Risk Management Policy Framework and Guidance

Corporate Resources Directorate

September 2018

Version Control

Version	Description of version	Effective Date
1	Policy Statement and Framework Fully Revised	December 2012
2	Review and Update for new Corporate Plan	March 2016
3	Review and Update following Senior Management Restructure	September 2018

Approvals

Approved by	Date
Finance and Management Committee	December 2012
Director of Finance and Corporate Services	March 2016
Leadership Team	September 2018
Audit Sub-Committee Review – Planned	December 2018

Associated Documentation

Description of Documentation	

1.0   POLICY OBJECTIVES

1.1   The Council is committed to risk management as an element of its strategy to preserve the Council's assets, enhance safety and productivity for residents, service users and members of the public and to protect its employees.

1.2   The principal objective is to minimise liabilities and costs and to protect the Council's reputation through effective and efficient risk management.

1.3   Risk is defined as the likelihood of harm occurring, i.e. something happening that has an adverse impact on the Council's aims and objectives. Risk needs to be managed rather than avoided and consideration of risk should not stifle innovation.

1.4   The Council recognises that it has to deliver services in an increasing litigious and risk adverse society. However, risk management is a tool for exploiting opportunities as well as a safeguard against potential threats.

1.5   A systematic approach to identifying and analysing risks is an integral part of all management processes and all day-to-day working rather than a separate issue. As such, the Council aims to embed risk management in all that it does.

1.6   The Council's aim is to use Risk Management to assist in maintaining and improving the quality of services within the Council; risk is reviewed on a regular basis.

1.7   The Council has adopted a Risk Management Framework that has the following objectives:

- Integrates Risk Management into the culture of the Council and raises awareness across its services.

- Manages risk in accordance with best practice.

- Complies with legislation and guidance.

- Increase safety awareness.

- Protects Council property, services and reputation.

- Reduces disruption to services by having effective contingency or recovery plans in place to deal with incidents when they occur.

- Raises awareness of the need for Risk Management by all those connected with the delivery of services (including partners and contractors).

- Minimises injury, damage, loss and inconvenience to residents, staff, service users, assets etc. arising from or connected with the delivery of Council services.

- Maintains a robust framework for identification, analysis, assessment and management of risk together with the reporting and recording of events, based on best practice.

- Minimises the cost of risk.

Role and Responsibilities of Senior Management and Elected Members

1.8   The Chief Executive and the Council's Leadership Team are accountable to Elected Members for the effective management of risk within the Council and will ensure that appropriate procedures, resources and skills are maintained in order to achieve this.

1.9   Elected Members have responsibility for determining the strategic direction of the Council. Within this, they need to create the environment and the structures for risk management to operate effectively. This is achieved through:

- The Council's Audit Sub-Committee, who under its terms of reference, oversees the framework for managing risk.

- A Risk Management Working Group to ensure consistency in approach, to challenge risks and to consider any detailed changes to the overall framework.

1.10   Risk management is part of the Council's internal control structure and is an integral part of corporate governance. Therefore, in evaluating the system of internal control the Council will consider:

- The nature and extent of retained or residual risk.

- The likelihood of such risks becoming reality.

- The process for the management of unacceptable risks.

- The probability and impact on the Council, including costs and benefits of actions taken.

- The effectiveness of the risk management process.

- The risk implications of Committee decisions.

Role and Responsibilities of Unit Managers

1.11   This includes:

- Responsibility for managing risk on a day-to-day basis.

- Promoting risk awareness within their service areas, including the introduction of risk into service planning/performance management.

- Incorporating risk into project management, from conception though to implementation.

Risk Management Lead (Strategic Director, Corporate Resources)

1.12   The Strategic Director is responsible for coordinating Risk Management across the Council and this includes:

- Preparing and advising on strategy, policy and associated procedures for adoption.

- Designing and reviewing processes for risk management.

- Advising on risk management issues within the Council.

- Preparing reports on risk for the Leadership Team and Elected Members.

1.13   This is supported by the work of Internal Audit who:

- Focus internal audit work on the significant risks as identified by management and auditing the risk management processes across the Council.

- Providing assurance on the management of risk to the Audit Sub-Committee.

2.0   THE RISK MANAGEMENT PROCESS & FRAMEWORK

2.1   The risk management process for South Derbyshire follows best practice and covers:

- Establishing strategic objectives for risk management (*as detailed in Section 1*)

- Assessing and Evaluating Risk, i.e.

   ➢ Identifying and describing each risk
   ➢ Analysing the likelihood of the risk occurring
   ➢ Estimating its impact

- Communicating and reporting risks

- Treatment of risk including the Council's attitude or "appetite" to each risk

- Monitoring

Risk Assessment

2.2   This is the process of analysing and assessing risks. This framework provides the guidance required to help those responsible for risk within the Council to complete their respective tasks, for example, identifying, estimating, controlling, etc. contained within the process shown above.

Risk Identification

2.3   The risk identification process is concerned with identifying the events that can impact on service objectives, i.e. what could happen. This may have a positive rather than a negative effect on the objectives.

2.4   Identifying risks is completed by assessing internal and external factors. These can be environmental, political, regulatory, financial/economic and structural, etc.
For example, an **EVENT** (or cause) that has a **CONSEQUENCE** that leads to an **IMPACT** on the Council's objectives.

Typical phrases that help with identification include:

Loss to....
Failure of....
Lack of.....
Partnership with....
Development of.....

Risk Analysis

2.5   The risks facing the Council and its operations are then categorised. As highlighted, risks can result from both internal and external factors which will include:

Strategic:	These concern the long-term strategic objectives of the Council. They can be affected by availability of resources, political, legal and regulatory changes, reputation and the physical environment.
Operational:	These concern the day-to-day issues that the Council is faced with including resources, skills and capacity issues at a detailed service level.
Financial:	These concern the effective management and control of the finances of the Council and the effects of external factors such as availability of central government grants, interest rate movement and other market conditions.
Knowledge management:	These concern the effective management and control of the knowledge resource, together with the production, protection and communication thereof. Factors might include a system malfunction or loss of key staff.
Compliance:	These concern such issues as health & safety, environmental, data protection, employment practices and other regulatory issues.

Risk Description

2.6   The objective of describing each risk is to provide clarity in a structured and consistent format.

2.7   The risk description includes identifying the consequences if the risk occurred and who, or what it affects. This methodology is also incorporated into the early planning stage of projects as well as throughout the life of a project.

Risk Evaluation

2.8   This step is about assessing which risks are going to pose the greatest threat (or opportunity). This is achieved by looking at both the likelihood of a risk occurring and its potential impact. As the likelihood and severity of impact increases the level of risk increases.

2.9   Evaluation is based on a 4-point scoring system to assess the likelihood of a risk occurring (rated unlikely through to high) and the potential impact if the risk materialised to its full extent (rated from minor to catastrophic). This is plotted on the following Risk Matrix.

Likelihood

	1 Minor	2 Moderate	3 Significant	4 Catastrophic
4 High	🟧	🟧	🟥	🟥
3 Medium	🟩	🟧	🟥	🟥
2 Low	🟩	🟩	🟧	🟥
1 Unlikely	🟩	🟩	🟧	🟧

Impact

Assessing the Likelihood

2.10   There will be existing or recent evidence that the risk is occurring and affecting a service(s). Alternatively, it is known that there is a high probability of an issue arising such as change in Government policy, a funding cut or a legal challenge, for example. In all these cases, the likelihood will be rated Medium to High.

2.11   If it is known that there is potential for an issue to occur but the probability is remote (however serious) for example a terrorist attack or an "Act of God", then the likelihood will be rated unlikely or low.

2.12   Other risks may be reflect lower operational issues that may occur from time to time; these will usually be rated Low to Medium

Assessing the Impact

2.13 A judgement is required regarding the level of seriousness on a service(s) including any knock-on effects for the whole Council, if applicable. This will depend on factors such as:

- The relative degree of financial loss

- The number of people affected

- The effect on the Council's reputation

- A loss of or reduction of a service

- Breaches of Governance – procedures, internal control, etc.

- Health and safety issues

2.14 As the potential scale increases, the impact moves up to ***significant***. At this level, the occurrence of these risks to their full extent would result in substantial financial loss, impact on a key front-line service or lead to negative media coverage, etc.

A ***catastrophic ranking*** would usually mean a life and death situation or a major displacement of people/the workforce.

2.15 It should be noted that risk scoring has an element of subjectivity. The key outcomes of this stage of the process are to:

- Ensure all key risks in each service area and corporately, are captured.

- Identify risks in some priority order to target and review remedial action.

Risk Appetite and Risk Treatment

2.16 Ultimately, for each risk identified, a decision has to be reached to determine the best action that **treats** the risk minimising the likelihood and impact on the Council, *as far as is reasonably practicable*.

2.17 Risk treatment is the process of selecting and implementing measures to reduce the level of risk as far as is reasonably practicable. This is based on what degree individual risks can be tolerated and the Council's "appetite" regarding risks.

2.18 Risk appetite depends on the level of each risk and where it sits in the context of delivering services and priorities. The Council will do all that is reasonably practical to mitigate risks and put in place relevant controls.

2.19   Generally, the higher the risk, the greater is the degree of risk treatment, i.e. the Council will attempt to mitigate the risk through intervention and control measures. This could include transferring the risk through insurance or to a third party or by terminating the relevant activity, where these options exist.

2.20   Generally, lower level risks are tolerated and the degree of monitoring and control is more limited and proportionate to the risk involved. Risk treatment is a key element of monitoring and is regularly updated alongside the success or otherwise of control measures in place.

2.21   The reasons for choosing a particular risk treatment are documented and an integral part of the overall process. Any resource implications involved in risk treatment are also reported.

2.22   However, the concept of "reasonably practicable" is adhered to; proportionate action is taken to reduce the level of risk unless the cost (e.g. in financial or other resource terms) of reducing a risk is grossly disproportionate to the level of risk and impact on the Council.

2.23   All individual risks are prioritised and then appropriate measures are considered to manage risks to acceptable levels. This is done by considering:

- Can the probability of occurrence be reduced?

- Can the magnitude of loss be reduced?

- Can the consequences of the risk be changed?

Treating Risk

2.24   The Council uses four basic approaches to lowering (or treating) the risk:

Terminate   -   Stop doing the activity or find a different way of doing it, or introduce alternative systems/practices.

Treat   -   Put procedures and controls in place to reduce the chance of a loss happening, or the frequency of a loss, or the severity of the incident.

Formulating a contingency plan to reduce interruption to services.

Introduce new internal systems and practices, staff training, physical risk improvements - all with continued assessment & monitoring.

Tolerate - Based on an informed decision to accept and retain the risk; in this case monitor the risk and meet any losses out of normal operating costs or council reserves.

Transfer - Place indemnity clauses in a contract, obtain insurance cover, or externalise activities to a third party or organisation.

2.25 As further guidance to treatment and action measures, the 4 by 4 Matrix can also be illustrated as follows:

Likelihood

4 High 3 Medium	**House Keeping -** these risks have a high likelihood of happening but they do not have a high impact; they require routine management.	**Primary -** these risks have both a high probability of happening, together with a high impact; these risks require urgent attention.
2 Low 1 Unlikely	**Low Level -** these risks are non-threatening and should be kept under review to ensure that they do not change.	**Contingency -** these risks have a low probability of occurring but the impact could be significant; robust plans should be in place and regularly reviewed
	1 Minor 2 Moderate	3 Significant 4 Catastrophic

Impact

Information and Communication

2.26 The information requirements and responsibilities at the differing levels within the Council is summarised below:

Elected Members

- Review significant risks facing the Council.

- Consider effects on reputation with stakeholders.

- Review the levels of awareness throughout the Council.

- Consider plans in place to manage a crisis.

- Review communications with the community and stakeholders.

- Obtain assurance that the risk management process is working effectively.

- Publish a clear risk management policy

The Leadership Team and Unit Managers

- Be aware of risks that fall into the relevant area of responsibility, the possible impacts these may have on other areas and the consequences other areas may have on them.

- Complete and maintain risk assessment documentation.

- Monitor risks including a review of control mechanisms and actions to manage risks.

- Make relevant staff aware of the Council's approach to Risk Management as detailed in this document and encourage staff to report on risk to their managers.

- Report to Elected Members any perceived new risks or failures of existing control measures.

All staff

- Take responsibility for individual risks where appropriate.

- Understand how they can assist with continuous improvement of risk management.

- Understand that risk management and awareness is a key part of the organisation's culture.

- Report to management any perceived new risks or failures of existing control measures through team meetings and other employee forums.

Reporting

2.27 Reports to Elected Members setting out risk management policies and the effectiveness in achieving its objectives are made on a regular basis as part of the Council's service and performance management framework. This includes non-financial performance in such areas as employment practices, health and safety and the environment.

2.28 In accordance with good corporate governance a robust approach to risk management is adopted which aims to:

- Protect the interests of stakeholders.

- Ensures that Elected Members discharge their duties to direct strategy, build value and monitor performance of the Council.

- Ensures that management controls are in place and are performing adequately.

2.29   The arrangements for the formal reporting of risk management are as follows:

Service Plans – detailed risk registers where each service risk is cross referenced to the relevant Theme/Priority in the Corporate Plan.

Corporate Plan - strategic risks that impact across several services and the Council's overall vision.

Quarterly Performance Reports – a review of individual risks against key measures and targets. The reporting templates are shown in **Appendix 1** (the Risk Matrix) and **Appendix 2** (Risk Detail and Action Plan)

New Policies – an assessment of risk as part of the business case for implementing a new policy, service restructure or new investment, etc. If not incorporated direct within the standard report template, an analysis is detailed in the Corporate and Community implications of the proposal.

2.30   The formal reporting addresses:

- The control methods and management responsibilities for risk management.

- The processes used to identify risks and how they are addressed.

- Monitoring and review systems in place.

- The Council's risk appetite and treatment of each risk.

- Changes to risk levels and how actions have and are impacting upon each risk.

2.31   Under its term of reference, the Audit Sub-Committee reviews this Framework on a regular basis based on the work of Internal Audit. The Committee also ensures that a framework for managing risk is included in the Council's system of internal control. This is reported in the Annual Governance Statement.

Reviewing Risks and Monitoring the Risk Management Process

2.32   As part of the Council's service and performance management framework, service and corporate risks are monitored on a regular basis as detailed above. This includes reviewing and updating associated actions/control measures, together with

any movement in risk ratings. New risks and changes to the Council are also reported as part of this process.

2.33   Under its terms of reference, the Council's Audit Sub-Committee oversees the risk management framework as part of its assurance role. The Council's Finance and Management Committee are responsible for setting policy and associated strategy.

2.34   The main aim of the monitoring process is to provide assurance that there are appropriate controls in place for the Council's activities and that risk management procedures are understood and followed.

2.35   The Risk Management Group acts as a senior corporate team to provide a challenge to risks, to ensure consistency of approach and to determine whether:

- Control measures adopted resulted in what was intended.

- Procedures adopted and information gathered for undertaking the assessments was appropriate.

- Improved knowledge would have helped to reach better decisions.

- Lessons could be learned for future assessments and management of risks.

SERVICE / STRATEGIC RISK REGISTER TEMPLATE

Likelihood

	1 Minor	2 Moderate	3 Significant	4 Catastrophic
4 High	🟧	🟧	🟥	🟥
3 Medium	🟩	🟧	🟥	🟥
2 Low	🟩	🟩	🟧	🟥
1 Unlikely	🟩	🟩	🟧	🟧

Impact

Risk   **Description**

STRATEGIC RISK REGISTER: ACTION PLAN

Risk	Rating and Current Position	Risk Treatment	Mitigating Actions	Change since last Quarter
Outline Risk from Matrix	*Why is risk rated as either Red, Amber or Green on Matrix (shade box to reflect rating)*	***Options**:* *Treating the risk through continuous action and review* *Tolerate the current situation and keep under review* *Transfer the risk* *Terminate the activity*	*Outline current and future actions*	*Has rating changed and why* *If no change, just state so.*