Risk Management Strategy

March 2022

Foreword

In all that we do as a Local Authority a degree of risk is involved in some way shape or form, whether it is setting priorities, purchasing new systems and equipment, tendering for new contracts or taking decisions about the future of our District. It is therefore a vital part of good governance that we manage these risks effectively.

Risk management is not risk avoidance. We need to understand and accept that taking risks is often unavoidable when delivering services and projects. Especially for a sector as important in people's lives, and under the resource pressures that local government is.

However, we also recognise the benefits in having a coherent and consistent approach to risk so that the conversations we have with each other and our residents are clear about the challenges we face and what we are willing to do to address them, and of course what is practical to do as well.

We will use the discipline of risk management to promote understanding in support of the Council's corporate priorities. Our ***Risk Management Strategy*** sets out in clear guidance the tools and approach designed to achieve clarity and consistency in risk management. It will allow us to identify those current, emerging and future risks we are willing to accept, be clear on those we want to reject, and effectively manage those we choose to take in seeking to encourage investment and sustainable growth.

Introduction

What is risk management?

Risk management is the process that we adopt to identify, evaluate and control and mitigate risks.

A risk is **a potential future event that if it materialises has an effect on the achievement of our objectives**. They relate to uncertainty and we measure the scale of risks in terms of *impact* and *likelihood*.

What are the advantages of risk management?

By having arrangements in place to identify and manage our risks, we increase the chances of achieving corporate and operational objectives and reduce the chance of failure. Effective risk management also increases our ability to cope with developing and uncertain events. The only thing constant is change; risk management helps us to anticipate, plan for and react to those changes.

Risk management is a key component for effective corporate governance, and as a Local Authority we must be, and must be seen to be, very careful custodians of public funds. Risk information therefore enables us to make more informed decisions, and to have a clearer understanding of the consequences of those decisions.

Who is responsible for risk management?

We all have a duty to be aware of and manage the risks that may prevent us from delivering services. The formal consideration of risk should complement the service planning process, and so we would expect the Framework to be used predominantly by managers and heads of service.

What is this guidance all about?

This guide sets out the Council's risk management process. As you work through the guide it will take you through each stage of the process:

Templates are available and examples are given throughout to assist you as you capture and assess your risks. The guide assumes no prior knowledge of risk management and can either be used in full, or in part based on experience, and of course the Insurance and Risk Officer can help other officers with their understanding and completion of this vital document

Step 1: Set Objectives

A risk is an event that can impact on the achievement of your objectives. So; before you can assess what stands in your way, you need to know where you are going.

We set this out in our objectives and goals:

- **What** are you seeking to achieve?
- **When** by? And
- **Who** is responsible?

This includes understanding what the Council wants to achieve and the resources it has available – in both capacity and capability – to deliver.

Risk management should help you achieve your objectives, which in turn support the objectives of the Council. This link between Council objectives, through departmental or service objectives, is referred to as the ***golden thread***. When everyone at the Council is pulling in the same direction we have a much greater chance of being able to achieve our shared goals.

Clarifying your objectives will allow a greater understanding of what will stop you achieving those objectives, and what opportunities you need to grasp to meet your goals. Setting your objectives clearly will also reveal links to internal and external stakeholders on whom you rely as well as other external factors that will impact your objectives.

Step 2: Risk Identification

This step has two main elements:

- ***Initial risk identification***: For example when creating a new service plan, starting a project,
- ***Continuous risk identification:*** Identifying new risks and changes to existing risks, including those which emerge over time, or result from an unexpected event.

Risks are about *uncertainty* and so it is important that when you identify your risks, you are really finding the uncertain event that could impact on your objective. So, defining the risk becomes very important, because you need to understand how to manage it.

One of the most common pitfalls is to simply say the opposite of the objective – look instead for those potential events or circumstances. Below is an example:

Objective	Potential Risk Statement	Is this a risk?
To deliver project X	Failing to deliver project X	✘ This is simply stating the opposite of the objective.
	Complaints are received about project X	✘ This is a statement of the potential ***impact*** not in itself a risk.
	Lack of project management expertise means the project overruns and is not delivered within budget	✓ This is a risk we can ***control*** by, for instance, providing training or employing specialist resources.
	The project budget has reduced	✘ This has already happened and so is not uncertain. Risks look ahead to potential events and so involve at least some uncertainty.
	Software provider goes bust during project implementation	✓ This is a risk over which we have little or no direct control, but we can assess ***likelihood*** and, if required, make contingency plans.

Common techniques used across the Council to identify risks are **horizon scanning**, **brainstorming**, **workshops** and **facilitated discussions**. Asking the following questions can help identify risks:

- If in a year from now we haven't achieved this objective, why – what could have stopped us?
- What could realistically go wrong?
- What do we need in order to achieve this objective? Do we depend on others to succeed?
- What opportunities might arise?

Risk Ownership

Once identified, it is important to allocate someone to ***own the risk***, taking principal responsibility for monitoring and co-ordinating the response to the risk. Risk ownership is not the same as actually undertaking or being responsible for carrying out actions in response. Rather, the role is aimed at ensuring necessary actions take place, otherwise there is a chance management actions may not be completed.

The best risk owner will usually be someone closely involved in delivering the area of the business where the risk arises.

Your risks should be recorded on the ***risk register****.*

Step 3: Risk Evaluation

The purpose of this step is to understand the scale of the risks that have been identified and whether or not we need to take action to lower or manage the *impact* and/or *likelihood*.

The first part of the evaluation is to gauge the scale of risk as it currently stands. This is the 'business as usual' position, referred to as the ***inherent risk*.** This means the risk as it exists with no additional measures taken, bearing in mind our current procedures, policies and processes etc.

We understand the scale of the risks by incorporating two principal elements:

- **Impact:** This is a consideration of how severely the Council would be affected if the risk was to materialise.
- **Likelihood:** This is a consideration of how likely it is that the risk will occur. In other words, the probability that it will materialise.

Likelihood

Rating	Score	Likelihood
Very Likely	4	● More than 85% chance of occurrence ● Regular occurrence ● Circumstances frequently encountered
Likely	3	● More than 65% chance of occurrence ● Likely to occur within next 12 months ● Circumstances have been encountered
Unlikely	2	● 31%-65% chance of occurrence ● Likely to happen within next 2 years ● Circumstances occasionally encountered
Rare	1	● Less than 30% chance of occurrence ● Circumstances rarely encountered or never encountered before

Impact

Headings	Reputation	Strategic	Wellbeing	Service Delivery	Finance	Compliance
4 Severe	Council receives nationally adverse publicity perceived as failing in a significant area of responsibility	Failure to deliver council priorities / services / major corporate project	Significant staff dissatisfaction / long term absence / increased staff turnover including key personnel	Loss of service for a significant period	Financial loss or overspend greater than £500k	Breach of law leading to some sanction Litigation almost certain with some / minimal defence
3 Significant	Significant adverse local publicity	Possible impact on the delivery of council priorities	Declining staff dissatisfaction / loss of staff due to absence or turnover	Reduction in service performance / service disruption for 1 – 2 days	Financial loss or overspend between over £250k	Breach of regulation or responsibility or internal standard Litigation possible
2 Moderate	Minor impact on staff morale/public attitudes	Minor / adverse impact on Council priorities	Possible short-term staff dissatisfaction / likely impact on absence and turnover	Poor service / service disruption up to one day	Financial loss or overspend between £50k - £250k	Breach of internal procedure or policy Complaints likely
1 Minor	Unlikely to cause adverse publicity	No significant impact on the delivery of Council priorities	Loss of staff morale but unlikely to result in absence or turnover of staff	No significant difficulty providing a service or delivery of a project	Financial loss or overspend under £50k	Minor breach of policy or internal procedure Complaints Unlikely

Risk Matrix

Once you have established a risk score, plotting them on a **risk matrix** shows the overall risk profile (example below, with the risk just identified shown as **R1**).

Likelihood	**Very Likely (4)**	**Moderate (4)**	**High (8)**	**Extreme (12)**	**Extreme (16)**
	Likely (3)	**Low (3)**	**Moderate (6)**	**High (9)**	**Extreme (12)**
	Unlikely (2)	**Very low (2)**	**Low (4)**	**Moderate (6)**	**High (8)**
	Rare (1)	**Very low (1)**	**Very low (2)**	**Low (3)**	**Moderate (4)**
		Minor (1)	**Moderate (2)**	**Significant (3)**	**Severe (4)**
	Impact				

The risk profile is a simple graphical representation of risk information that provides visibility and can assist management decision making, particularly when comparing the positioning of a range of risks. The position of the risk on the matrix can help us to quickly see those risks that are of higher impact and likelihood.

The following guide can help to assist you in considering how to respond to, and manage each risk:

Risk Rating	
12-16	Risks at this level sit above the tolerance of the Council and are of such magnitude that they form the Council's biggest risks. The Council is not willing to take risks at this level and action should be taken immediately to manage the risk.
8- 9	Risks at this level sit above the tolerance of the Council and are of such magnitude that they form the Council's biggest risks. The Council is not willing to take risks at this level and action should be taken immediately to manage the risk.
4-6	These risks sit on the borders of the Council's risk appetite and tolerance and so while they don't pose an immediate threat, they are still risks that should remain under review. If the impact or likelihood increases then risk owners should seek to manage the increase.
3-4	These are low level risks that could impede or hinder achievement of objectives. Due to the relative low level it is unlikely that additional controls will be needed to respond to the risk.
1-2	Minor level risks with little consequence but not to be overlooked completely. They are enough of a risk to have been assessed through the process, but unlikely to prevent the achievement of objectives.

Step 4: Risk Treatment (Mitigations)

Risk treatment involves taking actions to reduce ***likelihood*** of the risk occurring, or limiting the ***impact*** if the risks did materialise.

There are 4 principal ways in which we can respond to risks, these are known collectively as 'the Four Ts':

TREAT	TOLERATE	TRANSFER	TERMINATE
Taking action. This is the most common way of managing risks.	This means accepting the likelihood and consequences of the risk.	This means shifting the risk, in whole or part, to a third party.	This means deciding to cease the activity which causes the risk.

The actions we take will be influenced by the scale of the risk following the evaluation. Generally speaking, we will want to review any risk scoring 9 (**AMBER**) or higher. The table below provides detail on what action should be taken for each level of risk:

Matrix Position	What does this mean?	What happens next?
RED ***Extreme*** (Score 12-16)	Top risk, requiring immediate action and ongoing reporting	**Take immediate action to treat risk** and report to CMT/Governance and Audit
AMBER ***High*** (Score 8-9)	High risk, requiring immediate action	**Treat the risk** by identifying actions to reduce likelihood / impact Highlight to Governance Audit in Annex to report
YELLOW ***Moderate*** (Score 6-7)	Medium risk, review current controls	**Consider risk treatment –** review risk quarterly
GREEN ***Low*** (Score 3-4)	Low risk needing no immediate action	Keep under **review and monitor** at next scheduled review
BLUE ***Very Low*** (Score 1-2)	Minimal risk requiring no action	Note to **monitor** annually

Internal Controls

One of the key ways in which a risk can be treated is by putting in place controls, or by improving current controls. A description of the types of internal controls and examples are included below:

Control Category	Description	Examples
Preventative	Designed to ***prevent*** the possibility of an negative outcome (this will be the majority of risk related controls)	● Financial Procedure Rules ● Prior authorisation of expenditure ● Separation of duties ● Access controls (systems and physical) ● Data retention and destruction
Detective	Designed to ***detect*** problems and thus allowing them to be addressed	● Reconciliation between control totals ● Analytical review ● Exception reporting ● Sample checking ● Physical checks
Directive	Designed to ***direct*** people or processes towards a desired outcome	● Policies and procedures ● Training and awareness ● Manuals ● Job Descriptions and Duties

If you have identified actions to treat your risks, the next stage is to re-evaluate the impact and likelihood to reflect how those actions plan to manage the risk to a more acceptable level.

Residual Risk

Using the previous example, we have identified some actions and re-evaluated the impact and likelihood of the risk again:

Risk	Risk Owner	Key Existing Controls	Overall Inherent Rating			Controls Planned	Residual Rating		
			Impact	L'hood	Grade		Impact	L'hood	Grade
Lack of project management expertise means the project overruns and is not delivered within budget	Project Board	Regular Project Board oversight Project Management training delivered	4	4	**16**	Appoint a qualified Project Manager Implement a formal monthly project update report	2	2	**4**

Step 5: Monitoring & Reporting

Once you have identified your risks, determined the ***inherent*** and ***residual*** risk (if you have identified treatment), record this information on the **risk register** (example Annex 1) and send it to the ***Insurance and Risk Officer.***

This register will be updated when risks become known or existing risks are refreshed quarterly please continue to send risk updates to the Insurance and Risk Officer as they become known.

We also want to look at emerging and future risks - this includes helping to identify them, putting mitigations in place - this ideally should be done at any point during the year but of course it will be important that it is recorded on the risk register.

Emerging risks include anything that is just starting to become apparent - there may not be many details, or the risk course may not be determined yet, but again by identifying these risks we can start to determine a course of action.

Future risks could be anything from upcoming projects or forecasting risks that may occur; these can be trickier to identify and may not have many mitigations. But it is important that these are identified where possible and as soon as possible.

Operational risks are identified from the 'bottom up' through your service planning for the year ahead and through continuous review during the year. Corporate level risks are identified through engagement with Senior Management.

The following monitoring and reporting activities are in place to ensure that our risks are kept under control:

- Four times a year risk reports are sent to Corporate Directors and Directors to enable broader consideration of risks across the Council
- CMT review and update of risk actions (as per your risk register) during the year for those risks that are scored as **RED** or **AMBER**
- Four times a year a report is presented to Audit and Governance Committee to provide assurance over the risk management process
- Annual meetings with each directorate to fully review their risk registers.
- Section on CMT/Cabinet/Council reports that will show that the risks of any changes or new projects have been considered prior to approval.