

HUNTINGDONSHIRE DISTRICT COUNCIL

Title/Subject Matter:	Review of the Risk Management Strategy
Meeting/Date:	Overview and Scrutiny Panel (Performance and Customers) - 7 September 2016 Cabinet - 22 September 2016
Executive Portfolio:	Strategic Resources: Councillor J A Gray (Deputy Executive Leader)
Report by:	Internal Audit & Risk Manager
Ward(s) affected:	All Wards

Executive Summary:

The Risk Management Strategy is reviewed annually and this report details the outcome of that review.

It is proposed that the Council's risk appetite and supporting statements remain unchanged. Similarly, it is also proposed that the risk assessment model and the scales against which likelihood and impact are evaluated, should also be unchanged.

The risk register requires all risk to be assigned a risk level – either a Corporate or Operational risk. In general, Corporate risks are likely to affect the medium to longer term priorities/objectives of the Council and require to be addressed over an extended period. Operational risks tend to those encountered by Managers in the day to day running of their services, have a more immediate impact and require to be treated in a shorter time frame.

Risks are also required to be allocated to one of 13 risk areas. The risk areas provide a framework for identifying and categorising the risks faced by the Council. Upon choosing the risk area, due to the current parameters within the risk management software, the risk is automatically assigned to either the Corporate or Operational level.

Experience has shown that most of the 13 risk areas, fall naturally into one of the two levels. Some risks however may sit within either level but the current Strategy means that the Manager is currently unable to allocate the risk to the level they feel is appropriate.

The Strategy now allows Managers to choose, within parameters, whether a risk sits under the Corporate or Operational heading. Changes will be required to the risk management software to accommodate this, but these can be easily and quickly made. All current risks will then be reviewed and reallocated if necessary to the appropriate level.

In addition, the detailed descriptions that support the 13 risk areas have been removed from the Strategy. They will be made available for Managers via the risk

management intranet pages.

The other changes to the Strategy are minor in nature. The tasks allocated to the former Officer Risk Governance Group have been allocated to Management Team as the Risk Governance Group has been disbanded.

Recommendations:

The **Overview and Scrutiny Panel** is invited to comment on the amended Risk Strategy.

The **Cabinet** is recommended to approve the Risk Management Strategy.

1. PURPOSE OF THE REPORT

- 1.1 The Risk Management Strategy (RMS) is reviewed on an annual basis.
- 1.2 This report details the outcome of the review of the RMS and requests Cabinet to approve a revised RSM.

2. ANALYSIS

- 2.1 No changes are being proposed to either the Council's risk appetite statements or the risk assessment model. Risk appetite was fundamentally reviewed in 2015 and remains appropriate.
- 2.2 The definitions used to judge both the likelihood and impact scores have been reviewed. Particular attention has been paid to the financial impact of risks. The Head of Resources has considered whether or not the financial impacts should be adjusted but has concluded that against a reducing budget, the individual limits within each of the five impact ranks remain applicable.
- 2.3 A number of changes are being proposed to the RMS. The most significant being the removal of the automatic allocation of a risk to either the Corporate or Operational risk level.
- 2.4 The 2003 RMS first introduced the concept of classifying risks at either the Corporate or Operational level. At the same time, using a set of criteria devised by the Accounts Commission for Scotland, a process was introduced by which a risk had also to be allocated to a specific risk area, as shown below.

Risk Level	<u>Corporate</u>	<u>Operational</u>
Risk Area	Competitive	Contractual
	Customer	Environmental
	Economic	Financial
	Environment	Information
	Legislative	Legal
	Political	Physical
	Social	Professional
	Technological	Technology

- 2.5 Over the last 12 months, as the Senior Management Team have reviewed their own risks and undertaken a peer review of their colleagues risk entries, the classification of risks has been challenged. In some areas, Managers would have liked some risks to be classified at the Corporate level, rather than Operational, or vice-versa. The only way that this can currently be done is to assign the risk against an incorrect risk area. It is proposed that the link between the risk level and the risk area be broken.
- 2.6 Removing the link will allow Managers free reign to decide if a risk should be at the Corporate or Operational level. Overall, this change is expected to see a reduction in the number of Corporate risks which will allow both the Corporate Management Team (CMT) and Cabinet to focus on these more strategic risks. As a consequence of this change, the risk areas have been reviewed and reduced from the current number of 16 to 13 by the amalgamation of the environmental and environment, legislative and legal and technological and technology areas. The risk management software will be amended to reflect this

change. This will be done in-house without the need to involve the software supplier.

- 2.7 The risk area definitions have also been removed from the RMS. They will be available for Managers to review via the risk management intranet pages.
- 2.8 The other changes to the RMS are minor in nature. With CMT agreeing to make all the Officer Governance Groups responsible for managing risk, the two tasks assigned to the former Officer Risk Governance Group - (1) to develop the culture of risk management throughout the Council and (2) to identify and resolve any risks associated with compliance with the Council's agreed rules, procedures and processes have been allocated to the Management Team. In practice they will be delivered through the Officer Governance Groups.

3. COMMENTS OF OVERVIEW & SCRUTINY

- 3.1 The comments of the Overview and Scrutiny Panel (Performance and Customers) meeting of the 7 September 2016 will be included in this section prior to its consideration by the Cabinet.

4. WHAT ACTIONS WILL BE TAKEN?

- 4.1 The change to the risk management software will be introduced by the 30 September. Managers will be required to review their risk entries and reallocated them as appropriate. The Internal Audit & Risk Manager reviews the risk register regularly and will ensure that all risks have been reviewed.

5. LINK TO THE CORPORATE PLAN

- 5.1 Effective risk management is integral to the delivery of the Corporate Plan. It supports sound decision making through a robust assessment of risks and opportunities.

6. REASONS FOR THE RECOMMENDED DECISIONS

- 6.1 The Cabinet are required by the RMS to determine the Council's risk appetite annually. Allowing Managers to decide if a risk should be classed at the Corporate or Operation risk level will improve risk reporting and oversight by omitting from the Corporate risk register those risks that are considered operational in nature and so allow both CMT and Cabinet to focus on significant, strategic Corporate risks.

7. LIST OF APPENDICES INCLUDED

Appendix 1 – Risk Management Strategy

BACKGROUND PAPERS

None

CONTACT OFFICER

David Harwood, Internal Audit & Risk Manager

Tel No: 01480 388115

Email: david.harwood@huntingdonshire.gov.uk



Risk Management Strategy

Version13 – Augst 2016

Introduction

An effective risk management strategy will ensure the Council maximises its opportunities and manages 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 Council¹. This will ensure that risks are considered in the same fashion whether at a project, partnership, corporate or operational level.

There are many ways of identifying risk, including:

- Staff experience and knowledge
- Necessity for achieving Corporate and Service Plans
- Performance indicators, financial/budgetary and management information
- Service reviews by internal/external audit and other inspection bodies
- Risk assessments
- Directorate / Service meetings / workshops
- Amendments to legislation
- Insurance claims / loss information

The risk register requires risks to be categorised either at a Corporate or Operational risk level and to be allocated to one of 13 risk areas.

- Competitive
- Contractual
- Customer
- Economic
- Environmental
- Financial
- Information
- Legal / Legislative
- Physical
- Political
- Professional
- Social
- Technology

Further details about the assignment of risk to the appropriate risk level and area can be found on the Risk Management intranet pages.

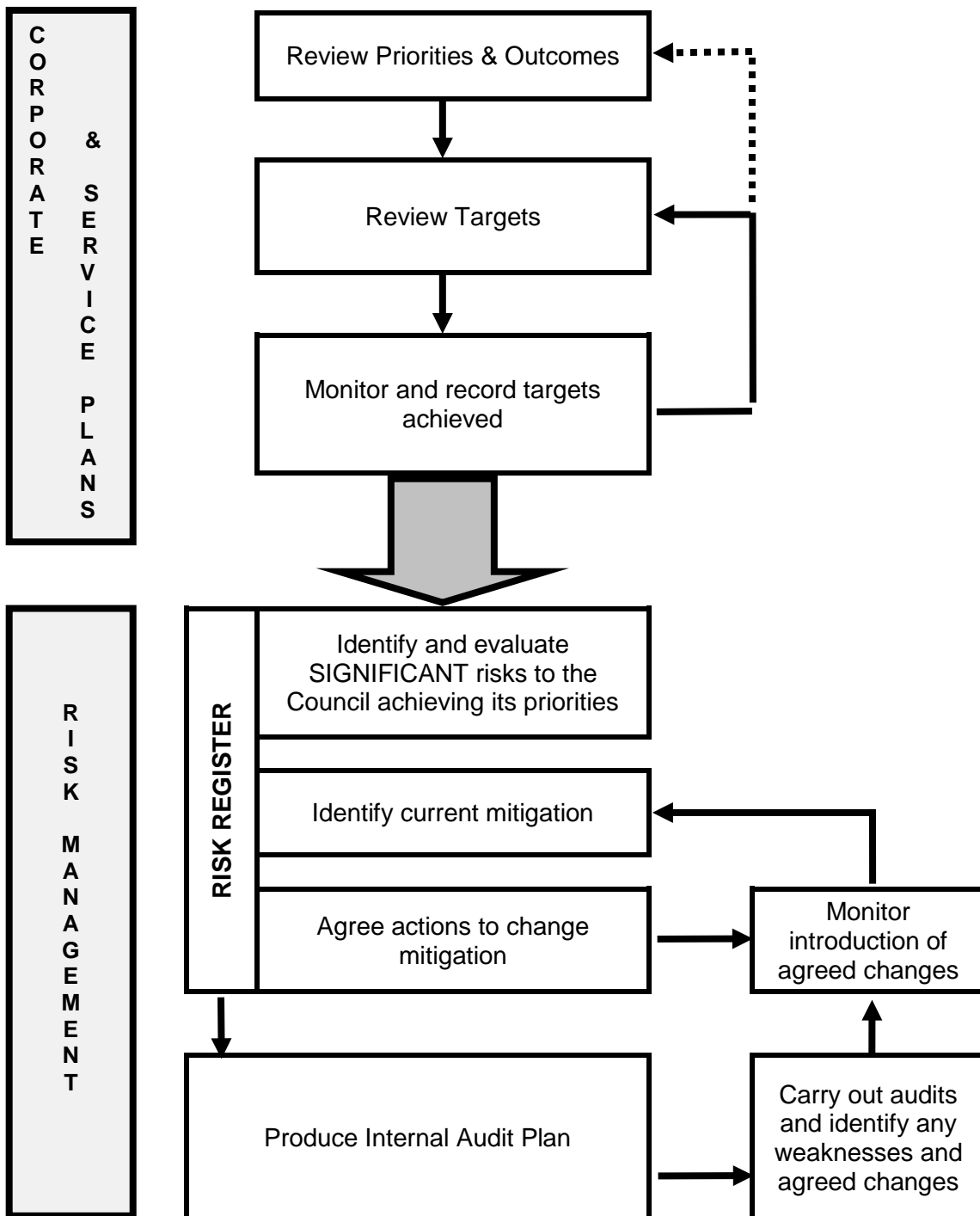
All levels of management should be concerned, to varying degrees, with risks in all categories. Corporate risks are likely to affect the medium to longer term priorities of the Council and require longer term planning to be addressed. Operational risks tend to have a more immediate impact and require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

¹ For operational reasons, health and safety risks shall be evaluated in accordance with the categories of injury prescribed by the Health and Safety Executive, as contained in Appendix A.

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.

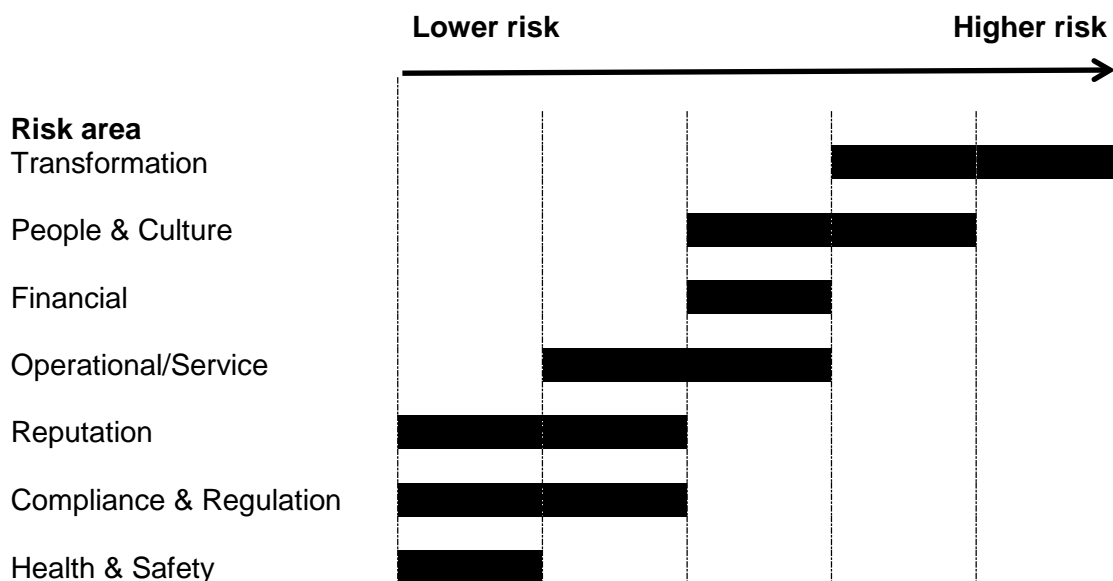
The table below explains how risk management processes link into the Council's planning process.



Risk Appetite

The Cabinet shall determine the Council's risk appetite; that is the amount of risk that it is prepared to accept, tolerate, or be exposed to at any point in time. In making this decision the Cabinet shall consider the risk assessment model and its individual elements, the Council's current circumstances and their responsibilities towards the Council's employees and the wider community and the recommendations of Corporate Management Team.

The appetite for risk varies according to the activity undertaken. The Council wish to minimise exposure to reputation, compliance and health and safety risk, whilst accepting and encouraging increasing risk in other areas in pursuit of the Corporate Plan objectives as shown in the diagram and statements below.



Transformation

The Council recognises that in order to achieve a balanced budget it needs to make changes to its internal operations and review how services are delivered. This will require innovation. The Council has a high risk appetite in this area and is prepared to accept the risks that may arise so long as the benefits and risks from those decisions are properly assessed and appropriately mitigated or accepted before change is introduced.

People & Culture

The Council recognises that its employees are critical to it achieving its objectives and that their support and development is key to making the Council an inspiring and safe place to work. It has a medium/high appetite for decisions that involve staffing or culture change that will support transformational change or lead to service improvement.

Financial

The Council has a medium appetite for financial risk. It recognises that for the foreseeable future it will have to deliver its services for less money. It aims to maintain its long term financial viability and its overall financial strength and Directors, Heads of Service and Service Managers are required to deliver their services within the budget approved by Council and in accordance with the Code of

Financial Management, its reserves policy and treasury management strategy.

Operational/Service

In accepting that minimum service levels shall be determined by the Cabinet and are constrained by budget pressures, the Council requires operational risk to be reduced to a level at which the controls and procedures that are in place allow for services to be delivered 'right first time' and with minimum error or the requirement to re-perform. This will result in the provision of appropriate levels of service that provide value for money whilst also maintaining customer focus.

Reputation

It is regarded as essential that the Council acquires and maintains a high public reputation. It has a low appetite for risk in the conduct of any of its activities that puts its reputation in jeopardy through any adverse publicity or could lead to the loss of confidence in how it delivers its services by Central Government.

Compliance & Regulation

The Council places great importance on compliance, regulation and public protection and has no appetite for any breaches in statute, regulation, professional standards, ethics or any act that facilitates bribery or fraud. It has a low risk appetite in these areas.

Health & Safety

The Council considers that health and safety risks including safeguarding and similar public safety concerns should be mitigated to the lowest practical level. If health and safety risks conflict with the delivery of services or the introduction of new initiatives, then the health and safety of employees and members of the public shall take precedence.

Risk Assessment

The risk assessment model is detailed in [Appendix A](#).

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. Health and Safety risks will be plotted against the smaller inset matrix.

Likelihood / Frequency	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
			Impact				

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.

Level of Risk	<i>Low</i>	<i>Medium</i>	<i>High</i>	<i>Very High</i>
Level of Concern	Content	Uneasy	Concerned	Very concerned
Consequences	Relatively light impact.	Detrimental impact on the day to day delivery of services.	Severe impact. If residual risk exceeds risk appetite then	Disastrous impact.
Responsibility for acceptance of residual risk	Risk accepted	Risk monitored by Head of Service; escalated to CMT if increase in impact or probability.	Risks will be tolerated where single events occur but overall impact of multiple events to be reported to Cabinet. Monitored 6 monthly by CMT <i>who may determine, by exception, that individual risks shall be further mitigated.</i>	Cabinet receive formal risk option form and decide if the risk shall be accepted or avoided.
Prepare action plan and update Risk Register	-----		Within 6 weeks 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** or treat the risk by controlling the likelihood of the risk occurring or controlling the impact of the consequences if the risk does occur.
- **Avoid** or eliminate the risk by not undertaking the activity that may trigger the risk.
- **Transfer** the risk either totally or in part to others e.g. through insurance.
- **Accept** or tolerate 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 results of the option appraisal shall be recorded by the appropriate Head of Service on a risk treatment option form ([Appendix B](#)) within 4 weeks of the risk having been recorded in the risk register. The form shall identify the risk, the current control environment, control actions to be introduced, the Officer responsible and the timescales for implementation.

The option appraisal will be reviewed and challenged by the Internal Audit & Risk Manager prior to its submission and consideration by Cabinet or the Corporate Management Team who shall decide what further action, if any, is required to address the risk issue raised. The Head of Service shall update the risk register and put in place procedures to introduce the agreed actions.

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 they consider risk management implications when making decisions.

Cabinet

- To be responsible for ensuring effective risk management procedures are in place across the Council and approving the risk management strategy
- To determine the Council's risk appetite annually and review the risk assessment model to ensure it continues to reflect the requirements of the Council.
- To receive reports and decide upon the action to be taken for all mitigated risks that exceed the Council's risk appetite or have the potential to harm its reputation or the continuity of services.

Corporate Governance Committee

- To receive regular updates on risk management and consider any governance issues arising.

Corporate Management Team

- To ensure effective risk management throughout the Council in accordance with the risk management strategy.
- To make recommendations at least once a year to the Cabinet on the Council's risk appetite.
- To ensure that Members are advised of the risk management implications of decisions.
- To consider every three months all new risk entries on the risk register.
- To prioritise risk treatments and requests for additional funding.

Management Team

- 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.
- Ensure that risks relating to significant partnerships are identified and effectively managed, within the partnership and at service level.
- To report all new risks or significant changes to risk entries to the Corporate Management Team every three months.
- To undertake option appraisals for risks within their ownership and prepare action plans for risks that are to be treated further.
- To update at least once every six months assurance on those controls that manage risks recorded on the risk register.
- Balancing an acceptable level of risk against the achievement of service plans, project objectives and business opportunities as detailed in the risk appetite.
- To identify and resolve any risks associated with compliance with the Council's agreed rules, procedures and processes.
- To develop a culture of risk management throughout the Council.

Internal Audit & Risk Management Section

- 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 Cabinet, Corporate Governance Committee or Corporate Management Team on risk management issues.
- To identify best practice and consider its introduction within the Council.
- To provide advice and guidance on systems to mitigate risk.

Health and Safety

- All Elected Members and employees are responsible for taking care of their own and their colleagues/visitors health and safety at all times. They are responsible for the identification and treatment of hazards as described in the Health and Safety Policy – Organisation & Responsibilities.

Employees

- To co-operate with management and colleagues in matters relating to the mitigation of risk.
- To promptly inform the appropriate manager of any risks they become aware of.

RISK ASSESSMENT MODEL

Likelihood / Frequency

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

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

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

4 = Likely	Month	Further advice on assessing Health & Safety risks* can be obtained from the Health & Safety Advisor.
3 = Occasional	Year	
2 = Unlikely	5 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
- increase the Council's net cost over the 5 year medium term financial strategy (MTFS) period by £50,000 or less.
- be managed with no reporting in the local media
- 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
- increase the Council's net cost over the 5 year MTFS period by more than £50,000 but less than £100,000.

- result in minor short-term (up to a fortnight) adverse publicity in the local media
- * be a Health and Safety (H&S) concern that results in an injury but 7 days or less off work
- 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
- increase the Council's net cost over the 5 year MTFS period by more than £100,000 but less than £250,000.
- result in significant adverse publicity in the national or local media
- * be a Health and Safety concern that results in more than 7 days off work or is a specified injury, dangerous occurrence or disease that is required to be reported to the H&S Executive in accordance with 'Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013' (RIDDOR)
- 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 Managing Director involvement.
- increase the Council's net cost over the 5 year MTFS period by more than £250,000 but less than £500,000.
- 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
- * results in the fatality of an employee or any other person
- 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.
- increase the Council's net cost over the 5 year MTFS period by more than £500,000.
- have an adverse impact on the national reputation of the Council both in the long and short term
- 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 ²			Extra resources required ³
	L	I		
a.				
b.				
c.				
Actions requiring additional resources				
1.				
2.				
3.				
4.				
Decision				
Agreed Option:	Implementation Date		Risk Owner	
Decision taken by: _____ on: _____				

² **New Residual Risk Score:** after the action has been introduced

³ **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

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 in 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>