Risk Management Guide

A practical guide to managing risk and opportunity in Stevenage Borough Council

The Senior Leadership Team will approve minor changes and review the effectiveness of the Risk Management Guide (following recommendation from Corporate Risk Group).

Audit Committee will note and advise or comment upon the risk management arrangements as appropriate.

Executive is responsible for approval of fundamental changes to the Risk Management process.

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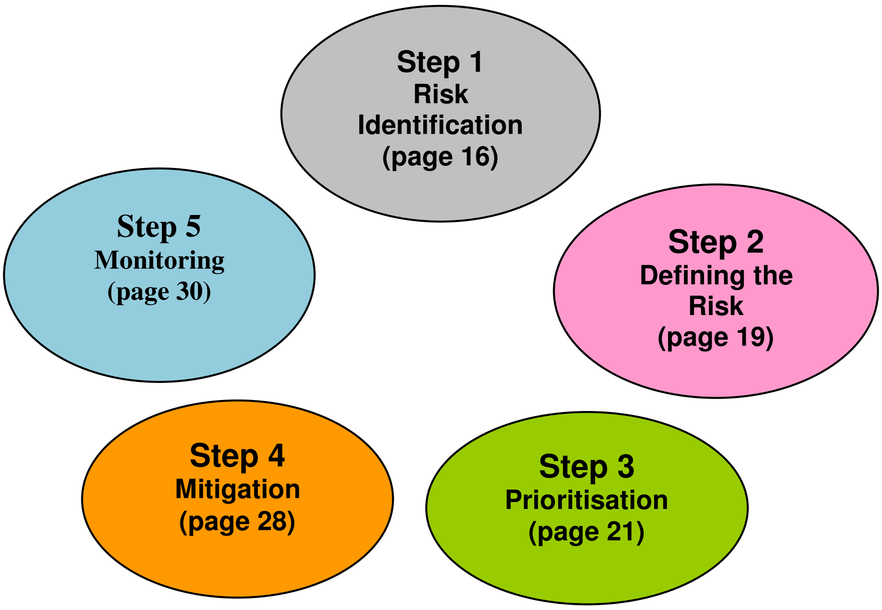
CONTENTS

The Five Key steps of Risk Management:



POLICY

Risk management is fundamentally about making better decisions. It is an integral part of good planning and transparent decision making at both an operational and strategic level. It is essential to the effective use of resources, providing assurance that the Council has a sound system of internal control and robust corporate governance arrangements. Management of risk also plays an important role in protecting the Council's reputation and assets and in managing key partnerships and projects.

A robust risk management culture requires widespread understanding of and commitment to risk management principles. Members, Chief Officers, Heads of Service and Managers need to be familiar with the Council's strategy and their own role and responsibilities. All staff need to be aware of the policy.

The benefits of a culture where consideration and management of risk is fully integrated in day-to-day decision-making are clear:

- Increased likelihood of achieving strategic and operational objectives
- Better planning and prioritisation of resources
- Early warning of potential problems
- Proactive approach to uncertainty that avoids knee-jerk reactions
- Improved stakeholder confidence
- Better management of partnership arrangements
- Informed balance between innovation and risk avoidance
- Ability to identify and take advantage of opportunities
- Demonstrates openness, integrity and accountability

The Council will achieve these benefits by:

- An annual review of our risk management processes
- Using risk registers to help assess the key risks to achieving our objectives and recording the associated mitigating actions needed.
- Providing training and support on risk management across the Council.

This Guide sets out Stevenage Borough Council's approach to risk management. It defines how risks and opportunities will be identified, assessed, managed and reviewed.

Chief Executive	**Leader**
....	....
Date 15/07/15	**Date** 15/7/15

Purpose and Objectives of this Guide

This document explains why and how we manage risk. The objectives are to:

- Raise awareness and understanding of risk management
- Help to embed risk management into the culture and corporate planning processes of the council.
- Provide a framework for identifying, prioritising and managing risks at strategic and operational level.
- Identify the roles and responsibilities of corporate groups and Members and officers at all levels, in the delivery and development of the council's risk management arrangements.

Section 1: Risk Management Definitions and Responsibilities

What is risk management?

Risk management is a systematic process whereby organisations identify, evaluate, respond to and monitor the risks attached to their activities.

Most attention will inevitably be focussed on controlling threats; however risk is about uncertainty, therefore risk management, as well as providing a means of overcoming threats, provides the means to identify and respond to opportunities.

The concept of opportunity (often called upside or positive) risk is not easy to grasp. Opportunity risk refers to positive things that might happen. As with negative risk, opportunities can be left to chance or managed proactively.

Risk cannot be eliminated and resources for managing risk are finite, therefore controls need to be targeted and proportionate to the threat. Prioritising risks allows resources to be assigned to the most significant risks.

> The public sector has traditionally been seen as risk averse, however, it is now required to take initiatives and find innovative solutions to the provision of services to the community. Changes in Central Government policy, the localism agenda, partnership working and continuing budgetary pressures will provide opportunities as well as risks; for example, to add value or improve customer experience/satisfaction, to reduce waste and inefficiency or to take advantage of a business or funding opportunity. One way of looking at risk is that it can be a failure to take an opportunity.

Well managed risk taking should be recognised by all council officers as fundamentally important to effective service delivery and maximising opportunities for service development. *Risks always exist; if a risk is not identified then in effect it is automatically accepted. Identifying a risk means it can be managed.*

Risk management is not intended to constrain Members or officers from innovation, but to help them to achieve their objectives, deliver services.

Section 1: Risk Management Definitions and Responsibilities

Why do we need to manage risk?

The primary reason:

'If a council doesn't have effective risk management then it doesn't have effective management'
Source: The Society of Local Authority Chief Executives

Quite simply, effective risk management is about making the right decisions and about managing the process of achieving objectives, therefore it is central to effective management.

There are many positive reasons for managing risk effectively and conversely, there are consequences to not managing risk effectively:

Risk is integrated into day to day decision-making. This results in:	**Risk is not managed effectively. As a consequence:**
- more informed decision-making - increased confidence that objectives can be met - improved planning and prioritisation of resources - early warning of potential vulnerabilities and therefore a proactive approach to uncertainty - an informed balance between innovation and risk avoidance - better protection of the council's reputation - a demonstration of transparency and accountability in decision-making; good governance - opportunity risks are identified, resulting in increased chances for benefits to be captured	- unexpected problems with delivering services and targets - managerial time spent dealing with the consequences of risks occurring - poor prioritisation of resources and increased costs associated with delays and losses - possible health and safety implications - possible non-compliance with legislation and regulations - missed opportunities - risk management is perceived as negative and a constraint on innovation and creativity

The secondary reason:

There is also a requirement that councils demonstrate that risk is being managed effectively.

Corporate Governance principles require that the council 'take informed and transparent decisions which are subject to effective scrutiny and managing risk'. Good governance also requires that 'risk management is embedded into the culture of the authority; with Members and managers at all levels recognising that risk management is part of their job'.

Section 1: Risk Management Definitions and Responsibilities

Managing Opportunity Risk

Most attention will rightly be focussed on reducing or avoiding threats. However, if only risks which will disrupt or delay objectives, damage reputation etc. are managed, then the organisation is effectively relying on good luck in order to achieve any improvements in service provision or service enhancements.

The idea of opportunity risk management is that if the organisation wishes to improve on outcomes, rather than just achieve them, then it must search for the opportunity or upside risks; that is the positive things that will, if they occur, make things better.

Proactive opportunity risk management is best considered during the planning stages of any operational activity, project or strategic initiative. This will mean that should an opportunity risk be identified, a decision can be made to either definitely make it happen, or alternatively increase its likelihood or impact (or both) – i.e. it can be managed in the way a negative risk can, to make the most of the potential offered.

Some of the benefits of opportunity risk management

- proactive opportunity risk management means opportunity risks that might have been missed or left to lucky chance are addressed
- improved chances of success, because opportunity risks are identified and captured, producing benefits for the organisation that might otherwise have been overlooked
- more realistic budgetary and schedule contingency management; by including potential upside impacts as well as downside impacts, taking into account both "overs and unders"
- encourages people to think creatively about the 'what if' questions and to look for ways to work better, simpler, faster, more effectively etc.
- removes the negative perception of risk management as just being about scaremongering or a process which intrinsically discourages risk taking.

Opportunity Risk Management Guide ©Alarm 2011

Some examples of opportunity risks are provided in Appendix 2

Risk definitions

'Risk' or 'Issue'?

<table>
<tr><td>A risk is a future event (or series of events) which has the potential to impact on the organisation's objectives. It is therefore inherent in everything we do. There is a trigger, a probability of occurrence and a consequence.</td><td>An issue is something that is already true now; a current problem, an outstanding item, a task or a request.</td></tr>
<tr><td colspan="2">As a risk is a potential event in the future; it could be an issue that could further impact on delivery of the organisation's objectives and requires active controls to limit the impact.</td></tr>
</table>

Section 1: Risk Management Definitions and Responsibilities

Strategic risk or operational risk?

Risk can be categorised in many different ways. The Council uses two categories; Strategic and Operational. The categories should lead to a sufficiently broad set of issues being considered but are not intended to impose too great an administrative burden.

<table>
<tr><td>Strategic risk - risks affecting the long-term ambitions and priorities of the Council (including political, economic, social, technological, legislative and environmental factors)</td><td>Operational risk – risks that may affect achievement of service objectives. These may be connected to longer term service priorities, one-off activities or encountered in the course of the day to day running of services.</td></tr>
<tr><td colspan="2">It should be noted that these categories are not mutually exclusive. The purpose of categorising risk is to ensure that risk is considered across the broad range of services the organisation delivers.

It may be that some risks affecting one particular service are so critical to the council that they need to be escalated to the strategic level – or that some risks affect several services and for that reason should be considered for escalation.</td></tr>
</table>

The Strategic and Operational risks are collated using the Council's Business Insight System InPhase. A formal record of the most significant risks identified at an organisational (strategic) and service level (operational) together with the associated actions applied or planned to control the likelihood of the risk occurring /its impact on the organisation's objectives (mitigation strategies) is maintained in InPhase.

This provide assurance that when decisions are made procedures are in place to manage any risk associated with delivery.

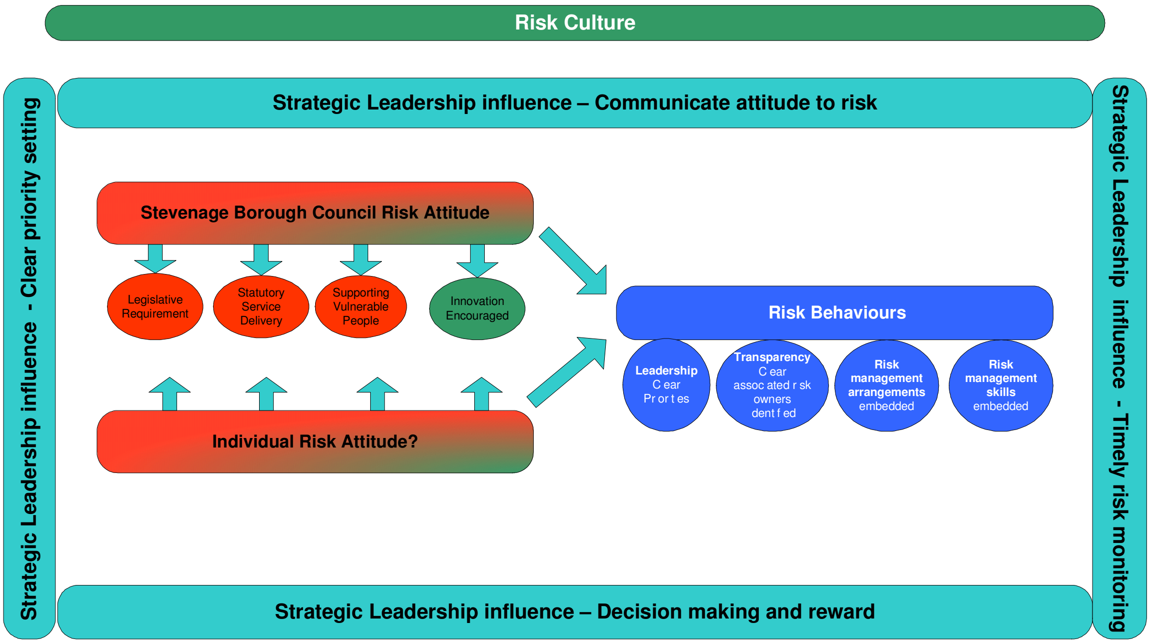
Guidance regarding risk management through InPhase is available from the Council's Corporate Performance Team.

Section 1: Risk Management Definitions and Responsibilities

Risk Appetite (versus Risk Culture)

An organisation's overall 'risk appetite' is the amount of risk, on a broad level, an organisation is willing to accept in pursuit of its objectives.

Risk Appetite differs from Risk Culture. Risk Culture relates to behaviours and skills in the organisation in implementing risk management arrangements, as demonstrated by the diagram below:



Author: Elaine Wright, Corporate Performance and Improvement Manager, Stevenage Borough Council

The Council needs to ensure that its risk appetite is flexible enough to allow innovation and change, ensure delivery of statutory services and priority objectives, and have consideration for organisational resource availability. The Chief Executive determines the broad level of risk appetite that the Council can accept. Risk appetites are dynamic and could also vary from service to service or even risk to risk depending on the environment or situation. The following risk appetite descriptors may apply:

- Averse
- Minimalist
- Cautious
- Open
- Hungry

To facilitate the delivery of a flexible risk appetite, the Council has put in place particular management arrangements for risks that are assessed as 'high' or 'very high', considering them above a tolerable level.

For these risks the appropriate Director needs to agree that the activity is of sufficient value to the organisation for the risk to be accepted and agree the appropriate risk treatment and management.

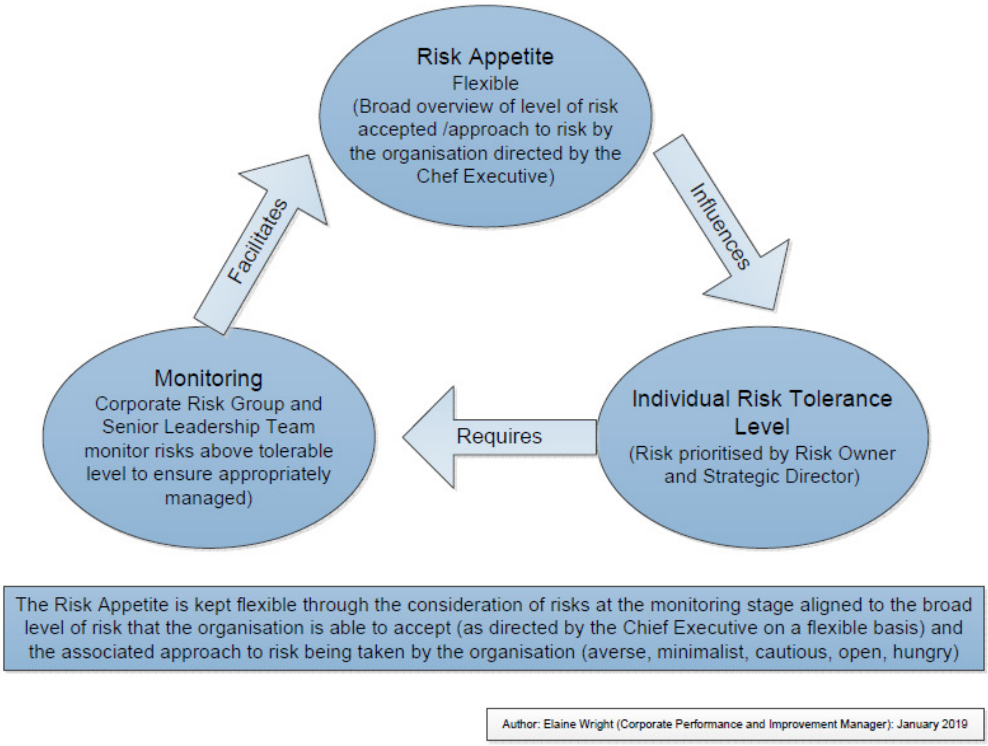
Section 1: Risk Management Definitions and Responsibilities

The decision to accept an activity above tolerable level will depend on the specific circumstances surrounding different types of risk. For example, it will be lower in matters of legal compliance or health and safety and potentially higher in support of innovation.

Of key importance, is that decisions are made after careful assessment of the risk involved and that Directors and Members are aware of and in agreement with, the level of risk associated with a particular decision or objective.

It will be the case that the council has no option but to 'live with' some areas of high risk. This may be associated with delivering priorities or innovation, or it may be that the risk cannot be reduced further or that reducing it is beyond reasonable or available resources. Thus some very high level risks will be justifiable.

The diagram below demonstrates how setting a tolerance level for individual risks facilitates the Chief Executive and senior management in monitoring and managing the Council's Risk Appetite.



In addition to the Corporate Risk Group and the Strategic Leadership Team monitoring Strategic Risk, Corporate Risk Group monitor high/very high risks across all business units on a six monthly basis in order to inform Strategic Leadership Team and the Chief Executive of any emerging concerns.

Section 1: Risk Management Definitions and Responsibilities

Risk Management or Business Continuity Management?

There is a link between these areas – they are interconnected but not the same.

Risk Management is a systematic process whereby organisations identify, evaluate, respond to and monitor risks attached to their activities - it is a business methodology used to manage risks linked to the organisation's objectives.

Usually this will involve reducing the likelihood or impact of the risk occurring (or both). Not all general risks will disrupt service continuity.

Business Continuity Management (BCM) is a method by which organisations identify business critical activities (essential services and processes) and put plans in place to deliver them at an acceptable level in the event of a major disruption.

A Business Continuity Management risk may feature on an operational risk register where there are concerns regarding the effectiveness or completeness of the current business continuity plans in place, or concerns about staff awareness or preparedness.

Roles and Responsibilities

Chief Executive and Strategic Leadership Team (SLT)

The overall responsibility for effective risk management lies with the Chief Executive. The Chief Executive and Leader have agreed and signed the Council's Risk Management Policy.

The Chief Executive and Strategic Leadership Team will:

- review the effectiveness of the council's risk management arrangements
- approve the risk management guide and any subsequent revisions
- provide strategic leadership, direction and oversight of the risk management process (having consideration for the appropriate risk appetite)
- oversee the implementation of the risk management arrangements across the Council
- promote and support the benefits of risk management
- review the strategic risk register on a quarterly basis to:
    - ensure the Council's highest risks are being managed appropriately
    - approve new risks proposed / risks proposed for removal from the SRR
    - approve any changes to the risk levels

Corporate Risk and Governance Group (CRGG Part A)

The corporate risk and governance processes are aligned to ensure significant risk issues are addressed. Corporate Risk Group (part A of the CRGG) meets quarterly; its role is to monitor and review Stevenage Borough Council's risk reporting process and to support the development and embedding of the council's Risk Management Policy and Guide. Corporate Risk Group has responsibility for the detailed oversight of strategic risk.

The Chair of CRG approves the final Audit Committee report for sign off by SD Tom Pike.

Section 1: Risk Management Definitions and Responsibilities

Scope

Risk Management Process and Guidance
- Support new risk management initiatives
- Ensure training and support is provided to officers with responsibility for risk management, and share good practice and experience between services
- Respond to input / questions from Members and contribute to the provision of training as required
- Review the prioritisation elements and impact levels that contribute to the Council's Risk Appetite
- Quality Assure the risk management process to include determining the extent to which managers review their risks and controls

Strategic Risk Management Focus
- Review the Strategic Risk Register on an ongoing basis and confirm it accurately reflects the Council's key risks
- Consider any new or emerging risks which may require management at a strategic level
- Report any areas of significant concern to Corporate Governance Group

Operational Risk Management Focus
- Consider the status of operational risk registers on a quarterly basis
- Carry out a review of all the council's Very High/High level Operational Risks twice a year
- Consider risks which arise across services and propose escalation to the Strategic Risk Register as appropriate.

Partnership Risk Management Focus
- Monitor the consistency of risk management across key partnerships.

In Addition, report issues of concern to Corporate Governance Group.

Strategic Directors

Directors have an important role in ensuring that there is a 'joined-up' approach to risk management and that it is embedded into the service planning for all Business Units. This will involve:

- Ensuring that Business Unit risks are documented as part of the service planning process.
- Ensuring that the risk management process is part of all major projects, partnerships and change management initiatives.
- Maintaining awareness of 'high' and very high' risks across the Business Units and agreeing the appropriate risk treatment and management.
- Identifying risks across their service areas that should be escalated.
- Ensuring that any comments made at Strategic Leadership Team meetings are cascaded to Risk Owners and that mitigation actions (or omissions) on the strategic risk register are reviewed.
- Keeping Portfolio Holders up to date regarding risk issues and providing a channel through which Portfolio Holders can challenge or comment upon the directorate's risks.

Section 1: Risk Management Definitions and Responsibilities

Assistant Directors

ADs are responsible for the proper monitoring and minimising of risk within their Business Unit by:

- Providing a quarterly update to the strategic risk register.
- Ensuring that the risk management process is part of all major projects, partnerships and change management initiatives.
- Ensuring that Business Unit risks are documented as part of the service planning process and reviewed as part of routine operational management thereafter
- Keeping Portfolio Holders up to date as a standing agenda item, regarding risk issues and providing a channel through which Portfolio Holders can challenge or comment on Business Unit risks.
- Ensuring committee reports provide Members with an appropriate risk assessment of the options presented.
- Accepting input from peers regarding risk levels and mitigation tasks assigned (facilitated by the transparent availability of risk management information in InPhase and the Strategic leadership Team meetings)
- Monitoring the Business unit operational risk register(s) and mitigation actions at least every six months.
- Recommending risk management training for appropriate staff.
- Encouraging staff to identify risks or opportunities.

Service Managers

- Actively identifying and prioritising the key risks to service objectives.
- Developing action plans for mitigating key risks; ensuring actions are addressing the risk appropriately, are consistent with mitigation proposals and are completed by the mitigation owners.
- Monitoring relevant Business unit operational risk register(s) and mitigation actions at least every six months.
- Considering transferring to the operational risk register any 'high' risks affecting service delivery that are identified in audit reports.
- Recommending risk management training for appropriate staff.
- Encouraging staff to identify risks or opportunities.

All Staff

All staff should be aware of the risk management arrangements and have regard for risk management in their day to day activities. If any potential risks are identified, they should be discussed with their Manager.

Internal Audit

The Shared Internal Audit Service (SIAS) use a risk based audit methodology. The 'High' priority recommendations contained within the Management Action Plans that are produced as a result of SIAS work will be highlighted to managers at the Audit Exit meeting. Risks associated with 'high' priority recommendations affecting service delivery should be considered for transfer to the operational risk register (or where relevant the Strategic Risk Register – see page 16).

Internal Audit provides an independent opinion on the Council's corporate risk management arrangements annually.

Executive

Executive is responsible for approval of fundamental changes to Risk Management Procedures (i.e. A new/revised Risk Management Strategy)

Audit Committee

Audit Committee's role is to note and advise or comment upon the Council's risk management arrangements as appropriate. It will also raise the profile of risk management within the Council.

Audit Committee also notes the latest Strategic Risk Register as a standing item on the agenda. Members may challenge entries on the register and ask for risks to be reviewed.

The Chair of Audit Committee has a standing invitation to attend the quarterly CRGG (Part A) meetings

(Note: the Audit Committee is an Advisory Committee. For this reason, Minutes from the Audit Committee are submitted to Council 'to note')

Portfolio Holders

Portfolio Holders should be aware of key risks facing their area of responsibility and be satisfied that the risks are being managed effectively. Regular briefings from the relevant Strategic Director or Assistant Director will provide a channel for discussion and challenge on risk issues.

The Executive Member for Resources is the Council's Risk Champion facilitating risk management awareness and assisting in the process of embedding risk management at Member level. The Risk Champion is invited to the quarterly CRGG (Part A) meetings and regular briefings are provided by Assistant Director Finance and Estates to include any risk management updates.

Members

Elected Members have a responsibility to understand the key risks facing the Council. In line with principles of corporate governance, Members must ensure that decisions are objective and must satisfy themselves that they have considered the risks associated with the decisions they undertake. Members should be aware of the process through which risks are being managed. This is a key part of their stewardship responsibilities.

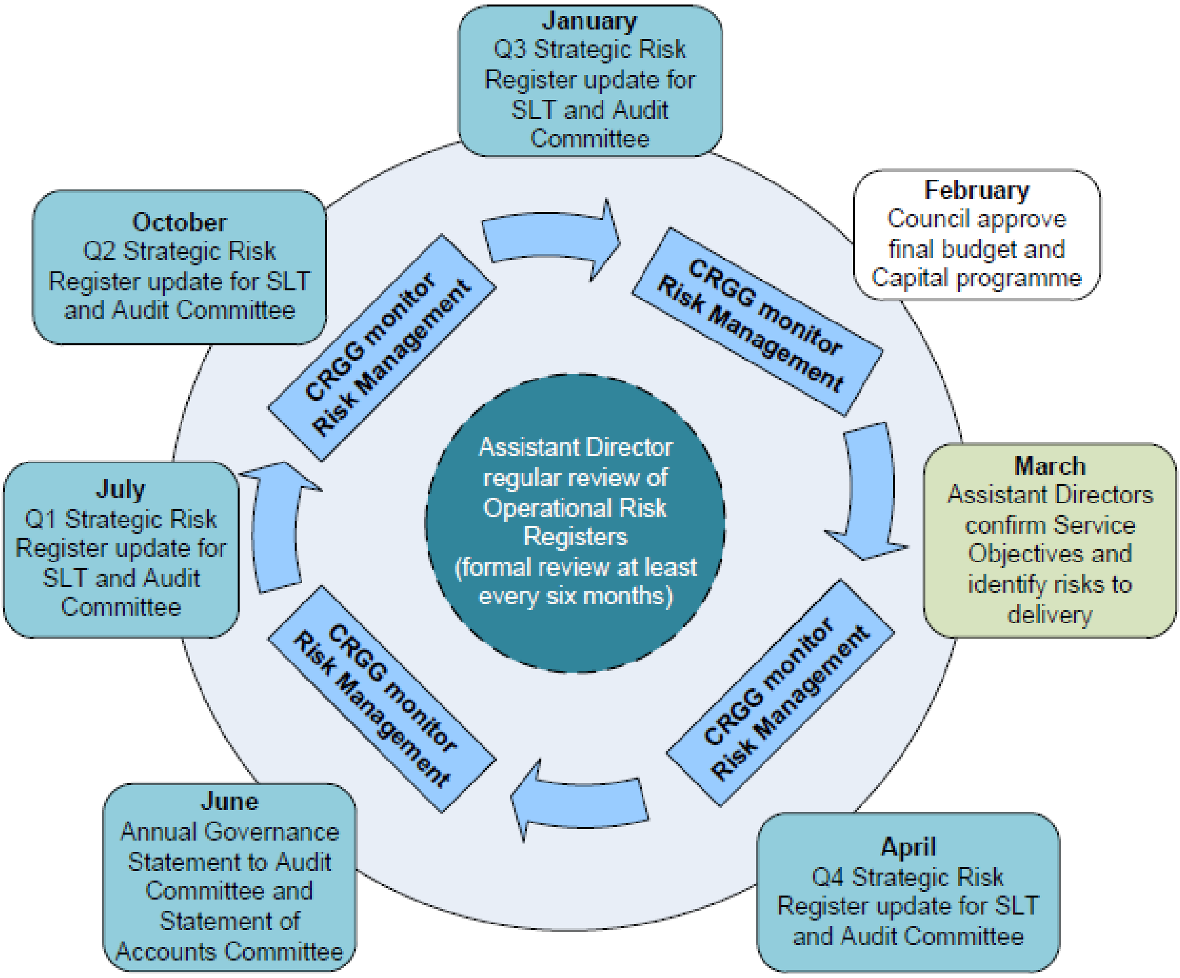
A summary of this risk management guide is available in the Members' library.

Everyone

All staff should be aware of the risk management process and have regard for risk management in their day to day activities. If an officer becomes aware of a potential risk this should be discussed with their Service Manager.

Section 1: Risk Management Definitions and Responsibilities

The SBC risk management timetable



The Strategic risk register is updated quarterly, reviewed by Corporate Risk Group and presented to SLT. It is then reported to the following Audit Committee.

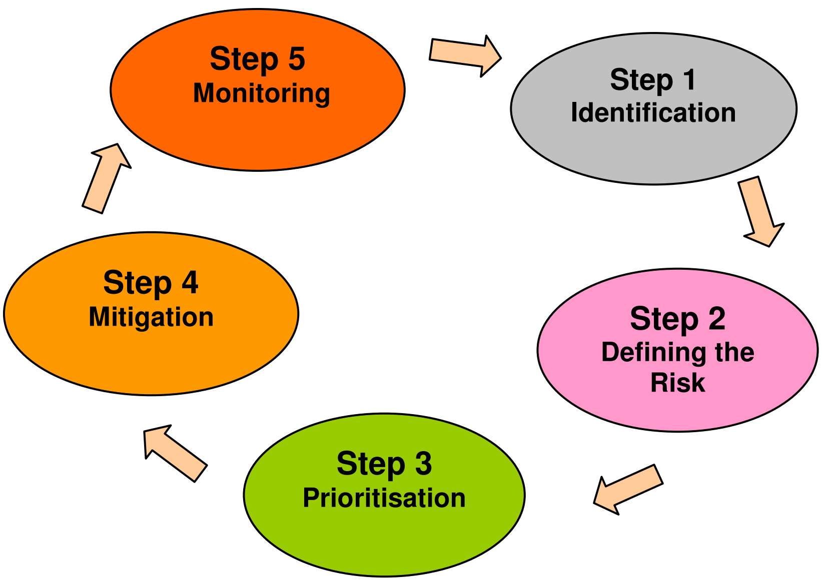
Operational risk registers are reviewed regularly by Assistant Directors (at least every six months). Corporate Risk Group monitors the risk process and considers all the council's 'high' and 'very high' level operational risks twice a year and reports any concerns to SLT and Audit Committee.

Training and assistance
A framework of risk management training and awareness sessions are provided for appropriate managers and Members. This includes an option for one-to-one targeted induction training and or targeted sessions for groups with particular responsibilities, as appropriate. This training is facilitated by the Performance and Improvement Team.

If you need further advice or training on risk management, please contact performance@stevenage.gov.uk

Section 2: SBC Risk Management Process and Methodology

5 key steps underpinning the management of risk:



A summary step by step guide to risk management process is attached at **Appendix 1** to assist with the completion of Risk Registers.

The following paragraphs explain the key steps in the risk management process. The explanation may make it look onerous, but on the contrary, good risk management is about keeping it simple.

There are a few general things to keep in mind to ensure that operational risk registers in particular, are useful – and used! :

- Risk is about uncertainty, risk registers should not be an inventory of things that are already known and being well managed.
- Quality not quantity; focus on the right risks - key areas of vulnerability. Perhaps the top 5-10 'worries' looking ahead.
- Time spent understanding and defining the real or root cause of the risk as simply as possible will make it much easier to prioritise and address.
- Mitigation actions need to directly address the risk and be SMART
- It can feel like a negative process, but opportunities can be spotted or missed too.
- The initial identification and analysis of risk is only the first step. The key to effective risk management is monitoring and controlling the risks in proportion to their severity and ensuring that any new risks are picked up.

Section 2: SBC Risk Management Process and Methodology

Step 1: Risk Identification

- Focus
- Approach

Focus of risk identification: Risk management should focus on barriers or uncertainties which may affect delivery of the council's objectives.

At a strategic level, the start of the risk identification process is the Corporate Plan. It is crucial to have a clear understanding of what the council (service) is trying to achieve.

Strategic Risks
Strategic risks are those considered likely to have a notable effect on the long-term ambitions and priorities of the Council, i.e. the council's objectives over the following 3-5 years.
Operational Risks
At an operational level, objectives at the service level are identified through the service planning process, which sets out what will be done and by when, in order to achieve the Corporate Plan priorities and deliver operational services with the resources available. These may be one-off activities or the 'day job'. (NB: Currently there is no mandatory organisational approach to service planning). Operational risk registers should identify the most significant barriers which could affect key service objectives being achieved. The time-frame will typically be over the next year or so.
Project Specific risks
A service may be involved in project delivery and good project management requires a risk register to be maintained and regularly reviewed. In addition, some projects may be monitored at SLT level as they contribute to corporate priorities or key inspection or assessment regimes. Some of these activities may carry risks which need to be identified on the strategic risk register, because if the risk were to occur, it would have a significant effect on one or more of the Council's ambitions and priorities.
Opportunity risks
Strategic, operational or project planning discussions should also consider opportunity risks, which if exploited, could offer improved chances of success or the potential to exceed objectives.

NB: Committee Reports template requires authors to address risks related to their report in the section 'Risk Implications' as necessary.

Section 2: SBC Risk Management Process and Methodology

Approach to risk identification: How do I determine what could occur that has the potential to impact on the objectives?

Risks can be determined in a number of ways:

- Brainstorm possibilities in management team meetings and with stakeholders, perhaps through a workshop; invite challenge from other service areas.
- Consider trends, historical data, last year's problems, experience of others, exchange of information with other authorities, organisations or partners, techniques such as SWOT (strengths, weaknesses, opportunities and threats) analysis.
- Look at high priority recommendations identified in audit reports.
- Think about *external risks* (e.g. political, economic, new agendas and regulations), *operational risks* (to maintaining capacity and capability of existing operations and *change risks* (of new targets, policies, projects, audit requirements, expectations). See table on page 18.

The aim is to focus on real areas of uncertainty and concern that could potentially impact on achieving your objectives.

A note of caution:
Remember that the idea is not to record every risk that may be there. Nor is it to record all the minor risks that are already being well managed through effective control processes and procedures. If there are a very high number of risks on the register it will become time-consuming to manage.

Remember to consider opportunity or upside risks

- Think creatively about the opportunities that uncertainty may bring. One option is using the SWOT analysis as mentioned above, to identify the organisational (or service) strengths in a particular area and then consider the opportunities which may arise from those strengths.
- The 'flipping' of threat risks to become opportunity risks is something that can help to stimulate positive rather than negative thinking. For example, rather than just focussing on threat risks such as "local residents may object…" it can help to invert this i.e. "local residents may not object…" and then to focus on what can be done to manage this (increase the probability or impact or both).
- Look at project constraints and assumptions to test whether these could be relaxed, in which case an opportunity risk may be identified that increases the probability of achieving objectives.

  Where an opportunity risk is identified, think about how it might be treated to either increase the chances of it occurring or enhance the impact it has and so improve outcomes.

  Opportunity Risk Management Guide ©Alarm 2011

Section 2: SBC Risk Management Process and Methodology

The table below groups some categories of risk which may have an impact on objectives.

Risk Category	Examples of Issues to Consider
Political	Local/national political issues. Stability of political situation. Associated with the failure to deliver local or central government policy or meet commitments.
Economic	State of local economy/national economic issues e.g. interest rates, inflation and other key assumptions. Labour market effects on recruitment and retention. Affecting the Council's ability to meet financial commitments.
Social	Changing demographic profile (of workforce and local population) affecting demand for services or stakeholder expectations; Residential patterns and profile.
Technological	Capacity to respond to technological changes or opportunities from technological developments eg to address changing demands. E-Gov agenda. Current use of/reliance on technology. Security of information. Resilience and disaster recovery capacity.
Legislative/ Regulatory	Preparedness for new and potential legislation and regulations (national/European) e.g. Health & Safety, planning or employment law. Exposure to regulators e.g. auditors/inspectors and changing requirements.
Environmental	Land use – green belt, brown field sites/consequences of progressing the Council's objectives. Waste disposal and recycling issues. Pollution. Climate change agenda.
Competitive	Competitiveness of service delivery in terms of cost or quality. Ability to deliver Value For Money. Failure to win quality accreditation
Customer/ Citizen	Extent and nature of consultation with/involvement of community. Ability to meet current and future needs. Service delivery feedback. Reputation/trust. Managing expectations.
Professional/ Managerial	Organisational/individual competency and capacity to deliver objectives. Staff recruitment and retention of staff. Skill levels. Key posts. Restructures.
Financial	Level of reserves. Insufficient funding. Financial planning and control. Fraud – internal and external.
Legal	Possible legal breaches, challenges and claims. Meeting of regulator requirements. Boundaries of corporate & personal liabilities
Partnership/ Contractual	Key strategic partners - public, private, voluntary sectors; relationships/capacity Procurement arrangements/contract renewal policy. Ability to deliver contracts.
Physical	Nature and state of asset base including record keeping Maintenance practices/Buildings compliance issues. Security of assets. Fire, security, health and safety of the workforce and population

Section 2: SBC Risk Management Process and Methodology

Step 2: Defining the Risk

- Describing the 'real risk'
- Considering cause and consequence

A risk may relate directly to a specific objective or may be a generic risk which will impact on ambitions and priorities or business objectives generally, at a strategic or operational level. (A risk may be relevant to more than one of the organisation's objectives, its potential impact may vary in relation to different objectives and the best treatment may be different in relation to different objectives).

Finding the root cause of the risk

A risk description needs to be clear and simple so that it is understood by anyone who is reading the register**.** If the risk is well defined it will be easier to prioritise and address; if not, then the mitigation actions may be addressing the symptoms rather than the cause.

The real source of the risk is not always obvious at first glance. It may be helpful to apply elements of 'root cause analysis' – this is a term used to cover a number of problem-solving methods normally used to identify the cause of an *existing* problem and therefore the means to solve it. However, root cause analysis can also be useful for drilling down to find the source of a potential problem. The simplest method is a technique called the 'Five Whys'.

The idea is to start with the risk that has been identified and keep asking '*why would this happen?*' until no more useful information is obtained and you feel you have got to the heart of the risk (fewer than 5 whys may be needed, it is just the rule of thumb).

Risk descriptions that are likely to need some drilling down:

'**failure of**' this or that; '**inability to deliver**' this or that, '**lack of financial management**', '**deadline may be missed**'.

Once the core risk is identified then the risk will be easier to frame.

Risk Statements

There are two key elements to each risk statement: **cause** and **consequence.**

Cause: A statement of fact about the Council, department or project that it is perceived will expose it to a risk. The cause statement also sets out the event (the risk or opportunity) that could occur as a result

Consequence: Possible impacts that could occur if the event was to happen.

Section 2: SBC Risk Management Process and Methodology

Risks may be best understood if they are framed as scenarios, i.e. finding the source (***Cause***) of the risk **(event)** and its possible impact on the objective (***Consequence***).

As a result of ....<definite cause>, **there is a risk that** .... <uncertain event> **which may result in** ....<effect on objectives>

For example:

	Cause	Consequence
RISK	**As a result of** limited staffing and budget resources being prioritised on the new office refurbishment, **there is a risk** that there will be a delay of up to 6 months in implementing the buildings maintenance plan.	• increased deterioration • increased cost of implementation • budget shortfall • Insurance premium affected

Care needs to be taken to avoid stating impacts which may arise as being the risk themselves. Equally, risks should not be defined with statements that are simply the converse of the objectives.

The following illustrates this through a very simple example:

Objective – to travel by train from A to B for a meeting at a certain time.

Risk?	
Being late and missing the meeting X	*this is a statement of the impact of the risk*
Failure to get from A to B on time for the meeting X	*this is simply the converse of the objective.*
Missing the train √	Consequence: being late and/or missing the meeting
Missing the train is a risk which can be mitigated by allowing extra time to get to the station.	
Severe weather prevents the train running √	Consequence: missing the meeting
Severe weather is a risk that can't be controlled but a contingency plan can be made.	

(from HM Treasury Orange Book)

Positive Risk Statements

The same structure of cause/uncertain event/consequence can be used to frame an upside risk.

For example:
As a result of the need to refurbish the new office **it may be possible** to upgrade the telephony specification to provide enhanced resilience across the organisation.

As a result of the increased number of undergraduates looking for work experience **it may be possible** to introduce new placement schemes which will attract more young/well qualified people into the workforce in subsequent years.

(Some other examples of opportunity risks are provided in Appendix 2)

Section 2: SBC Risk Management Process and Methodology

Step 3: Prioritising the risk

(Assessing the risk level)

- Inherent to Residual risk
- Assessment process and matrix
- Prioritisation

An overview of the assessment process

Once identified and defined each risk needs to be assessed to determine the risk level and therefore the relative priority of the risk.

The council uses a 5x5 matrix (page 25) and *InPhase* reporting using a sunburst diagram to indicate the organisation's exposure to risk, which is defined as being the relationship between the likelihood of a risk occurring and its impact.

In assessing a risk, there are a number of things to take into account:

- Assessing the impact if the risk occurred is considered from three aspects: impact on service delivery, financial loss and on reputation. This is to provide a more comprehensive understanding of the impact. For example, a risk may have very little financial impact but a very serious reputational one.

- Both the **inherent and residual risk** level is scored. See explanation below.

- Risk perception varies according to each person's attitude to risk. To encourage consistency in assessing the relative likelihood and impact of a particular risk occurring, guidance is provided for each level in the Likelihood and Impact tables to assist. However, this is not intended to be a comprehensive outline, but an indication of the level of impacts that may be considered at each level (or frequency of occurrence for Likelihood).

  See **Guide to aid consistent prioritisation of risks** pages 22-23

Inherent and residual risk

There are two steps to the assessment of the risk and both scores are recorded on the risk register:

Step 1
The initial assessment should be made <u>without</u> taking into account any existing controls (mitigations) that are in place. Assume the worst case scenario if the full risk occurs. This will represent the **<u>inherent risk score and risk level</u>** recorded on the risk register.

The reason for capturing inherent risk is that this demonstrates the council's exposure if the control should fail. Knowledge about the inherent risk also demonstrates whether there is over control in place – if the inherent risk is acceptable, then this informs the extent to which the risk needs to be addressed and whether resources need to be expended on controlling it.

Step 2
Next it is necessary to consider what mitigation measures are already in place which can be used to manage this risk. These should be recorded on the register. They may include procedures, systems or other control measures. The likelihood and impact

scores are then reassessed taking these into account, in order to produce the anticipated **residual risk score and risk level**. The residual risk is the level of risk that exists now, today.

Guide to aid consistent prioritisation of risks
Use the statements/indicators in the following tables to help identify the most appropriate level of risk.

Remember this is a judgement and the resulting risk score should 'feel right'. When assessing the level of a risk it is important to apply a 'sense check' so that the risk score feels right.

Impact on service / reputation / finance indicators

	Level of impact	Service delivery	Finance	Reputation
5	Major	•Potential for loss of/major disruption to, service delivery (for > '7' days) •Possible formal regulatory intervention •Possible loss of strategic partner	•Virement required >£250,000 •Supplementary Estimate (ie additional expenditure or income reduction) requiring approval of Full Council •Very high potential for successful legal challenge with substantial financial implications •Potential negligence claim. (loss of Life)	•May require resignation of CE and/or Leader •Extensive/sustained negative coverage in national media likely (>5day coverage) •Possible town wide revolt against service delivery (proposed changes) •Impact on staff morale potentially catastrophic (breakdown in staff confidence of management authority)
4	Significant	•Potential for major disruption to service delivery (> 48 hrs and < 7 days with reprioritisation of service deliverables necessary) •Formal regulatory investigation •May result in failure to deliver Corporate Priority	•Virement required £50,000 - £250,000 •Supplementary Estimate (ie additional expenditure or income reduction) requiring approval of Executive / Executive Portfolio Holder •Possible significant variations to contracts of works with major effect on budget •Potential for significant impact on local economy (e.g. change of contractor use) •High potential for successful legal challenge with serious financial implications •Any unplanned expenditure or loss of income which triggers need for identification of additional savings requirements •Potential for extensive / multiple injuries resulting in significant compensation claims	•May require resignation of Director / HoS •Coverage in national press and / or low national TV coverage likely (< 5 day coverage) •May result in major damage to object / area of importance to a local area that will require prompt repair with corporate-wide input •Impact on staff morale likely to be significant (> 6 months)

	Level of impact	Service delivery	Finance	Reputation
3	**Moderate**	•Potential for moderate disruption to service delivery requiring temporary working arrangements (<= 48 hrs) • Possible loss of partner(s) / partner relationships •Legal concerns are likely to be resolved locally or through informal regulatory involvement •Significant disciplinary action likely against staff responsible for service failure •Delay to delivery of Corporate Priority likely	•Virement required £25,000 - £49,999 •Possible late delivery, overspend issues on contracts of works with significant adverse effect on budget •Potential compensation claims (violence or threat of serious injury)	•Coverage in local and national media possible •May result in moderate environmental damage to an object / area of importance to a local area that will require prompt repair with input from < 4 service areas •Large increase in customer complaints possible •Impact on staff morale likely to be moderate and longer term (<= 6 months)
2	**Minor**	•Potential for service disruption causing operational inconvenience (<= 24 hours) •Business critical information may be compromised •Possible disciplinary action against staff concerned	•Virement required £5,000 - £24,999 •May result in superficial injury (requiring minor financial support) •Possible late delivery, overspend issues on contracts of works with minimal adverse effect on budget	•Minor local media coverage / adverse internal publicity likely • May result in minor environmental damage to an object / area of importance to a local area, that will require prompt repair by one service area •Minor increase in customer complaints possible •Any impact on staff morale likely to be minor and short term (weeks)
1	**Insignificant**	•Operational inconvenience - not affecting quality of service •No legal implications •No disciplinary action against staff responsible for service failure	•Loss or income reduction <£5,000; Any unplanned expenditure or loss of income can be absorbed •No injuries •Any potential insignificant financial loss (< £1k) •Any potential for late delivery, overspend issues on contracts of works will not result in adverse effect on budget •No potential for injuries to occur	•Media coverage unlikely •Any potential impact on staff morale minimal •No or superficial environmental damage is anticipated

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Likelihood Indicators

Likelihood		Indicators
5	**Almost certain**	> 85%
		Is expected to occur in most circumstances
		Likely to occur this year or at frequent intervals
4	**Likely**	60% - 85%
		Will probably occur at some time or in most circumstances
		Likely to occur at least once in the next 3 years
3	**Possible**	30% - 60%
		Fairly likely to occur at some time, or in some circumstances
		Likely to occur at least once in the next 5 years
2	**Unlikely**	15% - 30%
		Is unlikely to, but could occur at some time
1	**Rare**	5% - 15%
		May occur only in exceptional circumstances
		Extremely unlikely to occur in the next 10 years

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Plotting the Likelihood and Impact Scores assigned on the risk matrix will result in a risk level being determined (A risk level for both the Inherent risk and residual risk should be determined).

Once the residual risk is assessed, a judgment can be made as to adequacy of the mitigations already in place (assuming they are effective). If the risk score is still too high to tolerate (10 or above), then additional actions to mitigate the risk must be considered.

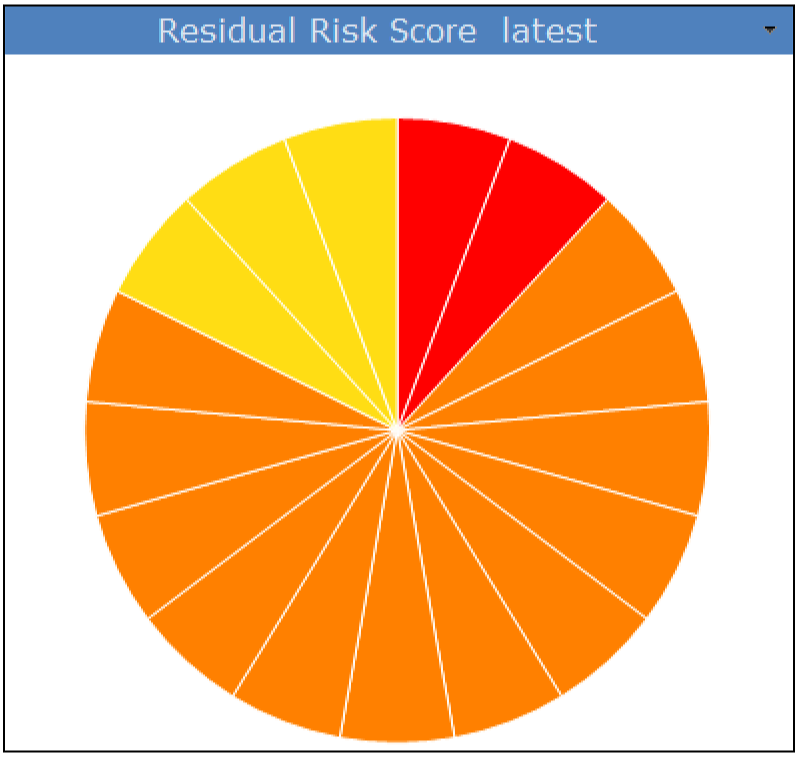
Risk matrix

		LIKELIHOOD				
		Rare (1)	**Unlikely (2)**	**Possible (3)**	**Likely (4)**	**Almost Certain (5)**
IMPACT	**Major (5)**	5	10	15	20	25
	Significant (4)	4	8	12	16	20
	Moderate (3)	3	6	9	12	15
	Minor (2)	2	4	6	8	10
	Insignificant (1)	1	2	3	4	5

Summary of Risk Level and minimum action required:

Red	Very High Risk Level	Above Tolerable Level	**Escalate risk to relevant Director for agreement as to treatment**
Amber	High Risk Level		
Yellow	Medium Risk Level	Tolerable Level	Consider appropriate mitigation
Blue	Low Risk Level	Tolerable Level	Periodic Review

Risks are presented as part of Strategic Insight reporting through InPhase using a Sunburst:



Tolerable risk level and escalation requirements

The Council has designated any risk with a residual score of 10 or above (very high and high risks), 'above tolerable level'. These high level risks need to be escalated to the appropriate Director for agreement as to whether the activity is of sufficient value to the organisation for the risk to be accepted and if so, how the risk will be managed. This process is set out in the table below.

This does not mean that a high level of risk cannot be tolerated in certain circumstances – delivering innovative change often comes with high risk. It may also be that further mitigation is not possible or that further mitigation is beyond reasonable or available resources. The escalation process ensures that Directors are aware of the highest risks areas across the portfolio of services and how they are being managed.

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Risk Level	Indicated by	How the risk should be managed
Very High	**Red**	**Above tolerable level - escalate risk to relevant Director for agreement as to treatment** Consideration to be given to whether the risk can be accepted transferred or avoided. If the risk cannot be accepted, transferred or avoided a mitigation action plan to be agreed to bring risk down to as low a level possible. The Director should determine the timescale for implementation of mitigation activity. Contingency plans to be put in place to deal with the consequences of this risk should it occur.
High	**Amber**	**Above tolerable level - escalate risk to relevant Director for agreement as to treatment** Consideration to be given to whether the risk can be accepted transferred or avoided. If the risk cannot be accepted, transferred or avoided a mitigation action plan to be agreed to bring risk down to as low a level possible. The Director should determine the timescale for implementation of mitigation activity Contingency plans to be put in place to deal with the consequences of this risk should it occur.
Medium	**Yellow**	**Tolerable level** Consider mitigation (if not too resource intensive) to bring the risk down to as low a level as possible Periodic review required to ensure conditions remain unchanged
Low	**Blue**	**Tolerable level** Periodic review required to ensure conditions remain unchanged.

Step 4: Mitigation

- How can the risk be controlled?

Treatment options

Once it has been assessed, the best course of action to address the risk can be determined. Risk treatment includes as its major element risk mitigation/control, but also includes risk transfer, avoidance or acceptance as explained below:

- **Mitigation** of the risk
  Most risks will be retained and controlled in this way. This may be through actions to reduce either the likelihood or impact of the risk occurring, or both.

- **Transfer** of the risk
  This could be through insurance or to a partner organisation. However, it should be remembered that some risks will not be fully transferable – in particular reputational risk, even if the service is contracted out. Transfer may also result in other risks being created.

- **Avoidance** of the risk
  Some risks would only be reduced to acceptable levels by terminating the activity. However, this option may not be possible e.g. where the Council is required to undertake an activity.

- **Acceptance** of the risk
  This is when the risk is retained but there may be limited ability to do anything about it or the cost of doing so is prohibitive. If the level of risk is high, then contingency planning comes into play – a plan to minimise the effect of the risk if it happens.

Take the **opportunity**
This is not an alternative to the options above, rather something to consider whenever accepting, transferring or treating the risk. There are two aspects to this. At the same time as mitigating the risk, there may be an opportunity to exploit a positive impact. For example, if a large sum of capital funding is part of a major project, are the relevant controls good enough to consider increasing the scale of the project to greater advantage? The second aspect is whether circumstances which arise, whilst not generating threats, offer positive opportunities. For example a drop in the cost of goods or services frees resources which can be redeployed.

Meaningful mitigation - some points to consider

Most risks will already have controls in place, so the first step is to check they are actually effective; still relevant and being complied with (eg are policies or procedures really addressing the risk).

If additional mitigation is required (or if it is reasonable and proportionate to the risk), there are some questions to consider before deciding on additional actions to put in place:

- Where do we want the risk score to move to?

- How will we know if the actions are having an effect - what does success look like?

- Are the proposed actions SMART?

Any actions planned should have an owner and a completion or review date attached.

Who owns a risk?

The risk owner, is the individual responsible for making sure that the risk is managed appropriately and that mitigation actions are completed should ensure that appropriate treatment of the risk has been identified and where appropriate a mitigation owner assigned.

The mitigation owner is the individual responsible for implementing the action to control the risk.

Step 5: Monitoring

- The corporate review process

The review process

The initial identification and analysis of risk is only the first step. The key to effective risk management is monitoring and controlling the risks in proportion to their severity and ensuring that any new risks are picked up.

Risks need to be monitored and reviewed regularly to:

- Make sure they are still relevant (the context or environment may have changed)
- Check that the risk rating (score) is still correct
- Assess whether mitigation actions are having the desired effect – is the risk moving in the right direction?
- Check that action dates are adhered to or revised
- Identify new risks on the horizon
- Determine whether there are any risks that need escalating.

The corporate review process

The Strategic risk register is the overall responsibility of the Chief Executive with individual risks being the responsibility of the appointed risk owner. Assistant Directors (or their nominated officer) provide quarterly updates and SLT review the register on a quarterly basis, through a highlight report from Corporate Risk Group. This process is facilitated by the Performance and Improvement Team who present the report to SLT.

The Business Unit Operational Risk Register is the responsibility of the relevant Assistant Director. Registers should be produced as part of the service planning process and should be reviewed at least every six months within the schedule of regular service management team meetings and 1:1 meetings.

NB: Risk Mitigation tasks require regular update through the Council's Business Insight System InPhase to ensure up to date status information is maintained.

A Risk Management Group with representation from several Business Units meets quarterly. Its role is to oversee and review the reporting process and the development of the Council's risk arrangements. The group considers and challenges new and existing risks and reviews the content of the strategic risk register on a regular basis. The scope of Corporate Risk group is set out on page 11

Audit Committee review the strategic risk register and any developments to the risk management process as a standing item. They may challenge entries, request further investigation or suggest new developments.

Audit Committee also receives a quarterly update on the status of operational risk registers.

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The ideal cycle for operational risk review

The Corporate minimum standard is that operational risk registers are formally reviewed at least every 6 months however, risks should be looked at as often as their severity suggests is needed. High risks or those which have the greatest proximity (nearness in time) are likely to need more frequent review than low risks.

Good practice would be to look at risks formally through a standing item on the management team meeting agenda quarterly, and through the 1:1 process. This does not need to be a time consuming process if the focus is on the risks that need managing.

All staff should contribute to the discussion about emerging risks and changes to the existing risks.

Appendices

Appendix 1

A step by step guide to the Risk management process and completion of the risk register

This guide can be printed out on A4 for ease of use. (Risk Management is collated and updated using the Business Insight System, InPhase. A guide for input is available from the Corporate Performance Team)

For more detailed guidance on risk management see the full Risk Management Guide.

5 steps to robust risk management:

Identify → Define → Prioritise → Mitigate → Monitor

STEP 1 Identify risks

Think about the sources of risk/areas of uncertainty

- consider the categories of risk (see Guide Section 2 of full risk management guide)
- brainstorm
- look at any high risk Audit recommendations
- consider organisational changes that may impact
- examine trends /last year's problems

Focus on the key risks

Link to your service objectives or SBC Priorities
Link to projects/partners
Remember that some uncertainties will provide opportunities too.

STEP 2 Defining the risk

Formulate the risk

Define the risk clearly and simply.
As a result of......(cause) there is a risk that...........(event or opportunity) which may result in ....(consequences)

It is crucial to get to the root cause of the risk in order to put effective mitigation in place.

→ **Risk Description**

→ **Risk Consequences**

STEP 3 Prioritising (assessing) the risk (Inherent risk score – no mitigation in place)

Inherent risk exposure - ignoring any mitigations in place

How likely is the risk and what is the worst case impact if the full risk occurs? Refer to the **Risk Prioritisation Guide** (see guide at section 2 of full risk management guide) but remember ultimately it is your assessment.

1. Assess how likely the risk is to occur
(1= rare, 5 = almost certain)

2. Assess the impact in respect of Finance, Service Delivery and Reputation (in terms of the impact on your service if it's an operational (BU) risk and on SBC's strategic priorities if it's strategic).
(1 = insignificant, 5 = Major)
see **scoring guidance in Section 2**

The **scoring matrix** identifies whether the resulting risk exposure is **Low (blue), Medium, (yellow), High (amber) or Very High (red)**

Likelihood

Impact

	Rare (1)	Unlikely (2)	Possible (3)	Likely (4)	Almost Certain (5)
Catastrophic (5)	5 ●	10 ●●	15 ●●	20 ●●●	25 ●●●
Major (4)	4	8 ●	12 ●●	16 ●●●	20 ●●●
Moderate (3)	3	6 ●	9 ●	12 ●●	15 ●●
Minor (2)	2	4	6 ●	8 ●	10 ●●
Insignificant (1)	1	2	3	4	5 ●

Likelihood	Financial Impact	Service delivery Impact	Reputation Impact	Risk Score	Risk Level

Inherent Risk – The risk score and level will be automatically populated in the System

Appendix1

Identify any existing control measures in place which mitigate the risk.
Eg policies or procedures. (There may be several).

Consider carefully how/if these actually address the risk.

STEP 3 Prioritising (assessing) the risk (Residual risk score – no mitigation in place)

Residual risk exposure
Reassess the Likelihood and Impact scores, taking account of mitigation measures already in place - as identified above to assess the exposure level *today*.

Refer to the Risk Prioritisation Guide but remember ultimately it is your assessment.

1. Assess how likely the risk is to occur
(1= rare, 5 = almost certain)

2. Assess the impact in respect of Finance, Service Delivery and and Reputation
(1 = insignificant, 5 = major)

Use the **scoring matrix** to identify whether the residual risk exposure is Low (blue), Medium, (yellow), High (amber) or Very High

Likelihood	Financial Impact	Service delivery Impact	Reputation Impact	Risk Score	Risk Level

Residual Risk – The risk score and level will be automatically populated in the System

STEP 4 Mitigating the risk(s)

Is the level of residual risk tolerable?
Considering the measures already in place, assess whether the residual likelihood and impact risk is acceptable.
The scoring matrix provides guidance as follows:
Very High and **High** risks need to be discussed with the appropriate Director and a mitigation plan agreed.
Medium risks require good housekeeping and some mitigation to reduce Likelihood or Impact
Low risks require periodic review.

(it may be that very high/high risks are acceptable if a good reason exists)

If the level of residual risk is not acceptable:
Identify specific actions to reduce the Likelihood and/or the Impact. → **Additional mitigation measures: actions planned**
Identify a named individual who is responsible for each mitigation action. → **Mitigation owner**
Set a timescale for completion of the actions. → **Action by date**

Identify the risk owner: the person responsible for ensuring that the risk is adequately managed and reviewed appropriately (normally an Assistant Director or Director) → **Risk Owner**

STEP 5 Monitoring the risk(s)

Review risks in a timely manner

This is as often as the severity and context of each risk requires, but as a minimum:

Strategic Risk – quarterly
Operational Risk – 6 monthly

This will be facilitated through the Business Insight System, *InPhase*.

Remember it is the residual risk that is reviewed.
- is the risk still relevant?
- is the risk score/level still correct?
- are the mitigations having the desired effect?
- is the risk moving in the right direction
- are the action dates adhered to or still relevant?
- are there new risks emerging?
- are there opportunities to be captured?

Update the risk to reflect any new actions, changes to risk scores etc.

Appendices

Appendix 2

Opportunity Risk Management Examples

The examples below are an attempt to describe "real opportunity risks" and not just the inverse of threat risks:

Due to government campaigns to promote recycling and to reduce waste to landfill, the level of recycling by local residents may exceed forecasts. This may result in the use and costs of landfill decreasing more than expected and net revenue from recycled materials increasing more than expected. The council's reputation would also be enhanced.

Because the council is seen as a preferred employer staff turnover may be reduced with a consequent reduction in recruitment and training costs.

Due to very high availability and take up of internet broadband the need for printing and distribution of letters,invoices, magazines and leaflets may be reduced with a consequent reduction in its communication budget

Because the council needs to reduce its asset base and cut costs, it may be possible to transfer some assets or activities to community groups for delivery or shared delivery, which would reduce expenditure and help deliver other key council priorities

As a result of improved energy efficiency in engines and motors transport fleet operating costs may be reduced leading to reduced expenditure.

Response options to opportunities

Exploit or realise	How can we ensure that we make the most of this opportunity and potential improvements are delivered?
Enhance	What can we do to increase the probability of this opportunity occurring? What action can we take to increase the likelihood, impact or both?
Share	This is an opportunity but the organisation cannot maximise the benefits alone. Can we share this opportunity with a partner?
Accept	We know an opportunity exists and the possible benefits but we will wait and see what happens and accept the risk should it occur. (or invest in preparing for action should the risk become a greater priority or the situation changes - this may be seen as a contingent response)