Risk Management Policy

The Risk Management Policy (the Policy) forms part of the Council's internal control and governance arrangements. The Policy sets out the Council's overall commitment and approach to risk management.

Purpose

This document sets out the Council's policy in relation to the management of external and internal risks. The aim of risk management is not necessarily to eliminate risks completely, but to ensure that risks are identified, evaluated and economically managed.

Risk management is not just the prevention or mitigation of unwanted consequences but is also the about identifying opportunities and assessing their risks

Background

The Council and its partners provide a wide range of services to the local community, many of which give rise to risks. The Council has a statutory responsibility to have effective arrangements in place for the management of risk. Notwithstanding that requirement, good managers proactively manage risks to help the achievement of objectives. Regular identification, assessment and control will help minimise the impact of risk upon service delivery.

Policy

The Council recognises the need for effective risk management to assist in the achievement of its objectives.

The Corporate Management Team will maintain a corporate strategic risk register which it reviews at least quarterly, detailing the key risks for the Council and assigning appropriate responsibility for managing those risks.

Managers are responsible for managing risks within their own service areas. Directors are responsible for reviewing, on a regular basis, their key risks across their department and within any partnership working and for putting in place arrangements to manage that risk.

The Audit Committee will monitor, on behalf of the Council, the effectiveness of the risk management process and review, on a periodic basis, the Council's strategic risk register.

The risk management process needs to be easily understood, cost effective and controls to mitigate risk must be proportionate to the potential impact should a risk materialise.

Most risks cannot be completely eliminated by controls and the level of residual acceptable risk is a matter for managers to assess within a risk appetite. The Council recognises that a single risk appetite cannot be set for all services as different risks carry

different levels of impact. Determining the level of acceptable risk within a particular service area is, therefore, a matter for management.

Key risks will appear in performance planning documentation. These will have associated entries in either departmental or the corporate risk register.

Risk Management Strategy

The Risk Management Strategy (the Strategy) sets out how the Policy will be implemented, based on the objectives listed in 2 below.

1. <u>Definition and Scope</u>

Risk has traditionally been defined as being the threat that an event or action will adversely affect the Council's ability to achieve its objectives. Increasingly, this is seen as too negative a view and a more appropriate view is that risk arises as much from our failing to respond to business opportunities when pursuing strategic and operational objectives, as it does from a threat that something bad will happen.

*Risk is therefore **an uncertainty of outcome whether it is a positive opportunity or a negative threat**.* This means an event or action adversely affecting the Council's ability to achieve its objectives or successfully execute its strategy and or limit its ability to exploit opportunities. There are also risks associated with not taking a particular course of action.

Risk is an inevitable part of everyday business and cannot be eliminated - but it can be managed.

*Risk Management is **the planned and systematic approach to the identification, evaluation and economic management of the risks associated with the Council's activities**.* It is a key element of the corporate governance framework.

Inherent (Raw) Risk is the level of risk faced by the Council prior to any controls being put in place.

Control is the processes, policies and procedures used to govern the Council's work or any additional controls or mitigating actions taken to deal with a particular situation. A judgement has to be made by the risk owner as to the numerical reduction to the inherent (raw) risk score to produce the residual (net) risk score.

Residual (Net) Risk is the level of risk faced by the Council after controls have been applied.

Acceptable Risk is the threshold value, assessed by management, above which a risk cannot be allowed to go - i.e. the amount of risk the Council is prepared to tolerate before action is required.

2.   <u>Objectives</u>

The Council's objectives with respect to risk management are to:

- Integrate risk management into the *culture* of the Council and thereby minimise the likelihood of service objectives being jeopardised;

- Promote ownership of risk by Council officers;

- Anticipate and respond to *changing* social, environmental and legislative requirements;

- Improve management of risk by taking account of threats and opportunities associated with internal and external changes that may impact the Council's risk profile;

- Improve the efficient use of resources and the appropriate targeting of key risk areas;

- Ensure departments complete an analysis of their risk exposure, develop realistic control plans and take actions to reduce the likelihood of risks materialising and /or reducing the severity of consequences should risks occur; and

- Ensure that risks are monitored on an ongoing basis.

These objectives will be achieved by:

- Integrating risk management in all key business processes.

- Establishing a consistent approach/process to risk management across the Council.

- Establishing clear roles and responsibilities.

- Providing risk management awareness training.

- Providing support and development for those involved in risk management activities.

- Reviewing the effectiveness of risk management processes on an ongoing basis.

3. Timeline

September 2011 to December 2011

Risk Management Policy to be endorsed by CMT.

Risk Management Policy to be endorsed by Audit Committee.

Risk Management Policy, Strategy and guidance to be disseminated to DMTs and service managers.

September to October 2011

Series of risk workshops facilitated by Deloitte.

October 2011

Service Plans and Performance Scorecards updated with risk information

November 2011

Departmental Registers collated from Service Plans and Scorecards and forwarded to A&I.

Corporate Register established by CMT.

December 2011

Review by Audit Committee.

Overview

Good managers are constantly engaged in risk management. Evaluating threats to delivery of service objectives and managing or mitigating those threats. Good managers will also look for opportunities to improve or become more efficient. The taking of these opportunities is encouraged provided the risks have been assessed and are controlled to within an acceptable level of risk.

Although there is a statutory responsibility within the Accounts and Audit (England) Regulations 2011 to have effective risk management, it is, in any event widely recognised as good management practice.

Risk management is about assessing the likelihood of potential events and their impact on the achievement of objectives. Therefore, risks must be linked to one of the Council's corporate objectives, either directly or through departmental or division objectives, or to one of the Health and Wellbeing Workstreams. These objectives are set out in the Performance Planning Guidance 2011-12.

Risk management is an integral part of planning services and performance management. Risk registers should therefore be closely aligned with the departmental Performance Improvement Plan / Service Plans and Quarterly Scorecard. Risks should be linked to agreed objectives. Risks can rarely be eliminated unless a function is terminated, an option not usually available to the Council. Controls must be proportionate in terms of cost and time to the risk they are attempting to mitigate.

Assessing the likelihood of an event is more an art than a science. An educated guess based on knowledge of previous events and other known future changes is often the best that is achievable. For those events over which we have no control, i.e. severe weather, the likelihood cannot be influenced by controls, only the impact. Therefore, the likelihood that a building project is delayed due to bad weather cannot be reduced by implementing a control. The impact though could be by having a penalty clause for delay built into a contract. Similarly, the impact of some events may not be reduced by a control, for example, if an individual is killed or injured whilst conducting a home visit. Having procedures to identify potentially violent customers will reduce the likelihood of the event materialising.

Assigning a Value to Risk

The point of assigning a value or score to a risk before controls have been applied (inherent (raw) risk score) is to allow some prioritisation of the most risky events and to assess the importance of controls. The Council should be focused on controlling their highest priority risks - to be clear; this is those risks which have the highest inherent (raw) risk scores. A second score is then assigned once the existing controls have been taken account of (residual (net) risk score). The controls applied

should be subject to review and those which have the most effect on reducing risk, would normally be the controls which should be assessed by management and audit on a more frequent basis. The more reliance placed upon a control, the more important it is. Alternatively, if the residual (net) risk score is still higher than is considered acceptable, this suggests that the existing controls are not sufficient and hence that further actions need to be taken to lower the residual exposure.

There are many ways of scoring risk. The Council recognises that this needs to be simple enough to enable common understanding of what a score means and have enough flexibility to cope with the wide range of activities undertaken across the Council. The Council has opted for a 6x6 model. This means that the likelihood of an event happening is ranked on a 1 to 6 scale as is the impact. The risk score is obtained by multiplying likelihood with impact. The highest risk will be scored at 36, i.e. 6x6, the lowest at 1, i.e. 1x1.

Responsibilities

Audit Committee

The Audit Committee, on behalf of the Council, will approve and monitor the risk management strategy and risk registers.

Corporate Management Team

CMT will maintain a corporate risk register of the highest priority Council wide risks and be responsible for managing those risks. The risks will feed into a Council wide risk register.

Departmental Managers

The managers of the eight Council departments are responsible for ensuring their key risks are adequately documented in either service plans or quarterly performance scorecards and ensuring that key risks within their departments are reviewed on a regular basis and managed.

Service Managers / Heads of Service

Individual service managers and heads of units are responsible for identifying and managing specific risks within their areas. They are expected to highlight their key risks for inclusion within Departmental Risk Registers to feed into service planning / performance documentation.

Project Management Office

The PMO has a unique role in that it should have oversight of the key risks affecting the One Council programme. This programme has a key role to play in ensuring the

Council's objectives are delivered and, therefore, any significant risk to an individual project represents a potential threat to overall objectives. It is, therefore, essential that the PMO ensures risks within risk logs are assessed and, where appropriate, feature on the Council wide risk register, as well as in the individual project risk log.

Strategy, Partnership and Improvement

Are responsible for ensuring that risk registers are properly completed within service planning and performance documentation.

Audit and Investigations

Will collate the Council's risk register, provide reports to the Audit Committee and provide advice and guidance to managers on risk management.

Process

Service managers will identify their own risks and feed these through DMTs. Departmental directors then pass their key risks up through to CMT. CMT will determine which departmental risks will feature on the corporate strategic register and will add their own risks and collate any themed or common risks. Service managers will utilise the template endorsed by CMT on which to record their risks. The register will show the relevant objective, the risk to that objective, an inherent or raw risk score, a residual risk score and a brief description of the controls in place to mitigate the risk causing a reduction in the score. There may be a number of controls for one risk; these do not need to be separately shown. It will also identify the person who is responsible for managing the risk.

Service Managers must recognise the risks associated with partnership working and include these, where significant, in their registers.

These risks will be reviewed on a quarterly basis by DMTs and the Department Director is responsible for consolidating these risks into a department wide register. Therefore, the Council expects each department to maintain, within its service planning documentation, a consolidated register of its risks, in a prescribed format. These risks need to be scored in a uniform way to ensure that the most significant risks are easily identified. The register must provide a brief description of the controls and the residual risk score after the controls are in place and assumed to be operational. This register will form part of the service planning and performance scorecard documentation. Provided risks are adequately captured in these documents, there is no requirement to maintain a separate risk register.

The Strategy, Partnership and Improvement Team will extract the risk registers from planning and performance documentation and pass these on a quarterly basis to Audit and Investigations. The Head of Audit and Investigations will arrange for the register to be reviewed by the Audit Committee at periodic intervals.

Risks which are associated with individual projects would normally be captured within a risk log as part of project documentation. Where risks within projects have potential to undermine the achievement of wider Council objectives they need to also be included in risk registers. Project risks tend only to be a brief description of the risk and control with no assessment of the likelihood or impact. Therefore, inclusion in the risk template will require some additional assessment.

Guidance

The attached spreadsheet sets out the register's format.

The following system should be used to identify and assess risk:

1. Set out the service area objective which is at risk (this should be consistent with the objectives set out in your Performance Improvement Plan, unless there are underlying core objectives relating to your area of operations which haven't specifically been focused on in the Performance Improvement Plan, but which are key from an operational perspective / service delivery perspective).

2. For each objective, identify the events which may occur which would have an impact upon achievement if they did occur.

3. With no controls in place, assess the likelihood of that event occurring using a 1 to 6 rating - see Appendix 1.

4. Assess the impact of that risk if it actually occurs, using a 1 to 6 rating - see Appendix 1.

5. Identify existing controls and their strength.

6. Re-assess the likelihood and impact assuming controls are working as intended.

7. Determine what to do about the residual risk, if anything - is it tolerable, do you treat it (implement a further control or action), transfer it or terminate the activity.

8. Assign a responsible officer to implement the actions.

Risk Appetite

In using the 6x6 scoring system, a consistent methodology for measuring and scoring risks will be applied throughout the Council. The Council has not set an overall risk appetite and it is for departmental directors to determine their own appetite. The appetite can be applied across a department by setting an acceptable score for residual risk.

For example: any residual (net) risk score of 9 or less is considered acceptable (unless the impact is very serious); between 10 and 20 could be acceptable provided DMT approval is given (unless the impact is serious or very serious); and anything rated 24 or higher would need to be signed off by CMT. This concept can be simply demonstrated by the table below, using a traffic light coding system.

Impact	**6**	6	12	18	24	30	36
	5	5	10	15	20	25	30
	4	4	8	12	16	20	24
	3	3	6	9	12	15	18
	2	2	4	6	8	10	12
	1	1	2	3	4	5	6
		1	**2**	**3**	**4**	**5**	**6**
		Likelihood					

Where the residual (net) risk score is considered unacceptable e.g. a red or amber residual risk score, an action plan will need to be developed to address weaknesses in existing controls or implement new controls. Some of these control weaknesses are likely to feature in the Council's Annual Governance Statement.

Reporting of Risk

Reporting will be as follows:

- CMT is responsible for evaluating and managing the Council's key corporate risks to ensure the achievement of objectives contained within the Borough Plan. The Corporate Risk Register will be reviewed by CMT and reported to Audit Committee.

- There will be an annual review of the Council's Policy and Strategy to be reported to Audit Committee each year.

- Directors and Heads of Service are responsible for ensuring that risk is considered at the point of setting objectives within the Performance Improvement Plan, and also that key risks are evaluated and that there are processes / controls in place to manage these risks. A separate departmental risk register needs to be formulated and maintained on an ongoing basis, with formal review by DMTs on at least a quarterly basis.

- Directors are responsible for bringing to CMT any significant issues / risks (e.g. any residual red risks) as they arise during the year, particularly if only limited action is possible.

- Directors are responsible for signing off residual risks as part of the annual controls assurance process in support of the Council's Annual Governance Statement.

IMPACT AND LIKELIHOOD GUIDE   **Appendix 1**

The table below represents guidance and is not intended to be a definitive listing.

Impact Category	Descriptor	Impact Guide
Financial	1 Insignificant	Financial loss up to £50,000
	2 Minor	Financial loss up to £100,000
	3 Moderate	Financial loss up to £200,000
	4 Significant	Financial loss up to £300,000
	5 Serious	Financial loss up to £500,000
	6 Very serious	Financial loss above £1,000,000
Compliance	1 Insignificant	No regulatory consequence
	2 Minor	Minor breach of duty, legal action unlikely
	3 Moderate	Moderate breach of duty resulting in possible disciplinary action, legal action possible
	4 Significant	Significant breach of duty resulting in disciplinary action, legal action probable
	5 Serious	Serious breach of duty resulting in fines/disciplinary action, legal action expected
	6 Very serious	Major breach of duty resulting in possible imprisonment, legal action almost certain and difficult to defend
Service Delivery	1 Insignificant	Insignificant disruption on internal business and no loss of customer service
	2 Minor	Possible significant disruption to internal business and no loss of customer service Lasting less than 24 hours Affects a single or few services
	3 Moderate	Disruption to internal business or possible disruption to services to non-vulnerable groups Lasting 1 to 2 days Affects a single directorate
	4 Significant	Disruption to internal business or probable disruption to services to non-vulnerable groups Lasting 2 to 3 days Affects more than one directorate
	5 Serious	Disruption to services to non-vulnerable groups and possible disruption to services to vulnerable groups Lasting 3 to 5 days Affects most directorates
	6 Very serious	Prolonged disruption to services to vulnerable groups Lasting more than 5 days Affects the whole Council
Environmental	1 Insignificant	No or insignificant environmental damage
	2 Minor	Minor local environmental contamination with short term effects

	3 Moderate	Moderate local environmental damage with short term effects
	4 Significant	Significant local environmental damage with short to medium term effects
	5 Serious	Major local environmental damage with medium term effects
	6 Very serious	Major local and national environmental damage with long term effects for the local area
Reputational	1 Insignificant	No reputational damage or adverse publicity
	2 Minor	Minor/limited reputational damage or internal adverse publicity
	3 Moderate	Moderate reputational damage or possible local adverse publicity
	4 Significant	Significant reputational damage or probable local adverse publicity
	5 Serious	Substantial/widespread reputational damage or possible national adverse publicity
	6 Very serious	Major/severe reputational damage and national adverse publicity Central Government interest/administration
Personal Safety	1 Insignificant	No impact on personal safety
	2 Minor	Minor injury or discomfort, not requiring first aid
	3 Moderate	Short-term injury, possibly requiring first aid or limited medical attention
	4 Significant	Medium-term injury, requiring first aid or medical attention
	5 Serious	Extensive, permanent / long term injury for an individual or several people
	6 Very Serious	Death or life threatening situation for an individual or several people

Descriptor	Likelihood Guide
1 Rarely	<5% likely to occur in next 12 months Is not judged as credible / very unlikely
2 Unlikely	5% - 20% likely to occur in next 12 months
3 Possibly	20% - 40% likely to occur in next 12 months
4 Likely	40% - 60% likely to occur in next 12 months
5 Probably	60% - 80% likely to occur in next 12 months
6 Almost certainly	>80% likely to occur in next 12 months / More likely than not / almost certainly