate Transfer Treat Tolerate | If accepted, must have contingency plans in place |
| Low | Content | 127 — 8 months | Tolerate | Treat, if cost effective |

The approach taken for all risks listed in the council's Corporate Risk Register is to treat them.

### Table 5 – Risk control approaches

| APPROACH | DESCRIPTION |
|---|---|
| **Terminate** | A decision is made not to undertake the activity that is likely to trigger the risk.  Where the risks outweigh the possible benefits, terminate the risk by doing things differently and thereby removing the risk. |
| **Transfer** | Share the exposure, either totally or in part, with a partner or contractor, or through insurance.  Any partnership will need to be carefully monitored as it may not be possible to transfer all risks and certain aspects may remain, such as loss of reputation. |
| **Treat** | The most common approach is to introduce preventative actions (called control measures) to reduce the probability or impact if the risk occurs and maximise the potential for success. |
| **Tolerate** | The ability of an effective action against some risks may be limited or the cost of taking such action may be disproportionate to the potential benefits gained. |

Control measures are the actions taken to reduce the probability or impact of a risk, not wholly to terminate or transfer. Two types are recognised within the risk register; those that are established and ongoing (often referred to as business as usual or BAU) and those that are timebound (sometimes referred to as timebound control actions).

## 2.4 Monitor, Review and Escalation

Few risks remain static.  New issues and risks are likely to emerge and existing risks may change.  Having identified the risks, assessed them and put control measures in place, it is essential that they are routinely monitored.  (See table 4 – recommended review pattern).

Risk management needs to be seen as a continuous process.  It is essential that the incidence of risk be reviewed to see whether it has changed over time.  Risk management is a dynamic process – new risks will be identified, some will be terminated and control measures will need to be updated in response to changing internal and external events.  The assessment of probability and impact will also need to be reviewed, particularly in light of our own management actions.

The council will consider and record operational risks with the service plans, and project risks within project plans. If an operational risk or project risk becomes significant enough it will be escalated via the line manager, Head of Service and Director to CMT for inclusion on the Corporate Risk Register until such time that management action is able to reduce the risk score to a desirable level.

Monitoring progress and regular reviews provides:

- Assurance that progress is being made towards controlling risks
- Assurance that controls are effective

- Knowledge of any changes to the risk brought about by shifting circumstances or business priorities.

When undertaking the monitor and review process, guidance is given below on the sorts of questions that should be taken into account:

- Are the risks still relevant?
- Has anything occurred that could impact on them?
- Are performance indicators appropriate?
- Are the controls in place effective?
- Have risk scores changed, and if so are they decreasing or increasing?
- If risk profiles are increasing, what further controls might be needed?
- If risk profiles are decreasing, can controls be relaxed?

The monitoring and review process should be integrated into existing business processes so that is adds value and supports the successful achievement of objectives and is not just seen as a 'bolt on'. Where objectives have not been achieved or are not on course to be achieved, the cause(s) should be investigated to inform and improve the risk assessment process.

# 3. Categories of risk

Categories are widely used to identify sources of risk, some will be of greater concern at the corporate level and some at the operational level, however there is no clear distinction and all levels of management should be concerned, to varying degrees, with the majority of categories.

These risks can be categorised as follows: -

| CATEGORY | DESCRIPTION | INDICATIVE GUIDELINES (given as examples) |
|---|---|---|
| **Political** | those associated with a failure to deliver either local or central government policy. | • Not meeting government agenda<br>• Too slow or failure to modernise<br>• Decision based on incorrect information<br>• Individuals fail to comply with agreed standards<br>• Conflicts of interest<br>• Decision or action taken which contradicts corporate priorities |
| **Economic** | those affecting the ability of the council to meet its financial commitments. These include internal budgetary pressures, the failure to purchase adequate insurance or the consequences of proposed investment decisions. | • General/regional economic problems<br>• Missed business and service opportunities<br>• Failure of major projects<br>• Failure to prioritise, allocate appropriate budgets and monitor<br>• Inadequate control over expenditure or income |

| CATEGORY | DESCRIPTION | INDICATIVE GUIDELINES (given as examples) |
|---|---|---|
| | | • Inadequate insurance cover<br>• Susceptibility to fraudulent activity |
| Social | those relating to the effects of changes in demographic, residential or socio-economic trends on the council's ability to deliver its objectives. | • Failing to meet the needs of disadvantaged communities<br>• Failures in partnership working<br>• Problems in delivering life-long learning<br>• Impact of demographic change<br>• Crime and disorder |
| Technological | those associated with the capacity of the council to deal with the pace / scale of technological change, or its ability to use technology to address changing demands.  They may also include the consequences of internal technological failures on the council's ability to deliver its objectives. | • Breach of confidentiality<br>• Failure in communications<br>• Insufficient disaster recovery for key data/systems<br>• Failure of big technology related project<br>• Breach of security of networks and data<br>• Failure to comply with IT Security Policy |
| Legislative | those associated with current or potential changes in national or European law. | • Not meeting statutory duties/deadlines<br>• Failure to implement legislative change<br>• Misinterpretation of legislation<br>• Exposure to liability claims e.g. motor accidents, wrongful advice<br>• Breach of confidentiality / Data Protection Act |
| Environmental | those relating to environmental consequences of progressing the council's corporate objectives (e.g. in terms of energy, efficiency, pollution, recycling, etc). | • Impact on sustainability initiatives<br>• Impact of planning & transportation policies<br>• Noise, contamination and pollution<br>• Crime & Disorder Act implications<br>• Inefficient use energy and water<br>• Incorrect storage/disposal of waste |
| Competitive | those affecting the competitiveness of the service (in terms of cost of quality) and / or its ability to deliver best value. | • Take over of services by government<br>• Failure of bids for government funds<br>• Failure to show value for money<br>• Accusations of anti-competitive practices |
| Customer / Citizen | those associated with the failure to meet the current and changing needs and expectations of customers and citizens. | • Lack of appropriate consultation<br>• Poor public and media relations<br>• Ineffective communication with customers and citizens |

| CATEGORY | DESCRIPTION | INDICATIVE GUIDELINES (given as examples) |
|---|---|---|
| **Reputation** | those relating to public confidence and failure to recruit high calibre staff. | • Adverse media attention<br>• Policies misunderstood or misinterpreted<br>• Negative implications identified by other which have not been previously considered<br>• Failure to keep partners on side<br>• Breach of confidentiality<br>• Lack of business continuity plan<br>• Failure to maintain and upkeep land and property<br>• Reputational damage caused by fraudulent / corrupt activities |
| **Partnership** | those associated with working in partnership with another organisation. | • Non compliance with procurement policies<br>• Poor selection of partner<br>• Failure of partner to deliver<br>• Inadequate contract documentation<br>• Inadequate service level agreements<br>• Bad management of partnership working |

# 4. Risk Register

It is good governance for the council to maintain and review a registers of its corporate and operational risks assigning named individuals as responsible officers.  The Corporate Risk Register is a tool for capturing important information about corporate and strategic risks to the council, and is to be reviewed on an ongoing basis.  New risks will be identified, some will be terminated, control measures will need to be updated in response to changing internal and external events. The council also maintains a separate project risk register which lists identifies each project and the levels of risk associated with the project.

The data contained within the risk register will be used to inform our performance reporting process.  Also, as detailed within the risk management strategy, the Governance and Audit committee will be regularly informed on the content of the corporate risk register.

To meet this requirement, the council has a database in place (INPHASE) to hold this information, which is linked to the corporate objectives.  This database is available to staff via the Intranet.

# 5. Summary

**Thanet District Council – Risk Management Process**

This guidance document is intended to provide a simple methodology to help with the risk management process.  It may be helpful to understand how managing risk through this process fits in with the overall approach to managing risk throughout the council.  Details of this can be found in the 'Risk Management Strategy".

Risk management is not the responsibility of just a few specialists, it must be seen as a responsibility for all members and officers.

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# 6.  Document History

| Version | Date | Agreed by | Minute ref |
|---|---|---|---|
| V1 to 8 | | Available on request | |
| V5 | 29 September 2011 | Governance and Audit Committee | 182. |
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