Risk Management Strategy

2020/21 Review

Leadership Team	3 February 2020
Performance, Audit and Governance Scrutiny Committee	19 May 2020

Contents

Section 1 - Context

Policy statement

Risk is present in everything that we do, so it is our policy to identify, assess and manage the key areas of risk.

East Herts Council recognises that risk management is an essential element of good governance and must be embedded in the culture of the Authority, particularly projects and strategic decisions, including procurement and contracting. It supports informed decision making thereby enabling opportunities to be exploited, or action to be taken to mitigate or manage risk to an acceptable level.

In order to obtain a clear picture of the risks that threaten the council's ability to achieve its objectives, it is important that the council determines its 'risk appetite' – the level of risk that is considered acceptable for the organisation to be exposed to. The Risk Management Strategy reflects our 'risk appetite', the size of the Authority and, the nature of our operations and the drive to reduce bureaucracy.

The objectives of this strategy are:

- Define what risk management is about and what drives risk management within the council.
- Set out the benefits of risk management and the strategic approach to risk management.
- Outline how the strategy will be implemented.
- Identify the relevant roles and responsibilities for risk management within the council.
- Formalise the risk management process across the Council.

Approval, communication, implementation and review

The Risk Management Strategy is on the intranet and is specifically issued to all :

- The Executive Members,
- Performance, Audit and Governance Scrutiny Committee
  Leadership Team and Senior Managers

The strategy is reviewed each year, and following key changes in central or local policies. Risk management is also subject to frequent audit by the Shared Internal Audit Service (SIAS) and feeds in to the risk-based audit planning process.

Section 2 - What is risk management and why do we do it?

Risk Management can be defined as:

The process which aims to help organisations understand, evaluate and take action on all their risks with a view to increasing the probability of their success and reducing the likelihood of their failure. (Source: The Institute of Risk Management).

Risk management at East Herts Council is essentially about identifying risks that exist at a strategic level, or pose the greatest threat to services.
The council maintains two tiers of risk register:

- Strategic risks – the highest level 'business' risks.
- Operational risks – the day to day issues faced by services and Project Managers.

Once identified, the next stage is to prioritise risks to identify which are key to the Council moving forward. It is essential that steps are then taken to manage these effectively.

There should also be a consideration of the positive or 'opportunity' risk aspect. (For more information see Section 3, 'risk identification').

National drivers behind strategic risk management

- The CIPFA/SOLACE framework on Corporate Governance requires the Council to manage risks and performance through robust internal control and strong public financial management. Risk management and internal control are integral parts of a performance management system and are crucial to the achievement of outcomes. Robust and integrated risk management arrangements are required, and risk should be addressed as part of all decision making activities.

- Risk management is best practice in both the public and private sectors.

Benefits of risk management

Public services are facing unprecedented challenges and the effective management of risk is needed more than ever. A risk-managed approach to decision making will help
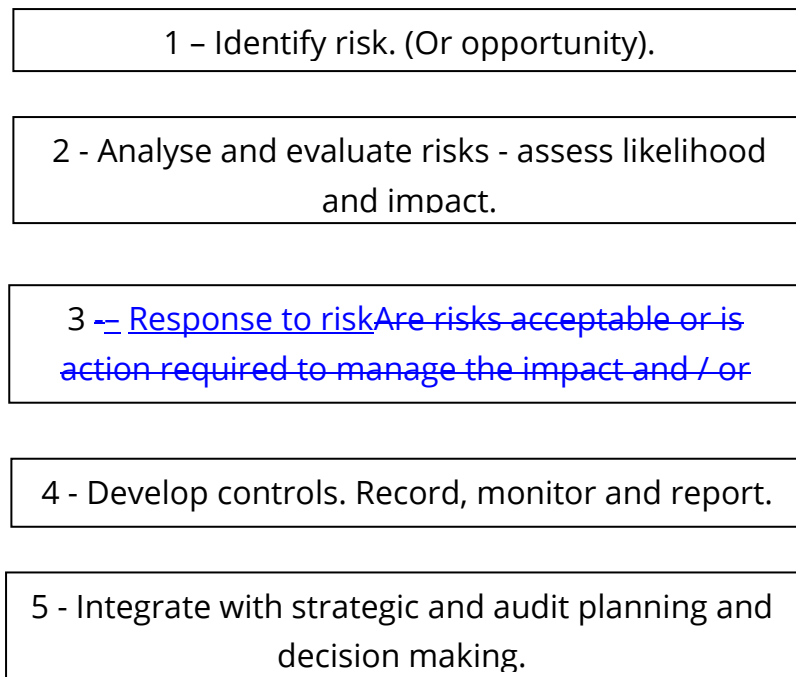
the council to achieve objectives and deliver services more efficiently, using innovative and cost-effective means.

Implementation of risk management produces many benefits for the Council including:

- Improved efficiency of operations.
- Protection of budgets from unexpected financial losses.
- Protection of reputation.
- Increased chance of achieving strategic / project objectives as key risks are minimised.
- The possibility of becoming less risk averse because risks are understood.
- Improved performance (accountability and prioritisation) - feeds into performance management framework.
- Better governance can be demonstrated to stakeholders.

Section 3 - Implementation of risk management

Implementing the strategy involves a 5-stage process:

1 – Identify risk. (Or opportunity).

2 - Analyse and evaluate risks - assess likelihood and impact.

3 – Response to risk~~Are risks acceptable or is action required to manage the impact and / or~~

4 - Develop controls. Record, monitor and report.

5 - Integrate with strategic and audit planning and decision making.

Stage 1 – Risk identification

An inventory of risks is prepared of those events which might create, prevent, accelerate or delay the achievement of objectives. (A list of prompts is included at Appendix 1.)

~~What could prevent the Council, your service, project or partnership from meeting objectives or outcomes?~~ It is important that those involved with the process clearly understand what the Council wants to achieve in order to be able to identify the barriers. A variety of people from across the organisation should input to ensure that all risks are identified.

Strategic risks are generally considered at an annual review with Leadership Team. Service or operational risks are identified through the service planning process, with service managers, at project meetings and / or through the committee reporting process.

The process for the identification of risk should be undertaken for projects (at the start of each project stage), partnerships, service planning and at a strategic / corporate level. Details of who contributes to these stages are explained further in the roles and responsibilities section.

~~When identifying risks i~~It is important to remember that risk management is also about making the most of opportunities. For example:

- Making bids for funding.
- Taking a national or regional lead on policy development.
- Savings that may be achievable ~~if a project goes to plan~~or income that may be generated.
- A 'spend to save' initiative.
- Tendering a large contract also provides an opportunity to reshape service delivery.

~~The process for the identification of risk should be undertaken for projects (at the start of each project stage), partnerships, service planning and at a strategic / corporate level. Details of who contributes to these stages are explained further in the roles and responsibilities section.~~

~~Stage 2 – Analysing and evaluating the risks~~

The risk should be given a clear and concise title and captured on the template in appendix 2. A fuller description to include the root cause and the possible consequences of the risk if it occurs should also be provided separately. ~~, e.g.~~

~~Title~~	~~Description~~
~~Encouragement of economic vitality cross the~~	~~Risks that opportunities to maximise inward investment, employment and economic growth are not maximised in the district.~~ ~~Also ensure regular dialogue with business and organisations~~

District.	representative of business. Interventions to be proposed where appropriate e.g. business improvement district opportunities.

Identification, analysis and scoring of strategic risk are agreed at Leadership Team. Participants review risk scenarios, rate the potential likelihood of occurrence and the impact if it were to occur.

Stage 2 – Analysing and evaluating the risks

The likelihood of a risk occurring and its potential impact are scored using the criteria below. Thresholds have been set to ensure that scoring remains consistent across the authority including committee reports and project documentation. These thresholds will be reviewed annually. A matrix is used to plot risks to illustrate priority. Impact and likelihood scoring criteria are detailed in the matrix below.

	Description	Likelihood of occurrence	Probability of occurrence
Likelihood	3 Probable	Annually	The event will probably occur
	2 Possible	1 in 5 years	The event may occur
	1 Unlikely	Less frequently than 1 in 5 years	The event may occur in exceptional circumstances

	Description	Financial	Reputation	Service / operation
Impact	3 Significant	> £400,000 p.a.	Adverse national media	Major fall in service quality
	2 Moderate	£100,000 to £400,000 p.a.	Adverse local media	Significant fall in service quality
	1 Minor	< £100,000	Public concerns restricted to local complaints	Little impact to service quality

The following A matrix is used to plot risks to illustrate priority. Impact and likelihood scoring criteria are detailed in the matrix below.

Impact		Unlikely 1	Possible 2	Probable 3
Significant 3		(yellow)	(red)	High (red)
Moderate 2		(green)	Medium (orange)	(red)
Minor 1		Low (green)	(green)	(yellow)
		Unlikely 1	Possible 2	Probable 3

Likelihood

	1 - RARE The event could occur in exceptional circumstances	2 - UNLIKELY The event could occur less frequently than every three years	3 - POSSIBLE The event is likely to occur within, or more than one in three years	4 - PROBABLE The event is likely to occur within a year
4 - HIGH >£300,000 and / or national criticism and / or catastrophic fall in service quality	(orange)		(red)	(red)
3 – MEDIUM £150,000 to £300,000 and / or regional criticism and / or major long term fall in service quality	(orange)	CONTINGENCY	CRITICAL (red)	(red)
2 – LOW £50,000 to £150,000 and / or long term local media criticism and / or minor long term or major short term fall in service quality	(green)	CONTROL	CAUTION (orange)	(orange)
1 - NEGLIGIBLE <£50,000 and / or short term local media criticism and / or short term fall in service quality	(green)	(green)	(orange)	(orange)
IMPACT LIKELIHOOD				

Risk appetite

A material risk is deemed to be any risk ~~rated higher than 2:2~~scored 3:2, 2:3 or 3:3. ~~This is~~These exceed the Council's 'risk appetite' i.e. the level of risk that it is prepared to tolerate without need for ongoing monitoring or reporting. Where a risk rating exceeds this ~~'control'~~ area of tolerance, demonstrable evidence of how risks are being mitigated will be required, together with proposals for future controls.

Increasing pressure on public finances means that Local Authorities are obliged to have more appetite for risk. The Council cannot deliver everything it would ideally like to deliver and tough choices are necessary. The Council is therefore open to considering all delivery options, accepting increased levels of risk in order to secure the successful outcomes or rewards.

Risk management is essential in supporting innovation and moving from a 'risk averse' to a more 'risk aware' approach. An example is the acquisition of Old River Lane, Bishop's Stortford. The financial commitment is significant but the acquisition provides an opportunity to shape the town centre, and an additional income stream.

Stage 3 – Respond to risks

Risks may be able to be:

Controlled - It may be possible to mitigate the risk by 'managing down' the likelihood, the impact or both. The control measures should, however, be commensurate with the potential frequency, severity and financial consequences of the risk event.

Accepted - Certain risks may have to be accepted as they form part of, or are inherent in, the activity. The important point is that these risks have been identified and are clearly understood.

Transferred - to another body or organisation i.e. insurance, contractual arrangements, outsourcing, partnerships etc. (Liabilities cannot be contracted out in their entirety. The Council will often retain overall accountability; and certainly for health and safety risks).

Terminated - By ending all or part of a particular service or project.

It is important to recognise that, in many cases, controls will already be in place. It is therefore necessary to look at these controls before considering further action. They may be out of date or not complied with.

Most risks are capable of being managed, either by managing down the likelihood or impact or both. Relatively few risks have to be transferred or terminated.

Stage 4 – Recording, monitoring and reporting

Only risks that are considered to be at an unacceptably high level require monitoring, using the template at appendix 2. (All risk registers will be compiled in the corporate format to ensure consistency, of scoring in particular.)

Existing controls of strategic risks, their adequacy, new mitigation measures and associated action planning information are to be recorded on the Strategic Risk Register.

A ~~residual (or~~ target~~)~~ risk score will also be agreed at the beginning of each financial year to focus minds on risk mitigation and recording of actions planned and achieved.

The ~~residual~~ target risk score, planned and implemented controls and the associated cost will all be recorded on the risk register and updated quarterly.

Leadership Team is responsible for ensuring that strategic risks are managed and will receive a quarterly monitoring report. The report will subsequently be submitted to ~~the Executive and~~ Performance, Audit and Governance ~~Scrutiny~~ Oversight Committee. ~~Both will receive an annual report detailing the content of the Strategic Risk Register, then three exception reports each year detailing any change in risk scoring and the reasons why.~~

Project Managers will be required to maintain risk registers and key entries will feature on or contribute to the broader Strategic Risk Register.

The Operational Risk Register will comprise the highest level service and project risks and corporate issues that affect all services such as data management, health and safety and fraud. This register shall be reported quarterly to Leadership Team.

~~Code~~	~~Risk Title~~	~~Description~~	~~Current Impact~~	~~Current Likelihood~~	~~Target Impact~~	~~Target Likelihood~~	~~Managed By~~	~~Controls introduced and those planned for future. To include financial impact.~~

Strategic, project and high level operational risks are recorded on Pentana Performance (formerly called Covalent) for Members' benefit.

Stage 5 - Integrate with strategic and audit planning and decision making

In order to formalise and structure risk management at the Council, it is recognised that there are obvious and clear links between risk management and strategic planning; financial and audit planning; policy making and review and performance management. The linkages are as follows:

- Risk management is part of the business planning process. Guidance on the framework is issued annually to Leadership Team.
- Financial Procedure Rules apply to every Member and officer of the Council and anyone acting on its behalf. East HertsThe council encourages innovation, providing this is within the framework laid down by the Financial Procedure Rules, and the necessary risk assessment and approval safeguards are in place.
- Risk registers will be shared with the Shared Internal Audit Service for the purposes of audit planning.
- Risk management process can lead to the development of corporate policies and monitoring of compliance. E.g. health and safety, data protection and land management.

Section 4 - Risk management in projects and partnerships

Risk management needs to be a key part of the ongoing management of projects and partnerships, including shared services.

Project / Programme management

There is a need for consistent and robust approach to risk management in significant projects, both at the initiation stage and throughout the entire project. Guidance is available on the intranet.

Risk management should feature regularly on meeting agendas.

Partnerships

Reduced funding is leading to more public services and community projects being delivered through partnerships between the public, private and third sectors. Partnerships are essential to deliver benefits to residents, businesses and visitors, but they bring risks as well as opportunities.

Assurance should be gained and evidenced on risks associated with delivering services through third parties, and accountability should be clear and recognised.

Section 5 - Roles and responsibilities

The following describes the roles and responsibilities that Members and officers have in introducing, embedding and owning the risk management process:

Members

Elected Members are responsible for governing the delivery of services to the local community. Members have a responsibility to understand the strategic risks that the Council faces ~~and can monitor how these risks are being managed on Pentana Performance~~.

All Members will have the responsibility to consider the risks associated with the decisions they undertake and will be informed of these risks in the reports that are submitted to them. They cannot seek to avoid or delegate this overall responsibility, as it is key to their stewardship responsibilities.

Additional responsibilities are:

Executive

- ~~To receive an annual report regarding the content of the Strategic Risk Register, then three exception reports each year detailing any change in risk or scoring and the reasons why.~~
- ~~Agree the Risk Management Strategy on an annual basis, or if significant changes require a revision.~~
- ~~Agree / set the Council's risk appetite.~~
- Allocate sufficient resources to address top risks.

Performance, Audit and Governance ~~Scrutiny~~ Oversight Committee

- To provide assurance of the effectiveness of the corporate risk assessment process and monitor the effective development and operation of risk management policies in the council, specifically including monitoring of the Risk Management Strategy and the Strategic Risk Register.
- ~~To develop policy options and to review and scrutinise the policies of the Council including Risk Management.~~
- ~~To monitor the effective development and operation of risk management and corporate governance in the Council.~~
- ~~Receive an annual report regarding the content of the Strategic Risk Register, then three exception reports each year detailing any change in risk or scoring and the reasons why.~~

Chief Executive and Leadership Team

- To ensure that effective systems of risk management and internal control are in place to support the Corporate Governance of the Council.
- Take a leading role in identifying and managing the risks and opportunities to the council and to set the example and standards for all staff. Advise the Executive on the risk management framework, policy, strategy and processes.
- Advise on the management of strategic and other significant risks.
- Ensure that the Policy and Strategy are communicated, understood and implemented by all Members, senior managers and staff.
- To ensure that the risk management process is part of all major projects, partnerships and change management initiatives.
- Create a culture where risk management is promoted, facilitated and appropriately undertaken by the council.

Heads of Service

- To be individually responsible for their service risks.
- Ensure that all reports of a strategic nature written for Members include risk commentary.
- To implement the detail of the Risk Management Strategy and risk related corporate policies, e.g. Health and Safety, Data Protection.

Senior Managers and Project Managers

- Manage and monitor key risks effectively in each area of their responsibility.
- Support production and monitoring of the operational risk register.

Strategic Finance and Property

- Advise on corporate risk profiling and management, including safeguarding assets, risk avoidance and insurance.
- Co-ordinate risk management activities, update Pentana Performance and prepare related reports for management Leadership Team and Members.
- Review and, develop and promote the Risk Management Strategy and processes.
- Facilitate / arrange risk management training for staff and Members.
- Co-ordinate the Business Continuity Plan.
- Support the risk based audit planning process.

Shared Internal Audit Service

- To provide assurance to the Council through an independent and objective opinion on the control environment comprising risk management, control procedures and governance.
- To provide an annual Audit Plan that is based on a reasonable evaluation of risk, and to provide an annual assurance statement to the Council based on work undertaken in the previous year.
- Review and challenge the effectiveness of the risk management framework.

Appendix 1 – Categories of risk

Risk	Definition	Examples
Political	Associated with the local or central government policy or the local administration's manifesto commitment.	New political arrangements.
Finance	Affecting the ability of the Council to meet its financial commitments. These include internal budgetary pressures, external macro level economic changes or consequences of proposed investment decisions.	Financial climate. Financial sustainability and income streams. Budget overspends. Level of Council tax. Level of reserves. Changes in interest rates. Inflation.
Social	Relating to the effects of changes in demographic, residential or socio-economic trends on the Council's ability to meet its objectives.	Ageing population. Health statistics. Crime rates. Housing development. Employment sites and ability to influence growth. Cost of living. Poverty Deprivation indicators.
Technological	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.	E-Gov. IT infrastructure. Staff/client needs. IT Security.
Legislative / Legal	Associated with current or potential changes in national or European law Or possible breaches of legislation.	GDPR. Human rights. TUPE regulations. Challenge to procurement exercise.
Continuity / service delivery	Ability to deliver services.	Loss of key staff, contractor, building, documents or IT.
Environmental	Relating to the environmental consequences of progressing the Council's strategic objectives.	Land use. Recycling. Pollution. Extreme weather events.

Competitive	Affecting the competitiveness of the service (in terms of cost or quality) and/or its ability to deliver best value.	Fail to win quality accreditation. Alternative service providers.
Customer / citizen	Associated with failure to meet the current and changing needs and expectations of customers and citizens.	Managing expectations. Extent of consultation.
Managerial / profession	Associated with the particular nature of each profession, internal protocols and managerial abilities.	Resources and ability to deliver services and key projects. Staff restructure.
Partnership / contractual	Associated with failure of contractors and partnership arrangements to deliver services or products to the agreed cost and specification.	Contractor fails to deliver. Partnership agencies do not have common goals. Shared services.
Physical	Related to fire, security, accident prevention and health and safety.	Land / facility management. Health and safety risks. Development sites.

Appendix 2 - Template

Code	Risk Title	Description	Current Likelihood	Current Impact	Target Likelihood	Target Impact	Managed By	Controls introduced and those planned for future. To include financial impact.
	Concise title	Explanation of the risk, consequences, benefits etc. E.g. Failure to… Loss of… Inability to… Reduction of… Disruption to… etc	Score each heading using the table on page xx				Risk owner. (Strategic risks will be managed by a member of Leadership Team)	Describe the controls introduced and those considered / planned for the future. These are to be costed with the sum listed here.
1								
2								
3								
4								
5								