Risk Management Strategy 2021/22

2020/21 Review

Leadership Team	31 February 20202021
Performance, Audit and Governance Scrutiny Committee	1716 March 2020 2021
Issued to all Members	TBA
Added to intranet	TBA

Introduction

What is risk management and why is it important?

Risk management is the process by which risks are identified, evaluated and controlled. It can enable the effective use of resources, secures the assets of the council and successfully achieve objectives and deliver strategies.

Risk management is often associated with being cautious. In the context of service delivery in the current climate when public services face unprecedented challenges, success demands innovation and often involves identifying and taking opportunities that involve risk. Risk management should be about identifying and managing those risks so that appropriate risk taking delivers improvements for the council's stakeholders.

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.

Issue and review

The Risk Management Strategy reflects our 'risk appetite', the size of the Authority and the nature of our operations.

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 isplaced on the intranet and is specificallywill be issued to all Members, 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.

- **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

4 - Develop controls. Record, monitor and report.

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

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Stage 1 – - Identifying risk

Risk ~~identification~~
can be defined as the combination of the probability of an event and its consequences (*ISO/IECGuide 73)* and can broadly be categorised into **strategic** and **operational** risks:

Strategic risks are the highest level 'business risks' faced by the authority and concern long-term strategic objectives. They can be affected by such areas as budgetary pressures, government policy, legal and regulatory changes and changes in the physical environment.

Operational risks ~~An~~are the day-to-day issues that the organisation is confronted with as it strives to deliver its strategic objectives.

Prompts and further risk examples feature at appendix one.

As explained in step four, 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.)~~

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.

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 or income that may be generated.
- ~~A 'spend to save' initiative.~~
- Income generation initiatives.
- Tendering a large contract may also ~~provides~~provide an opportunity to reshape service delivery.

The risk should be ~~given a clear and concise title and~~ captured on the example 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.~~two. More information on recording and monitoring features in stage 4.

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.

		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 matrix is used to plot risks to illustrate priority.

Impact	Significant 3	Yellow	Red	Red
	Moderate 2	Green	Medium	Red
	Minor 1	Low (Green)	Green	Yellow
		Unlikely 1	Possible 2	Probable 3
		Likelihood		

Risk appetite

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

Increasingincreasing 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.

		Description	Likelihood of occurrence	Probability of occurrence
Likelihood	4	High	Monthly	The event is expected to occur or occurs regularly
	3	Medium	Annually	The event will probably occur
	2	Low	1 in 5 years	The event may occur
	1	Very Low	Less frequently than 1 in 5 years	The event may occur in exceptional circumstances

		Description	Financial	Reputation	Service / operation
Impact	A	Critical	> £1m p.a.	Serious negative media	Catastrophic fall in service quality or long term disruption to services
	B	Significant	£400,000 to £1m p.a.	Adverse national media	Major fall in service quality or serious disruption to services
	C	Marginal	£100,000 to £400,000 p.a.	Adverse local media	Significant fall in service quality
	D	Minor	< £100,000	Public concerns restricted to local complaints	Little impact to service quality

Revised Strategic Risk Score Summary Matrix

Impact					
A		**9**	**7, 10**		**1,8**
B			**4,11**	**2,3**	
C				**6**	**5**
D					
		1	**2**	**3**	**4**
		Likelihood			

IMPACT	Likelihood
A Critical	1 Very Low
B Significant	2 Low
C Marginal	3 Medium
D Minor	4 High

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

Risks are recorded on a risk register. The template with a completed example features at appendix 2.

The ~~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 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 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 Performance, Audit and Governance Oversight Committee.

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.

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

current score is recorded in the second column using the matrix above. A concise title is recorded in the 'vulnerability' column and the 'triggers' recorded in column four. These are descriptions of the threats faced with the 'consequences' listed in the fifth column.

Leadership Team will monitor the Strategic Risk Register and review the content quarterly to include scores and descriptions. Actions completed or planned to mitigate risk shall be recorded and an updated position statement provided. This position statement should be used to record variances such as levels of funding, changing legislation or policy.

Any new risks should be added and obsolete risks deleted.

Each Head of Service will also maintain a risk register for their service and ensure that a risk register is also in place for each project. These will be monitored at least quarterly with project risks also reported to Leadership Team.

Every officer responsible for managing risk is responsible for escalating that risk to the next level of management where appropriate.

A risk should be escalated if it could:

- Impact on the delivery of the council's strategic objectives.
- Significantly affect achievement of the Corporate Plan.
- Result in significant adverse publicity for the council.
- Result in litigation against the council.
- Require additional financial resources.
- Prevent delivery of a committed or planned action.
- Present a significant threat to the safety of the community.
- Events change and reassessment indicates a higher risk.

In exceptional cases where it is not possible to escalate to the next management level, the council's Head of Strategic Finance and Property should be contacted who will arrange for it to be reported to Leadership Team and / or Audit and Governance Committee as appropriate.

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 is issued annually to Leadership Team.
- Financial Procedure Rules apply to every Member and officer of the council and anyone acting on its behalf. The 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.

Roles and responsibilities

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.

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.

Executive

- Allocate sufficient resources to address top risks.

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

- To provide assurance of the effectiveness of the ~~corporate~~ risk ~~assessment~~management 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.~~.
- Monitoring of the Strategic Risk Register.

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 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 implement the detail of the Risk Management Strategy and risk related corporate policies, e.g. ~~To be individually responsible for their service risks.~~
- health and safety, data protection.
- Ensure that all reports written for Members include risk commentary.
- To be individually responsible for their service risks and ensure that registers are maintained and reviewed at least quarterly.
- ~~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, escalating to Leadership Team where necessary.
- 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 Leadership Team and Members.
- Review, 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.

Summary

To summarise, the following principles will govern the way the council delivers effective risk management:

- Ensure that those responsible for managing risks understand how to identify and manage them.
- Ensure that the council's culture encourages risks to be identified, reported and managed to encourage appropriate risk taking to deliver innovative solutions to service improvement.
- Ensure that roles and responsibilities for identifying, assessing, managing, communicating and being accountable for risk are clear.
- Ensure that those managing risks have the authority and resources to do so and are accountable.
- Ensure that risk management is integrated into day to day management of the council's business.
- Ensure that risk registers are completed and regularly reviewed with appropriate reporting and escalation of risks to the management level above.

Appendix 1 – ~~Categories~~**Examples** of ~~risk~~**risks**

Risk	Definition	Examples
Political	Associated with the local or central government policy or the local administration's manifesto commitment.	New political arrangements. Response to pandemic.
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. 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.	Impacts of pandemic. 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.
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~~ - Risk Register template with example completed

No	Score	Vulnerability	Trigger	Consequence	Risk owner	Mitigation / control
~~Code~~1		~~Description~~Financial Resources	~~Current Likelihood~~Reduction in government grant combined with higher demand for demand-led services such as homelessness, or failure to generate income. Failure to realise capital receipts to support capital expenditure. Council Tax Referendum levels set too low to generate sufficient tax revenue. Sudden economic down turn results in negative Tax Base figures because of increased local Council Tax support claims Members do not agree significant savings at budget setting leading to an unbalanced	• ~~Current Impact~~Reductions in services required. • Performance against community expectations and targets reduced. • Investment in improvement not possible or severely reduced. • Failure to meet statutory duties with potential for legal action or Local Government Ombudsman finds significant cases of maladministration. • Corporate Manslaughter charges if maintenance works not carried out, e.g. Legionella in air handling and cooling units. • Large numbers of staff	~~Target Likelihood~~Head of Strategic Finance and Property	~~Controls introduced and those planned for future. To include financial impact.~~Minimum Balances held on risk assessment basis to cushion impact over short term (max 2 years). Modelling of impact of grant settlement scenarios and function and funding changes. Three year MTFP savings programme. Transformation Programme in scoping stage to deliver savings and efficiencies through an emphasis on: digital self-service; process automation; agile working leading to a much reduced accommodation requirement. Financial Sustainability Committee considering investments in infrastructure or operational assets that yield income or cost reductions that are not caught PWLB lending rules. New capital programme items must make a return for the investment in cost reductions or income on top of covering the interest and MRP costs.

					Charges will be required to be in conformity with proposed corporate policy on charging recovering total costs and concessions will need to be justified in policy terms and funded by higher charges for others.

budget leading to a s.114 report.

- redundancies.
- Major media engagement.
- Potential for MHCLG intervention.

Update on current position

~~Describe the controls introduced and those considered / planned for the future.~~

- ~~These are to be costed with the sum listed here.~~ The lockdown has caused a loss of income of approximately £800,000 per month. The third national lockdown will be reviewed in mid-February but with the new variants of the virus and the vaccination programme underway the base planning assumption is that some form of restriction will remain in place until June at the earliest.   Once restrictions are eased we expect a cautious and gradual lifting on a regional basis with close examination of data so it is likely to take some time for people to return to their previous patterns of behaviour.
- Total Government support of just over £2.9 million has been received to date for Council services. A further £63.6 million has been received by the Council and paid out to support business and the community in East Herts.
- Council's £2.9 million funding compensates for loss of transactional income but not items such as rent on investment properties. It also contains one off funding for new burdens administering grants for business and residents but is significantly less than the actual cost of administering these schemes.
- Rent payments on investment properties have no significant defaults to date. Rent reductions have been agreed for 2 tenants in Charringtons but this has to set against compensation that would have been payable when we need to move tenants out for handover for the Old River Lane regeneration as we have included appropriate break clauses as part of the new rent agreement.
- Government has committed to the income compensation scheme for the first quarter of 2021/2 and it is possible that they would extend the scheme to cover periods of restrictions beyond quarter 1.
- Once the pandemic has ended and the economy has started to recover, the Government will have to determine how it will manage public finances going forward. It is likely that a new phase of austerity may well follow and central funding for district councils is likely to be limited or reduced. The government may well change the local taxation system by abolishing Business Rates and Council Tax and replacing it with some other form of property related or land value taxation. The Government may also decide to impose reorganisation on local government to reduce the number of Councils significantly.
- Leadership Team and Service Managers have looked at agile working proposals and validated the likely maximum number of desks required going forward. Indicative figures at this stage indicate that Wallfields is not suitable and officers are now exploring options around sharing space with HCC or relocation elsewhere.
- Corporate policy on charging to be developed to ensure consistency across charges – there have been a number of below cost charges

		agreed with no clear policy or justification in the past that are having to be dealt with as part of aligning charges with North Herts for joint commercial waste services.							
	1								
	2								
	3								
	4								
	5								