

# **Risk Management Strategy**

**Version05 – June 2007**

## **Introduction**

An effective risk management strategy will allow the Council to maximise its opportunities and manage those threats that may hinder the delivery of its priorities so that the opportunities for continuous improvement are maximised.

Risk therefore needs to be considered at all stages of the management process, from the setting of corporate priorities through to the delivery of the service to the customer. Risk management therefore becomes an integral element of the Council's corporate governance arrangements.

This risk management strategy aims to integrate risk management into the Council's culture and processes and raise awareness amongst all employees and members of the benefits and opportunities that the successful management of risk can bring.

## **Definitions**

**Risk** is the chance or possibility of something happening that will have an adverse impact on the achievement of the Council's objectives.

**Risk management** is the identification, evaluation, control, monitoring and reporting of existing and emerging risks. It applies equally to the opportunities for taking risks as it does to avoiding risks or reducing losses. It is a key part of good management and not simply a compliance exercise.

## **Why is Risk Management important?**

The Council provides a large range of services within an ever changing environment, so there is great potential for risks to arise. Effective risk management will enable the Council to:

- Maximise performance
- Minimise the need to divert funds from priority services
- Encourage creativity
- Minimise losses
- Ensure the Council's reputation is preserved and enhanced
- Reduce insurance premiums

The aim is to manage risk, rather than eliminate it. Too little attention to the control of risk will lead to unnecessary losses and poor performance, while an over zealous approach may stifle creativity and increase the cost of and/or impede service delivery. Successful risk management means getting the balance right.

## **Risk Policy Statement**

Huntingdonshire District Council is committed to the effective management of risk. The Council's ability to deliver services and achieve its business objectives are constantly affected by risk, which the Council recognises as being both positive and negative.

The Council also recognises its legal, moral and fiduciary duties in taking informed decisions about how best to control and minimise the downside of risk, whilst still maximising opportunity and benefiting from positive risks.

The Council will ensure that Members and staff understand their responsibility to identify risks and their possible consequences.

### **The Risk Management Process.**

Risk management is a continuous process that has five key elements:

- The systematic **identification** of risks to which the Council is exposed.
- The **evaluation** of those risks in terms of likelihood and severity.
- The **control** or **mitigation** of the risks, either by reducing the likelihood or severity of adverse events.
- The **arrangements** the Council needs to put into place to deal with the **consequences** of the threats manifesting themselves, e.g. insurance, levels of policy excesses, self-insurance, service recovery planning.
- The on-going **monitoring** and **reporting** of risk, to allow for intended actions to be achieved and losses minimised.

A standard risk management process will be used throughout the Council. This will ensure that risks are considered in the same fashion whether at a project, partnership, corporate or operational level.

Risks faced by the Council can be broadly grouped into two risk categories – corporate or operational.

#### **Corporate Risks**

- Political
- Economic
- Social
- Technological
- Legislative
- Environment
- Competitive
- Customer

#### **Operational Risks**

- Professional
- Legal
- Financial
- Physical
- Contractual
- Information
- Technology
- Environmental

Some risks fall across both categories, in particular those associated with partnerships, projects or cross-cutting service issues, and therefore can't be listed under one area.

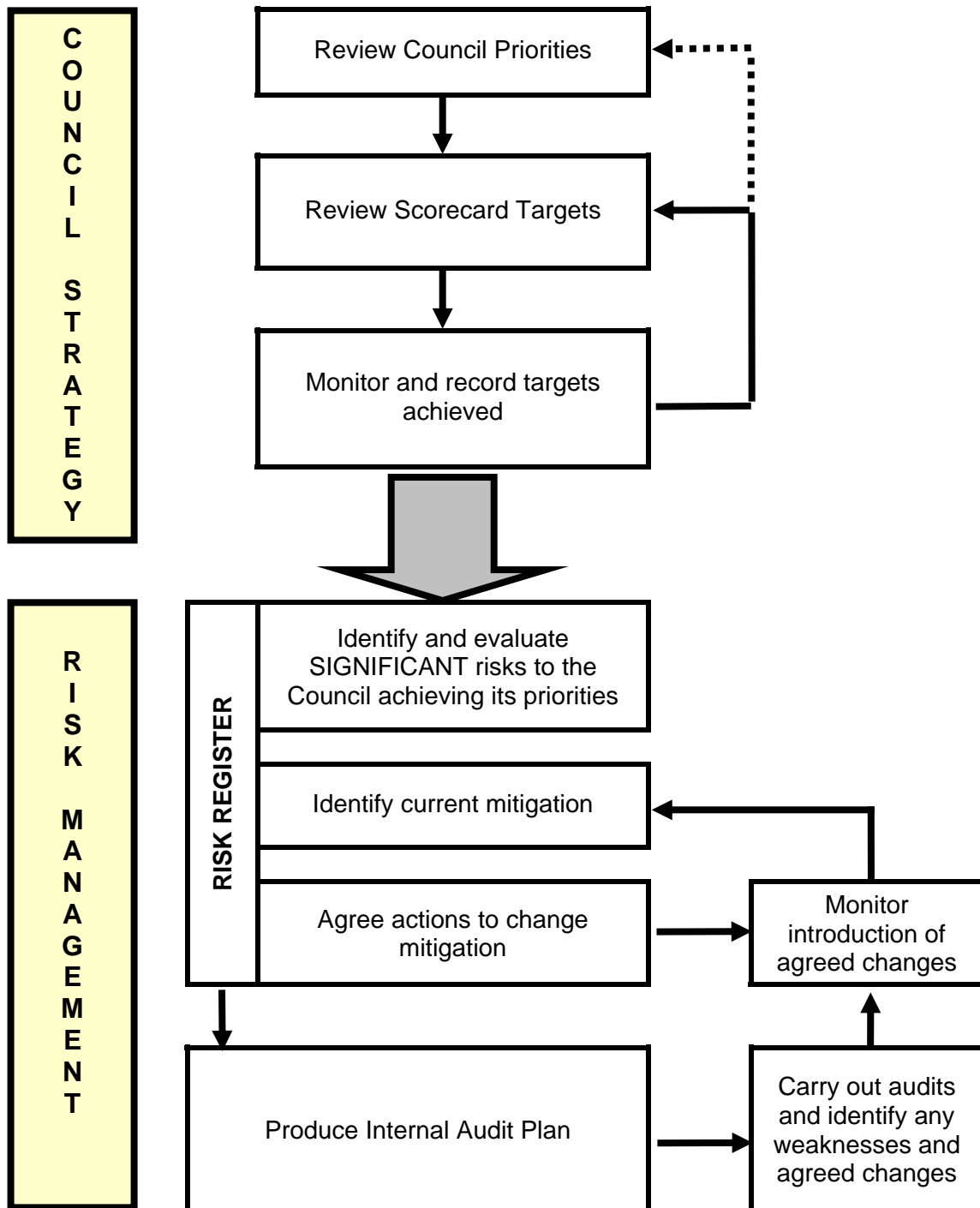
Further descriptions of the risk areas are contained at [Appendix A](#).

All levels of management should be concerned, to varying degrees, with risks in both categories. Corporate risks are likely to affect the medium to longer term priorities of the Council and require longer term planning to be addressed. Operational risks tend to have a more immediate impact and require to be treated in a shorter time frame.

## Developing and Integrating Risk Management

The identification and management of risks needs to be undertaken at all stages of the corporate and service planning process so as to ensure that the risk register contains the significant risks that will affect the Council achieving its priorities. All reports or proposals at officer or member level that deal with changes to services must, where material, refer to the impact of what is being considered on the Council's priorities and targets and be supported by an explicit consideration of the risks, both inherent and mitigated, to that impact being achieved.

The table below explains how risk management processes link into the Council's planning process.



## Risk Assessment

Corporate Governance Panel approved a risk assessment model in March 2005 ([Appendix B](#)).

The model requires potential risks to be evaluated against a set of pre-determined criteria for likelihood/frequency and impact. Individual risk levels can then be determined by plotting the risks onto a risk matrix.

<b>Likelihood / Frequency</b>	Almost Certain	5	Medium	High	Very High	Very High	Very High
	Likely	4	Medium	High	High	Very High	Very High
	Occasional	3	Low	Medium	High	High	Very High
	Unlikely	2	Low	Low	Medium	High	Very High
	Improbable	1	Low	Low	Medium	High	High
			1	2	3	4	5
			Trivial	Minor	Significant	Major	Critical
			<b>Impact</b>				

Following the plotting of a risk, a decision shall be taken as to how the risk is to be managed. This can be summarised as follows.

<b>Level of Risk</b>	<b>Very High</b>	<b>High</b>	<b>Medium</b>	<b>Low</b>
<b>Level of Concern</b>	Very concerned	Concerned	Uneasy	Content
<b>Consequences</b>	Disastrous impact	Severe impact	Detrimental impact on the day to day delivery of services	Relatively light impact
<b>Risk Treatment</b>	Prepare option appraisal within 4 weeks of risk identification, considering whether to avoid, reduce or transfer the risk or for acceptance of the risk to be approved by:			None The Council accepts the risk
	Cabinet	COMT	Director	
<b>Action Plans to deal with Risk</b>	Within 4 weeks	Within 8 weeks	Within 12 wks	-----
of the decision to treat the risk				

## Option Appraisals & Risk Treatment

Before a decision is made on the way the risk is to be treated, the Head of Service who owns the risk, shall carry out an option appraisal. The appraisal shall consider how to deal with the risk on the following basis:

- **Reduce** the risk by controlling the likelihood of the risk occurring or controlling the impact of the consequences if the risk does occur.
- **Avoid** the risk by not undertaking the activity that may trigger the risk.
- **Transfer** the risk either totally or in part e.g. through insurance.
- **Acceptance** of the risk. This option will only be accepted when the ability to take effective action against a risk is limited or the cost of taking action is disproportionate to the potential benefits gained.

The appraisal will consider cost, resources, time and the potential financial and non-financial benefits of each treatment option. Advice from specialist staff shall be taken where appropriate.

Ideally risk treatments should be self-funding. Where this is not the case there will need to be a prioritisation process to ensure that any funding is concentrated first on those items that will be most beneficial to the achievement of the Council's priorities.

## Action Plans

The Head of Service owning the risk will prepare an action plan ([Appendix C](#)) in accordance within the timescales noted in the table above. The plan shall identify the risk, **the current control environment**, control actions to be introduced, the officer responsible and the timescales for implementation.

## Roles and Responsibilities

Everyone in the Council is involved in risk management and should be aware of their responsibilities in identifying and managing risk.

## Council, Cabinet, Committees & Panels

- To ensure that risk management implications are considered when making decisions.

## Cabinet

- To appoint a risk management champion.
- To receive reports and decide upon the action to be taken for all mitigated risks that, would the risk materialise, have a disastrous impact on the Council, its reputation or business continuity.

## Corporate Governance Panel

- To ensure that an effective risk management strategy is in place.
- To determine the Council's risk appetite
- To receive an annual progress report from COMT on the implementation of the risk management strategy.
- To receive regular updates on the risk register.
- To review the risk assessment model annually to ensure it continues to reflect the requirements of the Council.

### **Chief Officers**

- To ensure effective risk management throughout the Council in accordance with the risk management strategy.
- To approve the terms of reference for the risk management group.
- To receive progress reports and an annual statement from the risk management group on the effectiveness of risk management.
- To ensure that Members are advised of the risk management implications of decisions.
- To take into account issues contained in the risk register and the risk management group's annual statement when preparing the annual corporate governance statement.
- To receive reports and decide upon the action to be taken for all mitigated risks that, would the risk materialise, have a severe impact on Council, its reputation or business continuity.
- To prioritise corporate risk treatments and all treatments requiring MTP funding.
- To prepare action plans that deal with the risk to be treated

### **Heads of Service**

- Ensuring that effective procedures are in place to manage the risks affecting their services.
- Maintain a risk register that identifies and scores risks, updating it promptly with any perceived new risks or opportunities or failures of existing control measures.
- To prepare option appraisals for risks within their ownership.
- To report and discuss with their Director and, if required, initiate action on all mitigated risks that should the risk materialise, be detrimental to the day to day delivery of services.
- To provide a formal annual statement to the Corporate Governance Panel certifying that their risk register is up to date or highlighting any material risks that are not accurately recorded in the register.
- Balancing an acceptable level of operational risk against the achievement of service plans, project objectives and business opportunities.

### **Risk Management Group**

- To oversee the risk management process throughout the Council in accordance with its terms of reference ([Appendix D](#)).

### **Internal Audit & Risk Management Section**

- To develop the culture of risk management throughout the Council.
- To assist managers in identifying and analysing the risks that they encounter and the formation of action plans to address outstanding issues.
- To report as necessary to the Corporate Governance Panel/COMT on risk management issues/registers/developments.
- To identify best practice and consider its introduction within the Council.
- To provide advice and guidance on systems to mitigate risk.

Separate to the responsibilities listed above, the Internal Audit Manager will also consider as part of his annual report to the Corporate Governance Panel:

- The robustness of the risk management process.
- The effectiveness of the internal controls for the mitigation of risk.

### **Health & Safety Advisor & Co-ordinators**

- To review the health and safety risks identified by managers and consider if the controls recorded in the register are sufficient to mitigate the risk to the level stated.
- To assist managers by monitoring and reviewing the effectiveness of the control environment recorded in the risk register.
- To review accident reports and health and safety records and recommend improvements to procedures.

### **Employees**

- To understand their responsibility to take reasonable care in carrying out their work such that risks are as far as reasonably possible minimised for the Council, colleagues, the public or themselves.
- To co-operate with management and colleagues in matters relating to the mitigation of risk.
- To inform their line-manager promptly of any risks they become aware of.



### Categories of Risk

The risk categories<sup>1</sup> provide a framework for identifying and categorising a broad range of risks facing the Council and its services. Each category cannot be considered in isolation, as risks identified in one category may have consequences on activities within another.

#### Corporate Risks

Those risks that may be potentially damaging to the achievement of the Council's objectives.

##### Political

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Associated with failure to deliver either local or central government policy, or to meet electoral commitments.

- Wrong strategic priorities
- Not meeting Government agenda
- Decisions based on incomplete or faulty information
- Too slow to innovate/modernise
- Unfulfilled promises to electorate
- Community planning oversights/errors

##### Economic

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Affecting the ability of the Council to meet its financial commitments. These include internal budgetary pressures, inadequate insurance cover, external level economic changes (e.g. interest rates, inflation etc), or the consequences of proposed investment decisions.

- General /Regional economic problems
- High cost of capital
- Treasury risk
- Missed business and service opportunities

##### Social

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Relating to the effects of changes in demographic, residential or socio-economic trends on the Council's ability to deliver its objectives.

- Failing to meet the needs of disadvantaged communities
- Impact of demographic change
- Failures in partnership working
- Problems in delivering life-long learning
- Crime and disorder

##### Technological

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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.

- Obsolescence of technology
- Hacking or corruption of data
- Breach of confidentiality
- Failure in communications

##### Legislative

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Associated with current or potential changes in national or European law.

- Inadequate response to new legislation
- Intervention by regulatory bodies and inspectorates
- Judicial review
- Human Rights Act breaches

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<sup>1</sup> Source: Accounts Commission for Scotland

### Environment

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Relating to the environmental consequences of progressing the Council's strategic objectives (e.g. in terms of energy, efficiency, pollution, recycling, landfill requirements, emissions, etc).

- Impact of Local Agenda 21 policies
- Noise, contamination & pollution
- Impact of planning and transportation policies

### Competitive

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Affecting the competitiveness of the service (in terms of cost or quality) and / or its ability to deliver Best Value.

- Takeover of services by governmental agencies
- Failure to show best value
- Failure of bids for government funds

### Customer

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Associated with failure to meet the current and changing needs and expectations of customers and citizens.

- Lack of appropriate consultation
- Bad public and media relations

### Operational Risks

Those risks that managers and employees may encounter in the day-to-day provision of services.

#### Professional

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Associated with the particular nature of each profession (e.g. Housing service concerns as to the welfare of homeless people).

- Inefficient/ineffective management processes
- Inability to implement change
- Lack of control over changes to service provision
- Inadequate consultation with service users
- Failure to communicate effectively with employees
- Lack of business continuity plan
- Non-achievement of Best Value
- Bad management of partnership working
- Failure to manage and retain service contracts
- Poor management of externally funded projects

#### Legal

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Related to possible breaches of legislation.

- Not meeting statutory duties/deadlines
- Failure to comply with European directives on procurement of works, supplies and services
- Breach of confidentiality/Data Protection Act
- Failure to implement legislative change
- Misinterpretation of legislation
- Exposure to liability claims e.g. motor accidents, wrongful advice

#### Financial

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Associated with financial planning and control and the adequacy of insurance arrangements.

- Failure of major project(s)
- Inefficient/ineffective processing of documents
- Missed opportunities for income/funding/grants
- Inadequate insurance cover
- Failure to prioritise, allocate appropriate budgets and monitor
- Inadequate control over expenditure
- Inadequate control over income

#### Physical

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Related to fire, security, accident prevention and health and safety (e.g. hazards / risks associated with buildings, vehicles, plant and equipment, etc).

- Violence and Aggression
- Non compliance with health and safety legislation
- Injury caused by e.g. slips, trips, stress
- Loss of intangible assets
- Loss of physical assets from e.g. theft, fire, terrorism
- Damage to assets from e.g. vandalism, water damage
- Failure to maintain and upkeep land and property

### Contractual

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Associated with the failure of contractors to deliver services or products to the agreed cost and specification.

- Non-compliance with procurement policies
- Over reliance on key suppliers/contractors
- Failure of outsourced provider to deliver
- Failure to monitor contractor
- Poor selection of contractor
- Poor contract specification, deficiencies, errors
- Inadequate contract terms & conditions
- Quality issues

### Information

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Associated with making decisions based on information that is flawed in some way.

- Inadequate business processes
- Poor reporting lines/processes
- Accounting system failure
- Unreliable accounting records

### Technology

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Relating to reliance on operational equipment (e.g. IT systems or equipment and machinery).

- Failure of big technology-related project
- Crash of IT systems affecting service delivery
- Lack of disaster recovery plans
- Breach of security of networks and data
- Failure to comply with IT Security Policy
- Bad management of intranets and web sites

### Environmental

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Relating to pollution, noise or energy efficiency of ongoing service operation.

- Impact of Local Agenda 21 policies
- Crime and Disorder Act implications
- Incorrect storage/disposal of waste
- Noise, contamination and pollution
- Inefficient use of energy and water
- Damage caused by trees, tree roots, etc

### Human Resources

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Associated with staffing issues (e.g. recruitment / retention, sickness management, change management, stress related risk analysis).

- Capacity issues
- Over reliance on key officers
- Failure to recruit/retain qualified staff
- Lack of employee motivation/efficiency
- Failure to comply with employment law
- Poor recruitment & selection processes
- Lack of succession planning
- Lack of training

## RISK ASSESSMENT MODEL

### Likelihood / Frequency

Alternatively this could be expressed as likely to happen within the next:

<b>5 = Almost Certain</b>	Month	Will definitely occur, possibly frequently.
<b>4 = Likely</b>	Year	Is likely to occur, but not persistently .
<b>3 = Occasional</b>	3 years	May occur only occasionally.
<b>2 = Unlikely</b>	10 years	Do not expect it to happen but it is possible.
<b>1 = Improbable</b>	20 years	Can't believe that this will ever happen, but it may occur in exceptional circumstances.

When considering Health & Safety related risks, the likelihood should be expressed as being likely to happen within the next:

<b>5 = Almost Certain</b>	Week	
<b>4 = Likely</b>	6 months	
<b>3 = Occasional</b>	Year	Further advice on assessing Health & Safety risks* can be obtained from the Health & Safety Advisor.
<b>2 = Unlikely</b>	5 years	
<b>1 = Improbable</b>	10 years	

### Impact

Risks will be evaluated against the following scale. If a risk meets conditions for more than one category, a judgement will need to be made as to which level is the most appropriate. For example, if a particular health and safety risk was significant, could result in minor short-term adverse publicity in the local media but had only a trivial financial impact, it might still be categorised as significant.

**1 = trivial** event or loss, which is likely to:

- cause minor disruption to service delivery on one or two consecutive days, not noticeable to customers
- affect the financial performance / outturn of one service in the current financial year by £10,000 or less
- be managed with no reporting in the local media
- \* be a Health & Safety concern that is resolved through current procedures and practices
- cause localised (one or two streets) environmental or social impact

**2 = minor** event or loss, which is likely to:

- cause minor, noticeable disruption to service delivery on one or two consecutive days
- affect the financial performance / outturn of one service in the current financial year by more than £10,000 but less than £50,000.
- result in minor short-term (up to a fortnight) adverse publicity in the local media
- \* be a Health and Safety concern that results in an injury but little lost time
- have a short term effect on the environment i.e. noise, fumes, odour, dust emissions etc., but with no lasting detrimental impact

### **3 = significant** event or loss, which is likely to:

- cause disruption for between one and four weeks to the delivery of a specific service which can be managed under normal circumstances
- affect service delivery in the longer term
- affect financial performance / outturn in the current financial year or future financial years by £50,000 or more but less than £100,000.
- result in significant adverse publicity in the national or local media
- \* be a Health and Safety concern that results in lost time or requires the H&S Executive to be notified
- has a short term local effect on the environment, or a social impact, that requires remedial action.

### **4 = major** event or loss, which is likely to:

- have an immediate impact on the majority of services provided or a specific service within one area, so that it requires Director involvement.
- affect financial performance / outturn in the current financial year or future financial year by £100,000 or more but less than £250,000.
- raise concerns about the corporate governance of the authority and / or the achievement of the Corporate Plan
- cause sustained adverse publicity in the national media
- significantly affect the local reputation of the Council both in the long and short term
- \* result in an employee or customer requiring hospital treatment or require the H&S Executive to be notified and operations stopped
- have a long term detrimental environmental or social impact e.g. chronic and / or significant discharge of pollutant

### **5 = critical** event or loss, which is likely to:

- have an immediate impact on the Council's established routines and its ability to provide any services, and cause a total shutdown of operations.
- affect financial performance / outturn in the current financial year or future financial years by £250,000 or more and / or on future Council Tax levels
- have an adverse impact on the national reputation of the Council both in the long and short term
- \* result in the fatality of an employee or customer and / or require immediate action to remedy a major Health and Safety concern for its workforce
- have a detrimental impact on the environment and the community in the long term e.g. catastrophic and / or extensive discharge of persistent hazardous pollutant

Risk Treatment Option Form

Risk Treatment – Action Plan				
Description of risk from register:	Risk ID No:	Current residual risk score: Likelihood x Impact		
Controls already in place as listed on the risk register:				
Are these controls operating effectively? Yes / No				
Risk Action Plan (All actions listed in priority order)				
Proposed actions to reduce risk using existing resources	New residual risk score <sup>2</sup>			Extra resources required <sup>3</sup>
	L	I		
a.				
b.				
c.				
Actions requiring additional resources				
1.				
2.				
3.				
4.				
Decision				
Agreed Option:	Implementation Date		Risk Owner	
Decision taken by:		on:		

<sup>2</sup> **New Residual Risk Score:** after the action has been introduced

<sup>3</sup> **Extra Resources:** only complete if extra resources will be required to allow the proposed action to be introduced e.g. financial costs and staff time

## Appendix C

Remember, when considering treatment options that the Council's aim is to manage risk rather than eliminate it completely – successful risk management is about improving risk taking activities whilst minimising the frequency of the event occurring.

Issues that should be considered when making the risk treatment decision are listed below.

Administration	<p>Is the option easy to implement?          Will the option be neglected because it is difficult to implement?          Do staff have sufficient expertise to introduce the option?</p>
Continuity of effects	<p>Will the effects of the risk treatment option be long term/continuous or short term?          If short term, when will further risk treatments be needed?          Does the risk need to be treated at all as it will 'disappear' in the short term (e.g. a project it refers to will be completed or in the next three months)</p>
Cost effectiveness	<p><i>Costs need to be estimated accurately as it's the base against which cost effectiveness is measured.</i></p> <p>Can the cost of implementing further control be justified compared to the risk reduction benefits expected?          What financial loss is to be expected if no action is taken?          Could the same results be achieved at lower cost by other means?</p> <p>Will running costs go up or down?          What capital investment will be needed?          What other costs will there be?</p>
Benefits	<p>What will happen to service levels?          What will happen to service quality?          What additional benefits or risk reductions will occur in other areas?          Can other controls in place be amended to deal with this risk?          How will you evaluate this option to see if it is reducing the identified risk?</p>
Objectives	<p>Will reducing risk advance the Council's overall objectives?          What will be the economic and social impacts?          What will be the impact on the environment of leaving the risk as it is?</p>
Regulatory	<p>Complying with laws and regulations is not an option.</p> <p>Does the lack of treating the risk (or the current method of control) breach any laws or regulatory requirement?          Is the treatment option proposed, including its cost, totally disproportionate to the risk?</p>
Risk creation	<p>What new risks will be created from introducing the option?</p>



