

## Essential Reference Paper 'B'



# Risk Management Strategy

| 20~~17~~/18/19 Review

| Leadership Team

| Performance, Audit and Governance  
| Scrutiny Committee  
| Executive  
| Council

| ~~6 February 2017~~5  
| February 2018  
| ~~22 March 2017~~13  
| March 2018  
| ~~TBA~~22 April 2018  
| TBA

## Contents (Revise once track changes accepted)

		Page
Section 1 – Context	Policy statement	3
	Approval, communication, implementation and review	3
Section 2 – What is risk management	National drivers behind strategic risk management	4
	Local drivers behind strategic risk management	4
	Benefits	5
Section 3 – Implementation	Risk management cycle	5
	Stage 1 Risk identification	6
	Stage 2 Analysing and evaluating risks	6
	Matrix	7
	Risk appetite	8
	Stage 3 Respond to risks	8
	Stage 4 Recording, monitoring and reporting	9
	Stage 5 Integrate with strategic and audit planning decision making	9
Section 4 – Risk management in projects and partnerships	Project / programme management	10
	Partnerships	10
Section 5 – Roles and Responsibilities	Members	11
	Full Council	11
	Executive	11
	Audit and Governance Committee	11
	Corporate Business Scrutiny Committee	11
	Chief Executive and Leadership Team	12
	Directors	12
	Heads of Service	12
	<u>Service Managers</u> <u>Operational Risk Management Group</u>	13
	Strategic Finance and Property	13
Shared Internal Audit Service	13	
Section 6 – Conclusion		14
Appendix 1	Categories of Risk	15

## **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. ~~This includes the strategic decision making process, service planning, project management, partnerships, audit, procurement and contracts.~~ 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, the nature of our operations and the drive to reduce bureaucracy.

~~The processes in place should provide assurance to all stakeholders that the identification and management of risk plays a key role in the delivery of our strategy and related objectives.~~

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:

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

~~Training is provided to those listed above, members of staff who prepare committee reports and / or those who should consider risk in the roles that they perform.~~

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).

## **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 ~~therefore at East Herts Council~~ is essentially about identifying ~~all the obstacles and weaknesses~~ risks that exist ~~within the Council at a strategic level,~~ ~~or pose the greatest threat to services.~~ The approach is vital to ensuring that all elements of the organisation are challenged including decision making processes, working with partners, consultation processes, existing policies and procedures and also the effective use of assets — both staff and physical assets.

Once ~~the obstacles have been~~ identified, the next stage is to prioritise ~~them~~ risks to identify which are key to the Council moving forward. It is essential that steps are then taken to manage these effectively. ~~The result is that major risks / obstacles that exist can be mitigated / controlled, providing the Council with a greater chance of being able to achieve objectives.~~

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.

~~This means that going forward local authorities are in control of their systems and processes to allow them to fulfil their commitment to deliver their priorities and to account to their local communities for their performance.~~

~~Therefore it is essential that, and without unnecessary layers of bureaucracy, the Council's business planning and performance management processes are relevant and fit for purpose to support the delivery of the council's three key priorities — People, Place and Prosperity. Within this framework it is important that risk management continues to be a key discipline that is carried out.~~

### **Local drivers behind strategic risk management**

~~The Council's vision is:~~

~~'To preserve the unique character of East Herts and ensure it remains one of the best places to live and work'.~~

~~In order to strive to meet the vision, East Herts Council has recognised the need to further embed its risk management arrangements, particularly across projects. The desired outcome is that risks associated with these objectives can be managed and the potential impact limited, providing greater assurance that the vision will be achieved.~~

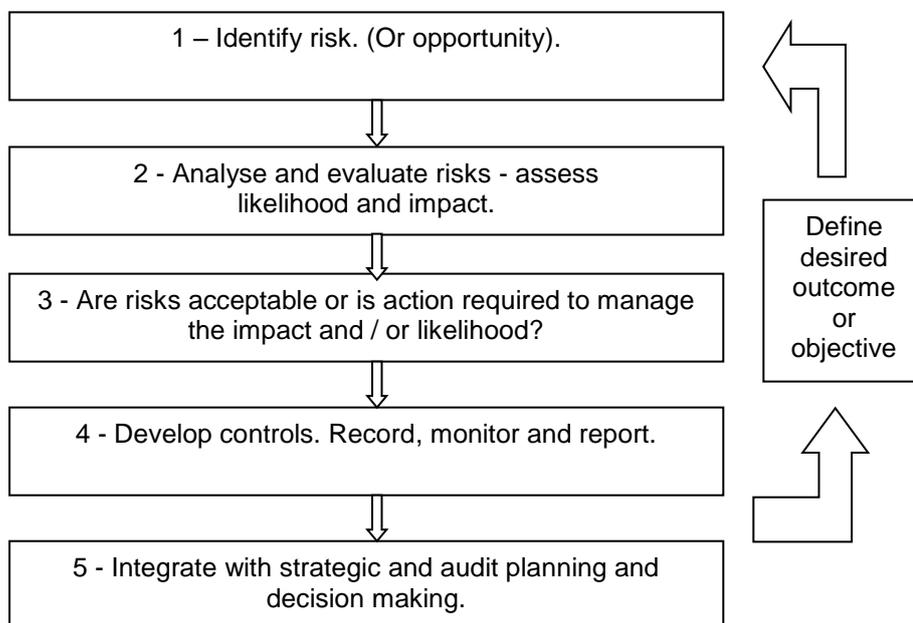
## Benefits of risk management

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.
- ~~Reduced losses arising from accidents and illnesses.~~
- 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:



### Stage 1 – Risk identification

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.

When identifying risks 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.
- A 'spend to save' initiative.
- Tendering a large contract also provides an opportunity to reshape service delivery.

~~Using appendix 1 as a prompt, various techniques can then be used to begin to identify risks including:~~

- ~~• A 'brainstorm' session~~
- ~~• Own (risk) experience~~
- ~~• 'Strengths, Weakness, Opportunities and Threats' analysis or similar~~
- ~~• Exchange of information / best practice with other authorities, organisations or partners.~~

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. A fuller description to include the root cause and the possible consequences of the risk if it occurs should be provided separately, e.g.

Title	Description
<p><del>Insurance tender.</del>  <del>Encouragement of economic vitality cross the District.</del></p>	<p><del>The insurance contract is subject of a full OJEU tender process. A hard insurance market may result in premium increases. Increasing deductibles, without robust risk management practices, may leave the Council exposed to increased expense. However the tender, combined with other initiatives, present an opportunity to review self-insurance levels and establish an appropriate fund for well managed risks.</del>  <del>Risks that opportunities to maximise inward investment, employment and economic growth are not maximised in the district.</del></p> <p><del>Also ensure regular dialogue with business and organisations representative of business. Interventions to be proposed where appropriate e.g. business improvement district opportunities.</del></p>

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



A material risk is deemed to be any risk rated higher than 2:2. This is 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**

This is the process of turning 'knowing' into 'doing'. It is assessing whether to control, accept, transfer or terminate the risk or the opportunity presented. 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**

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 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 risk score, planned and implemented controls will all be recorded on the risk register.

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

~~A less formal approach is taken for operational (or service) risks. A discussion takes place quarterly between the Risk Assurance Officer and service managers, with a register recording the highest scored risks prepared and submitted to Heads of Service for monitoring.~~

Strategic risks are recorded on Pentana Performance (formerly called Covalent) for Members' benefit ~~but operational risks are not. However any significant concerns are escalated to Leadership Team.~~

The highest level operational / service risks are monitored at Leadership Team quarterly. A register comprising the highest level risks facing services, plus common themes affecting all or most services will be considered.

## 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 planning; policy making and review and performance management. The linkages are as follows:

- ~~Risk management is a key part of the business planning process and therefore forms one of the key elements of the integrated **Strategic and Financial Planning framework**. Guidance on the framework is issued annually to senior managers Leadership Team, with the publication of the Medium Term Financial Strategy. The guidance includes a section on risk assessments, which clearly explains that services need to recognise risk not just in relation to planned activity coming out of the service planning process (that supports the Council's priorities) but also in terms of the broader objectives of the service.~~
- ~~Risks that have been identified that have a potential financial impact need to be considered as part of the preparation of the Medium Term Financial Plan (MTFP). Sources of funding the mitigation of risks, or the consequences of risk assessment need to be clearly identified within the MTFP, either as specific budget lines, provisions or use of general reserves. In addition, consideration of the Council's ability to withstand shocks from external factors is included as part of the Consolidated Budget report annually, which stress tests the MTFP and ability to withstand unexpected events.~~
- Financial Regulations apply to every Member and officer of the Council, and anyone acting on its behalf. East Herts encourages innovation, providing this is within the framework laid down by the Financial Regulations, 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.
- ~~The Council's performance management framework supports the monitoring of strategic risks through the Council's Corporate Healthcheck Report. This encourages greater ownership and accountability by service heads in managing budgets, more prudent and focused management of service performance and risk management.~~
- ~~The Council's Performance Development Review (PDR) scheme flows through the organisation from the Chief Executive to staff and ensures that all employees have clear accountabilities and objectives linked to those of the service and the Council.~~

## **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 and risk is a standard agenda item at Project Board ~~and a reporting mechanism agreed with the Head of Service or Risk Assurance Officer.~~

### **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.

~~The Council's 'Partnership Protocol' sets out the expectations and requirements for managing risks associated with Partnership working.~~

~~In November 2015 Corporate Business Scrutiny Committee agreed that the Protocol be reviewed to focus on informal partnerships and collaborative arrangements where assurance processes were not in place.~~

~~It was concluded that the remaining (significant) partnerships are underpinned by formal mechanisms and agreements. A 'Partnership Map' maintained by the Head of Communications, Strategy and Policy has replaced a Partnership Register.~~

## **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 will be made aware of how these risks are being managed ~~through the annual strategic and service planning process, and through reports to the Executive and Audit and Governance Committee.~~

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. ~~Awareness training will be available for all Members when specific training needs are identified.~~

All Members can access all strategic risks on [Pentana Performance \(formerly called Covalent\)](#).

## Full Council

Full Council recognises the importance of effective risk management and considers risk management issues when making decisions.

## 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 scoring and the reasons why.](#) ~~regular reports, covering implementation of the Council's risk management policy and strategy to determine whether strategic risks are being actively managed.~~
- Agree the Risk Management ~~Policy and~~ 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.
- ~~The Portfolio Holder for Risk Management is recognised as the Member champion for Risk Management~~

## [Performance, Audit and Governance Scrutiny](#) Committee

- [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 scoring and the reasons why.](#) ~~updates regarding the mitigation and control of strategic risks four times per year, and gain assurance that risk management is properly undertaken.~~

## ~~Corporate Business Scrutiny Committee~~

~~To develop policy options and to review and scrutinise the policies of the Council including Risk Management.~~

## **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 and Council 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, managers and staff ~~and fully embedded in the Council's service planning and monitoring processes.~~
- ~~Identify, analyse and profile high-level corporate and cross-cutting risks on a regular basis as outlined in the monitoring process. Refer key corporate and service specific operational risks to the Service Managers Group for action.~~
- To report to Members on the management of strategic risks.
- ~~Ensure that appropriate risk management skills training and awareness is provided to Members and appropriate staff.~~

## **Directors**

- To ensure that the risk management process is part of all major projects, partnerships and change management initiatives.

## **Heads of Service**

- To be individually responsible for their service risks.
- Be actively involved in the identification and assessment of risks through the service planning process.
- 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.
- Ensure that any significant service risks are considered by Leadership Team quarterly.

## **Service Managers**

- ~~Manage service level risks and maintain a risk register in conjunction with the Risk Assurance Officer.~~
- ~~To review operational risks that affect numerous teams within the authority. Plan mitigation activity and support the development of procedures / policies.~~
- ~~To support the maintenance of the Council's Business Continuity Plan including testing.~~
- ~~Provide a summary of controls for the Council as a whole and feedback to services and committees where necessary.~~
- ~~To consider concerns escalated by the Council's Safety Committee and update / act on risks as appropriate.~~

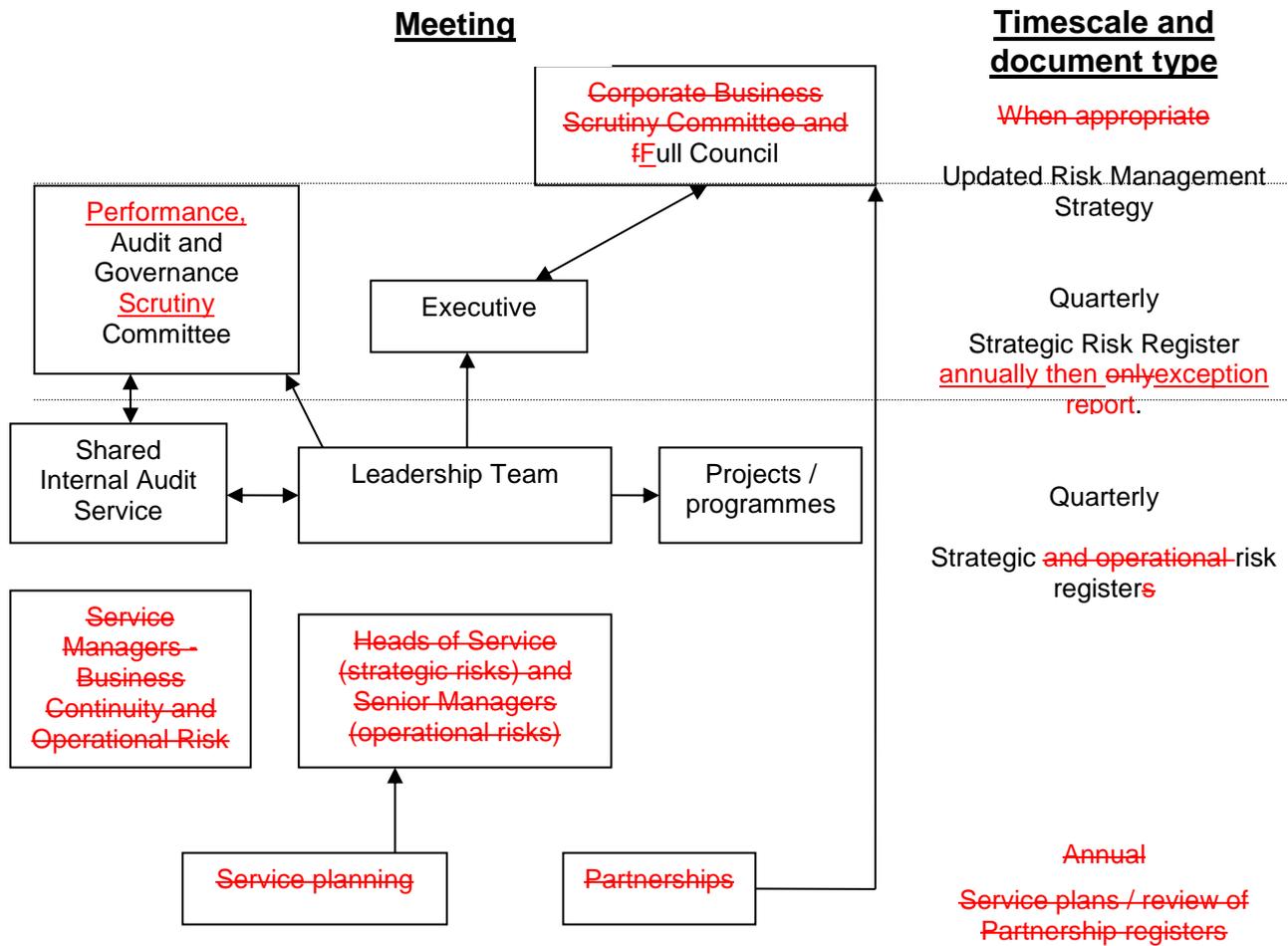
## **Strategic Finance and Property**

- Co-ordinate risk management activities and prepare related reports for management and Members.
- Review and develop the Risk Management Strategy and processes.
- ~~Facilitate risk discussion workshops and support and assist the maintenance of risk registers. Gain assurance on the process being conducted.~~
- Facilitate / arrange risk management training for staff and Members.
- To co-ordinate the Business Continuity Plan ~~and service and operational risk registers.~~
- ~~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.

The following table shows the risk management reporting arrangements:



## Section 6 - Conclusion

Risk management is integrated into the Council's culture. The Strategy formalises the process to be applied across the Council to ensure consistency and clarity in understanding the role and benefits of strategic risk management.

The reporting and escalation of risks from services to Leadership Team interlocks with the existing quarterly healthcheck.

## Appendix 1 – Categories of risk

<b>Risk</b>	<b>Definition</b>	<b>Examples</b>
Political	Associated with the local or central government policy or the local administration's manifest commitment.	<del>New political arrangements.</del> <del>Political personalities.</del> <del>Political make-up.</del> <del>Brexit</del> Policy and decisions.
<del>Finance</del> <del>Economic</del>	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. <del>Budget overspends.</del> <del>Level of Council tax.</del> <del>Level of reserves.</del> Cost of living. Changes in interest rates. Inflation. Poverty indicators.
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. <del>Housing development.</del>
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 / <u>Legal</u>	Associated with current or potential changes in national or European law- <del>Or possible breaches of legislation.</del>	<del>GDPR</del> Human rights. TUPE regulations <del>Challenge to procurement exercise</del>
Continuity / service delivery	Ability to deliver services.	Loss of key staff, 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/ Professional	Associated with the particular nature of each profession, internal protocols and managerial abilities.	Staff restructure. Internal capacity.

Financial	<del>Associated with financial planning and control.</del>	<del>Income streams. Budget overspends. Level of Council tax. Level of reserves.</del>
Legal	<del>Related to possible breaches of legislation.</del>	<del>Contractor brings legal challenge.</del>
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. <u>Development sites.</u>