



# **RISK MANAGEMENT STRATEGY**

**March 2016**

## 1. INTRODUCTION

### What is Risk Management?

- 1.1 Risk can be defined as uncertainty of outcome. Risk is ever present and a certain amount of risk-taking is inevitable if the Council is to achieve its objectives.
- 1.2 Risk management implies adopting a planned and systematic approach to the identification, evaluation and control of the risks facing the Council and is a means of minimising the costs and disruption to the Council caused by undesired events.
- 1.3 Risk management covers the whole spectrum of risks and not just those associated with finance, health and safety and insurance. It also includes risks associated with public image (reputation), the environment, technology, contracts/partnerships, projects etc.
- 1.4 The Council also has a statutory responsibility to have in place arrangements for managing risks, as stated in the Accounts & Audit Regulations 2015:-

*“A relevant body must ensure that it has a sound system of internal control which:*

- (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;*
- (b) ensures that the financial and operational management of the authority is effective; and*
- (c) includes effective arrangements for the management of risk.”*

### The Benefits of Risk Management

- 1.5 The benefits gained from effectively managing risk include:

✧ **Improved strategic management**

- Greater ability to deliver against objectives and targets;
- Improved Decision Making

✧ **Improved operational management**

- Reduction in managerial time spent dealing with the consequences of a risk event having occurred;
- Improved service delivery

✧ **Improved financial management**

- Better informed financial decision-making
- Greater financial control
- Minimising waste and poor value for money
- Reduction in costly claims against the Council

❖ **Improved customer service**

- Minimal service disruption to customers and a positive external image as a result of all of the above.

## **2 RISK MANAGEMENT AIMS AND OBJECTIVES**

2.1 The aim of risk management is to ensure that the Council has an effective process to support better decision making through good understanding of risks and their likely impact.

2.2 The objectives of the Council's risk management strategy are to:-

- Raise awareness of the need for risk management;
- Minimise loss, disruption, damage and injury and reduce the cost of risk, thereby maximising resources;
- Inform policy and decision making by identifying risks and their likely impact.

2.3 These objectives will be achieved by:-

- Establishing clear roles, responsibilities and reporting lines within the Council for risk management;
- Effective communication with, and the active involvement of, Service Managers and Heads of Service;
- Monitoring progress in delivering the strategy and reviewing the risk management arrangements on an on-going basis.

## **3 ROLES AND RESPONSIBILITIES**

3.1 The table below outlines the key roles within the risk management framework:-

Cabinet	<ul style="list-style-type: none"><li>• To approve the Risk Management Policy and Strategy (including the Council's risk appetite)</li><li>• To approve the Strategic Risk Register</li><li>• To monitor progress in the management of Strategic Risk</li></ul>
Audit & Accounts Committee	<ul style="list-style-type: none"><li>• To ensure that the Council has an effective risk management process in place</li><li>• To monitor progress on the management of Strategic Risks</li></ul>

Leadership Team	<ul style="list-style-type: none"> <li>• To determine the Council's risk appetite</li> <li>• To identify strategic risks</li> <li>• To determine actions to manage strategic risks</li> <li>• To monitor progress in managing strategic risks</li> </ul>
Service Managers	<ul style="list-style-type: none"> <li>• To support Leadership Team in the identification and management of Strategic Risks</li> <li>• To manage operational risks effectively in their particular service areas</li> <li>• To monitor and review risks at appropriate intervals</li> </ul>
Employees	<ul style="list-style-type: none"> <li>• To identify risks</li> <li>• To implement actions as instructed</li> </ul>
Head of Governance	<ul style="list-style-type: none"> <li>• To ensure that the Council has an effective risk management framework</li> </ul>
Risk & Resilience Manager	<ul style="list-style-type: none"> <li>• To develop and review the risk management strategy and process in accordance with best practice</li> <li>• To provide advice and support to Leadership Team and Service Managers on the identification, analysis and prioritisation of risks</li> <li>• To report on the identification and progress of strategic risks to the Audit &amp; Accounts Committee</li> <li>• To provide risk management training as required to officers and Members</li> </ul>
Internal Audit	<ul style="list-style-type: none"> <li>• Provide advice and guidance on the management of risk relating to the design, implementation and operation of systems of internal control.</li> </ul>

#### **4 ARRANGEMENTS FOR MANAGING RISKS**

4.1 The risk management methodology to be employed at the Council is outlined in Appendix 1.

#### **5 MONITORING ARRANGEMENTS**

5.1 To ensure that informed decisions are made, it is essential to identify key strategic risks. Strategic risks will be identified at Leadership Team level as part of the Corporate Planning process and will be documented in a Strategic Risk Register which will be maintained by the Risk & Resilience Manager on behalf of the Leadership Team.

- 5.2 Progress in managing strategic risks will be monitored and reported on to ensure that intended actions are delivered and risks managed.
- 5.3 The Strategic Risk Register will form the basis of half yearly risk management reports to Cabinet and the Audit & Accounts Committee.
- 5.4 Internal Audit will carry out a periodic review of the Council's risk management arrangements to provide independent assurance as to their effectiveness.
- 5.5 Internal Audit will also during the course of it's audits throughout the year:
- Identify and report weaknesses in the controls established by management to manage/monitor risks;
  - Provide advice on the design/operation of the controls established by management to manage/monitor risk.
- 5.6 The Chief Internal Auditor will review the strategic risk register on an annual basis and incorporate strategic risk areas into the Internal Audit planning process as appropriate.
- 5.7 Service Managers should maintain a record of key operational risks within their service area relating to service change, projects and significant procurement. Progress in managing these risks should be monitored on a regular basis. (A template can be found at Appendix 2).

## **6 TRAINING & COMMUNICATION ARRANGEMENTS TO SUPPORT IMPLEMENTATION OF THE STRATEGY**

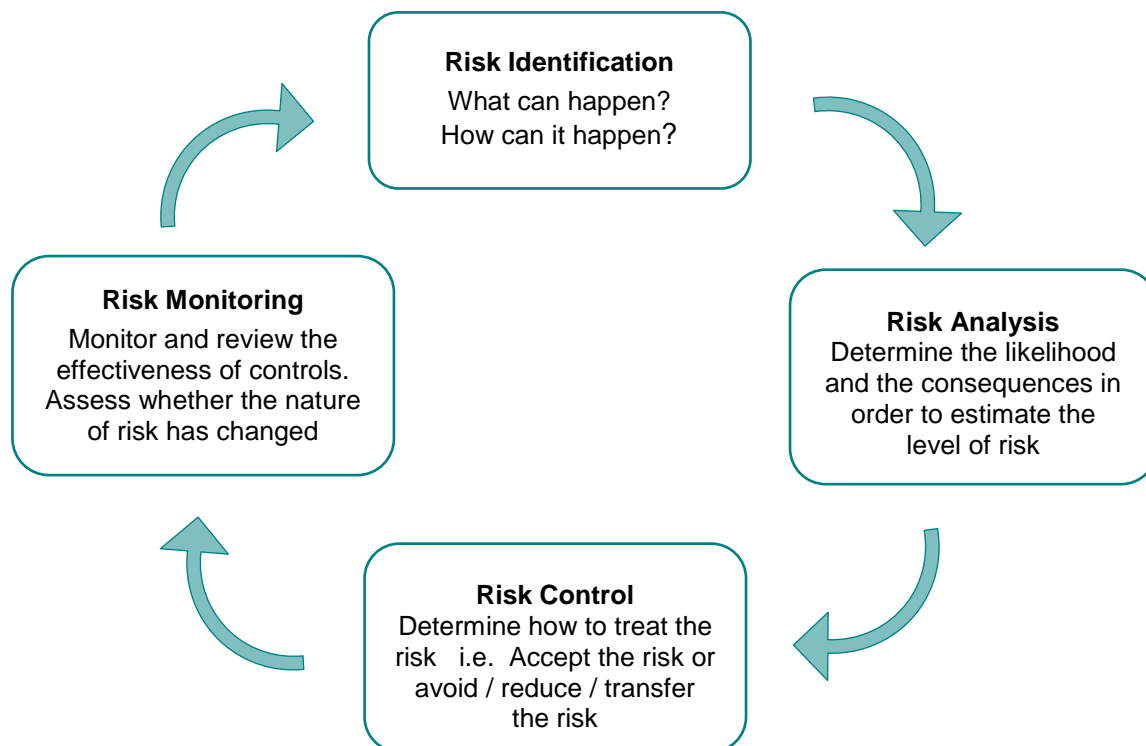
- 6.1 Training in the risk management methodology will be provided to those officers with direct responsibility for / involvement in the risk management process.
- 6.2 Training in the risk management methodology will be provided to:
- the Cabinet;
  - the Audit & Accounts Committee;
  - Leadership Team;
  - Service Managers; and
  - Other employees as appropriate.

## **7 REVIEW OF RISK MANAGEMENT STRATEGY**

- 7.1 This strategy will be reviewed every three years.

## RISK MANAGEMENT METHODOLOGY

There are 4 key stages in the risk management cycle, as illustrated in the diagram below:-



The 4 stages of risk management are part of a cycle. Risk management is dynamic and so the identification phase needs to be carried out continuously.

### 1. Risk Identification

- 1.1 Strategic and operational risks or threats will be identified as outlined in the Risk Management Strategy (5.1 & 5.7)
- 1.2 To help in identifying risks, there are a number of risk category models which can be used. Guidance on risk categories can be found on the Council's intranet site under Risk & Resilience (resources) however; this is neither prescriptive nor exhaustive and there are a number of risk category models available on external websites which can be used.

## 2. Risk Analysis and Scoring

2.1 Once risks have been identified they need to be assessed. This process requires risk owners to assess the level of risk by considering:-

- The probability of an event occurring - “likelihood”; and
- The potential severity of the consequences should such an event occur – “impact”.

2.2 Not all factors are equally important and higher scores should be given to those risks considered to impact most on the achievement of objectives. The impact scores have therefore been weighted to reflect that more significance should be given to those risks with a medium or high impact than those with a medium or high likelihood.

The following tables provide Impact and Likelihood descriptors to assist with this process:-

### LIKELIHOOD

Score	Description	Indicative Guidelines
4	<b>Very Likely</b>	<ul style="list-style-type: none"><li>• There is a high exposure to the risk</li><li>• Event expected to occur. Has occurred and will continue to do so without action being taken</li><li>• Indication of imminent occurrence</li><li>• There are external influences which are likely to make our controls ineffective</li></ul>
3	<b>Probable</b>	<ul style="list-style-type: none"><li>• There is a moderate exposure to the risk</li><li>• Reasonable to expect event to occur</li><li>• Has occurred in the past</li><li>• Is likely to occur within the Council’s planning cycle</li><li>• There are external influences which may reduce effectiveness of controls</li></ul>
2	<b>Possible</b>	<ul style="list-style-type: none"><li>• There is a low exposure to the risk</li><li>• Little likelihood of event occurring</li><li>• There is a potential for external influences which may reduce effectiveness of controls</li></ul>
1	<b>Unlikely</b>	<ul style="list-style-type: none"><li>• Extremely remote</li><li>• Not expected to occur but may do so in exceptional circumstances</li><li>• There are few or no external influences which may reduce effectiveness of controls</li></ul>

## IMPACT

Score	Description	Indicative Guidelines
<b>5</b>	<b>Major/Serious Consequences</b>	<p>The consequence is so bad that urgent action must be taken to improve the situation or prevent it worsening. External support from the Government or other agencies is likely to be needed:</p> <ul style="list-style-type: none"> <li>• Major loss, delay or interruption to services</li> <li>• One off event which would de-stabilise the Council</li> <li>• Financial loss, additional costs or loss of assets which would need a Council decision as the scale of the loss would be outside the Council's budget &amp; policy framework</li> <li>• The risk will cause the objective not to be reached, causing damage to the organisation's reputation.</li> <li>• Will attract medium to long-term attention of legislative or regulatory bodies</li> <li>• Major complaints</li> <li>• Significant adverse media interest</li> <li>• Death or life threatening injury</li> </ul>
<b>3</b>	<b>Moderate/ Disruptive</b>	<p>The consequence is sufficiently serious to require attention by Leadership Team and / or the Cabinet:</p> <ul style="list-style-type: none"> <li>• Significant loss, delay or interruption to services</li> <li>• Medium term impact on operational efficiency or performance</li> <li>• Financial loss, additional costs or loss of assets that is within the Council's budget &amp; policy framework but needs a Statutory Officer decision, Leadership Team decision, Cabinet decision or need's to be drawn to Cabinet's attention</li> <li>• The risk will cause some elements of the objective to be delayed or not achieved, causing potential damage to the organisation's reputation.</li> <li>• May attract medium to short term attention of legislative or regulatory bodies</li> <li>• Significant complaints</li> <li>• Serious accident / injury (but not life threatening)</li> </ul>
<b>1</b>	<b>Minor/Non Disruptive</b>	<p>The consequences can be dealt with as part of the normal day-to-day business by the Service Manager and the Head of Service:</p> <ul style="list-style-type: none"> <li>• Minor loss, delay or interruption to services</li> <li>• Short term impact on operational efficiency or performance</li> <li>• Negligible financial loss</li> <li>• The risk will not substantively impede the achievement of the objective, causing minimal damage to the organisation's reputation</li> <li>• No or minimal external interest</li> <li>• Isolated complaints</li> <li>• Minor accident / injury</li> </ul>



2.3 Both gross and residual scores should be identified to effectively review and monitor the effectiveness of the controls in place.

- **Gross Score** - The level of risk faced before internal controls/mitigating actions have been applied / implemented.
- **Residual Score** - The level of risk faced after any internal controls/mitigating actions have been applied / taken into account.

Internal controls are the Council’s policies, procedures and processes or any additional controls or mitigating actions taken to deal with a particular risk. A judgement has to be made by the risk owner/facilitator as to the numerical reduction to the gross risk score to produce the residual risk score.

2.4 The residual scores are then plotted onto the risk matrix, see below, which will determine the risk priority.

RISK		IMPACT		
		Minor/Non-Disruptive (1)	Moderate/Disruptive (3)	Major/Serious Consequences (5)
LIKELIHOOD	Very Likely (4)	4	12	20
	Probable (3)	3	9	15
	Possible (2)	2	6	10
	Unlikely (1)	1	3	5

### 3. Risk Control

3.1 Having identified and analysed the risks, it is necessary to decide what to do and who will do it. Priority will be given to the High (red) risks which will require immediate action plans.

3.2 Medium (Amber) risks will require actions plans and / or to be closely monitored as appropriate.

3.3 Low-scoring (Green) risks can be “accepted” and will not require actions plans. However, these risks will need to be monitored to ensure that controls remain operational to manage them and that such risks do not run out of control and become Medium (Amber) or High (Red) risks.

- 3.4 Where it is not deemed appropriate to accept the risk, the risk will need to be controlled. Risk control is the process of taking action to minimise the likelihood of the risk event occurring and/or reducing the severity of the consequences should it occur. There are 3 main options for controlling risk; avoidance, reduction and risk transfer.
- 3.5 **Risk avoidance** involves the Council opting not to undertake a current or proposed activity because it is considered to be too risky.
- 3.6 **Risk reduction** is dependent on implementing actions which will minimise the likelihood of an event occurring or limit the severity of the consequences should it occur.
- 3.7 **Risk transfer** involves transferring liability for the consequences of an event to another body. This may be done in two ways:-
- (i) Cost, delivery or legal liability may be transferred to an alternative provider under contractual/partnership arrangements for service delivery; however it should be remembered that some responsibility may be retained for ensuring that the risk is managed e.g. Health & Safety.
  - (ii) The costs associated with a damaging event may be reduced by transferring some or all of the financial risk to external insurance companies however; it should be remembered that many risks are uninsurable.
- 3.8 Most risks can be managed – either by minimising the likelihood of the risk occurring and / or reducing the severity of the consequences should the risk occur. Relatively few risks have to be avoided or transferred.
- 3.9 Managers must judge which courses of control action are the most appropriate to address each of the risks they have identified, taking advice from the Head of Governance, the Risk & Resilience Manager and other support services where appropriate.
- 3.10 The cost/benefit of each control action must be assessed. The benefits will not always be solely financial. Managers need to use their own professional knowledge and experience to judge whether the financial cost of risk control is justified in terms of non-financial benefit to the Council. On occasions, managers may conclude that the cost of the control action may outweigh the benefits which will accrue to the Council as a result of the action being taken. In such instances, all or an element of the risk is retained. However, no statute should be breached when making this decision.
- 3.11 For each risk actions should be identified, the officer responsible and timescales.
- 3.12 Responsibility for drawing up the action plans lies with the Leadership Team (for strategic risks) and with Service Managers for service / operational risks.

#### **4. Risk Monitoring**

- 4.1 To complete the risk management cycle, there must be monitoring and review of:-
- The implementation of the agreed risk control action plan;
  - The effectiveness of the action in controlling the risk; and
  - How the risk has changed over time.
- 4.2 Risk owners must monitor the implementation of the risk actions to ensure that responsibilities, deadlines do not slip.
- 4.3 Strategic risks will also be monitored corporately and the arrangements for this are detailed in section 5 of the Risk Management Strategy.