

CORPORATE RISK REGISTER MONITORING REPORT
OCTOBER 2018

POLICY REVIEW AND DEVELOPMENT PANEL REPORT

REPORT TO:	Audit Committee		
DATE:	12 November 2018		
TITLE:	Risk Management Policy and Strategy review		
TYPE OF REPORT:	Review		
PORTFOLIO(S):	Performance		
REPORT AUTHOR:	Ged Greaves, Senior Policy and Performance Officer		
OPEN/EXEMPT	Open	WILL BE SUBJECT TO A FUTURE CABINET REPORT:	No

REPORT SUMMARY/COVER PAGE

PURPOSE OF REPORT/SUMMARY:
<p>The council's risk management policy and strategy are due to be refreshed in March 2019. This report introduces a draft framework and seeks members' comments. A final version will be presented to the committee in January 2019 to take forward to Cabinet in March 2019.</p>
KEY ISSUES:
<p>The policy (Appendix A) states the council's commitment to managing risk in a positive manner. It is recognised that in order to achieve the council's objectives it is necessary to take risks and that these need to be identified, understood and managed accordingly.</p> <p>The risk appetite is defined in the policy as 'open' which means that the council is 'prepared to consider all delivery options and select those with the highest probability of productive outcomes, even when there are elevated levels of associated risk'.</p> <p>The strategy (Appendix B) describes the approach to be carried out in practice. It explains how risks will be identified, analysed, managed and monitored. The strategy sets out criteria to be used for deciding the potential impact of a risk and the appropriate levels of action to be taken for the different risk categories.</p> <p>The strategy has been updated to reflect changes in staffing and practice that have taken place since the review in 2016.</p> <p>An Internal Audit review of risk management is underway. Liaison is taking place with the lead auditor and it is hoped that the report will be signed off in time for consideration within the final version of the policy and strategy.</p>
OPTIONS CONSIDERED:
<p>These are detailed in the report.</p>
RECOMMENDATIONS:
<p>Members are requested to consider the draft.</p>
REASONS FOR RECOMMENDATIONS:
<p>In order to ensure the Council meets its statutory obligations to ensure that it has 'effective arrangements in place for the management of risk'.</p>

CORPORATE RISK REGISTER MONITORING REPORT
OCTOBER 2018

1. Background

- 1.1 The Risk Management Policy and Strategy are reviewed every three years and the current versions were approved by Cabinet in March 2016. The policy and strategy framework are therefore due to be reviewed by March 2019
- 1.2 Responsibility for the coordinating the corporate risk register and the risk management framework transferred from Internal Audit to Personnel, Policy and Performance in 2017.
- 1.3 An Internal Audit review of the council's approach to risk management is underway with the final report not yet agreed. Audit Committee will be requested to endorse the risk management framework prior to approval at Cabinet in March 2019. To allow sufficient time for the committee to consider the draft framework, a proposed policy (Appendix A) and strategy (Appendix B) are attached.

2. Facts/Issues

- 2.1 There is no specific "standard" set for risk management in local government and the council's approach is based on sector best practice including the International Standard in Risk Management ISO: 31000 and guidance from organisations such as Alarm (Association of Local Authority Risk Managers), the Public Sector Risk Management Association, and the Institute of Risk Management.

3. Proposals

3.1 Internal Audit review

- 3.1.1 Internal Audit are conducting an Assurance Review of Risk Management, the objective of the audit is to review the systems and controls in place within risk management, to ensure they are operating adequately, effectively and efficiently.
- 3.1.2 This is the first time that risk management has been audited. Under previous arrangements, Internal Audit were responsible for risk management and an external review would have been required to avoid conflicts of interest.
- 3.1.3 If the audit report is finalized during the next few months this could be reflected in the final framework that will be presented to Audit Committee in January 2019. I have liaised with the auditor in drafting the refreshed policy and strategy to try and align the two processes.

3.2 Risk appetite

- 3.2.1 The council's risk appetite is set out in the risk management policy and strategy and is approved by Cabinet. This was last considered during the policy and strategy refresh in January 2016. At that time, "open" was selected as the most appropriate rating from the following options:

Averse	Prepared to accept only the very lowest levels of risk, with the preference being for ultra-safe delivery options, while recognising that these will have little or no potential for reward/return.
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CORPORATE RISK REGISTER MONITORING REPORT
OCTOBER 2018

Cautious	Willing to accept some low risks, while maintaining an overall preference for safe delivery options despite the probability of these having mostly restricted potential for reward/return.
Moderate	Tending always towards exposure to only modest levels of risk in order to achieve acceptable, but possibly unambitious outcomes.
Open	Prepared to consider all delivery options and select those with the highest probability of productive outcomes, even when there are elevated levels of associated risk.
Hungry	Eager to seek original/creative/pioneering delivery options and to accept the associated substantial risk levels in order to secure successful outcomes and meaningful reward/return.

3.2.2 It is recognised that a certain amount of risk is inherent in all of our activities and that it can be a positive driver in the development of the services we provide and our approach to investment. In order to mitigate ongoing financial challenges, the council's approach includes a cost reduction programme, a capital and investment strategy and consideration of different delivery models. It is proposed to continue with the current appetite of "open".

3.2.3 To facilitate the delivery of the proposed risk appetite, the risk management strategy sets out an approach for risks that are assessed as 'high' or 'very high' i.e. above a tolerable level. These are those risks that fall within the orange and red sections of the matrix.

3.3 Risk scores

3.3.1 Our current approach to the corporate risk register includes a single risk score which reflects the level of the risk taking into account current mitigation measures – the residual risk. This score is calculated by multiplying "likelihood" and "impact".

3.3.2 Research has identified that other councils include an inherent and a target risk score.

3.3.3 The inherent risk score takes no account of the controls the council has in place or can put in place to manage the identified risk. This is not included in our risk register but can be added.

3.3.4 The target risk score reflects the view of what the desired risk score should be after controls are put in place and reflects the risk tolerance of the council. This assists ongoing management of risks as it provides an indication of the direction of travel.

3.3.5 It is proposed to include inherent and target risk scores in the risk management framework.

3.4 Risk matrix

3.4.1 A risk matrix is used to evaluate the risks so that there is an understanding of the exposure faced by the council, which in turn influences the type of response we choose and if we decide to treat the risk, the level of treatment that should be applied to manage/reduce/prevent the risk from occurring.

CORPORATE RISK REGISTER MONITORING REPORT
OCTOBER 2018

3.4.2 The council uses a risk matrix, based upon common practice in the public sector. It is based upon a 5x5 matrix of likelihood and impact. Likelihood represents the probability of an event taking place. The likelihood of events are categorised into five broad headings: rare, unlikely, possible, likely and almost certain. Impact represents the expected disruption to the council. These are categorised as: insignificant, minor, moderate, major and extreme.

3.4.3 Some councils have adopted a 4x4 matrix. Every form of risk matrix has its advantages and disadvantages and there is no “one size fits all” approach. Compared with a 4x4 matrix, the council’s current approach will provide more granularity as to the level of risk. This is useful for prioritizing risks and developing mitigation measures.

3.4.5 It is proposed to continue with the current 5x5 matrix.

3.5 Risk criteria

3.5.1 The criteria to be used for deciding the potential impact of a risk were revised in 2016. The last review introduced new criteria for ‘impact on service’ and ‘legal and statutory’. The criteria are:

- Impact on service
- Personal safety
- Financial loss
- Legal and regulatory
- Corporate objective
- Environmental impact
- Reputation

3.5.2 The values for the ‘financial loss’ criteria were extended to include a percentage of budget as well as a fixed value. This was to enable the criteria to be applied to service and project risks as well as the corporate risks.

3.5.3 It is proposed to continue with the current impact criteria.

3.6 Risk management policy and strategy scope

3.6.1 Our current risk management framework refers to risks in the following areas:

- Corporate
- Directorate
- Service
- Operational
- Section
- Projects

3.6.2 Risk management is also undertaken in other aspects of our activities including:

- *Health and safety* - A significant risk for the council and is covered by our Health, Safety and General Welfare Policy.

CORPORATE RISK REGISTER MONITORING REPORT
OCTOBER 2018

- *Tackling fraud and corruption* – This is an increasing area of council activity. Internal Audit will be developing a Fraud and Corruption Risk Register. This will support the mitigation measures for the current corporate risk.

3.6.3 The current policy or strategy do not currently reference or define the control environment for all of the areas in 3.6.1 and 3.6.2 above. These are included in the draft framework.

3.7 Strategic risks

3.7.1 The Corporate Risk Register includes over 40 risks spanning the breadth of the council's activities. These are assigned to executive directors who are responsible for monitoring and reviewing the risks and ensuring appropriate mitigation measures are in place.

3.7.2 Some councils use an alternative framework which categorises risk using terms such as strategic, corporate and operational:

Category	Key characteristics
<p><i>Strategic</i></p> <p>An event or occurrence that would cause the council to be unable to operate or provide key services leading to a significant adverse effect on public wellbeing.</p>	<ul style="list-style-type: none"> • Directly affecting the future direction of the council's business plan and key objectives. • Identified by senior management team and heads of service with the assistance of corporate governance roles such as policy and internal audit. • Typically between 8 and 12 risks in total.
<p><i>Corporate</i></p> <p>An event or occurrence that would lead to a significant adverse effect on the council's ability to provide important public services</p>	<ul style="list-style-type: none"> • Directly linked to the critical activities, services and programmes carried out in order to facilitate the delivery of the council's business plan. • Identified by heads of service, project managers, officers, partnership leads, internal / external audit, members.
<p><i>Operational</i></p> <p>An event or occurrence arising from inadequate or failed internal processes, people and systems, or from external events leading to an adverse impact on service provision.</p>	<ul style="list-style-type: none"> • Directly linked to the activities, services and projects carried out in order to facilitate the delivery of the council's business plan. • Identified by heads of service, project managers, officers, partnership leads, internal and external Audit, members. • Influence the day-to-day or project activities of the Council

3.7.3 Analysis of the current Corporate Risk Register shows how our current risks relate to the framework in 3.7.2 above:

Category	Examples from our current Corporate Risk Register
Strategic	1.1 Business continuity 1.12 Financial Plan

CORPORATE RISK REGISTER MONITORING REPORT
OCTOBER 2018

An event or occurrence that would cause the council to be unable to operate or provide key services leading to a significant adverse effect on public wellbeing.	3.1 Emergency response
Corporate An event or occurrence that would lead to a significant adverse effect on the council's ability to provide important public services	1.3 Reputation management 1.7 Loss of ICT 1.8 ICT back up failure 1.19 Cyber security attack 1.23 GDPR 1.26 Fire compartmentalization 2.3 Major housing developments 2.7 Strategic land and property acquisition 3.4b Procurement of new Waste and Recycling contract
Operational An event or occurrence arising from inadequate or failed internal processes, people and systems, or from external events leading to an adverse impact on service provision.	1.22 Revenues and Benefits software tender

3.7.4 Discussions with Management Team have highlighted opportunities to refocus and group related risks to form strategic risks. An example is set out below:

Potential strategic risk	new	Risk description	Related Corporate Risk Register item
Financial sustainability		Ineffective management of finances leading to lack of financial resilience as government funding reduces and demand increases	1.2 Cost Reduction programme 1.11 VAT 1.12 Financial Plan 1.13 VAT Trust arrangements 1.15 Pension fund 1.16 Business rates

3.7.5 Other examples are shown below:

Potential strategic risk	new	Risk description	Related Corporate Risk Register item
Major programmes and projects		Impact on the delivery of council services due to the failure of major programmes and projects. A major programme or project being any activity that can cause significant financial, legal, reputational or compliance issues or prevent the council from delivering a strategic priority or key objective.	1.4 Due diligence/Capacity and business planning for major schemes 1.22 Revenues and Benefits software tender 1.25 Provision of leisure services 2.3 Major housing developments 3.4b Procurement of new Waste and Recycling contract 2.8 Accelerated Construction Programme

CORPORATE RISK REGISTER MONITORING REPORT
OCTOBER 2018

Facilitating and enabling growth	The inability of the council to facilitate and enable the market to deliver the council's growth agenda. This failure may reduce investment in infrastructure, inward investment, job opportunities, new housing and commercial development therefore impacting on communities and businesses.	2.1 Local employment 2.2 Empty retail properties/town centre decline 2.4 5 year land supply 2.5 Housing market 2.6 Strategic land and property acquisition 2.7 West Winch/North Runcton Strategic Growth Area 4.1 Improvements to heritage buildings 4.2 THi2 Application to the Heritage Lottery Fund
Sustainable communities	The risk of various communities within feeling excluded, disengaged or being unable to access available services and opportunities including, rural, deprived, minority and vulnerable communities and local businesses etc. Services and opportunities to include health and wellbeing, early intervention and prevention.	3.2 Community relations 3.6 Modern slavery 3.7 Homelessness Reduction Act 2017 3.8 New regulations regarding HMOs 6.1 Conflicting aims (with partners)
Continuity of service	The council's ability to effectively respond to a major emergency and maintain that response without affecting essential day to day service delivery. The risk is to both the council as a business continuity issue and to our vulnerable communities.	1.1 Business continuity 1.26 Fire compartmentalization 3.1 Emergency response (external)
Corporate Governance	The risk of failures in systems of governance within the council, within council owned/influenced organisations and partnerships and other collaboration arrangements, leading to governance issues, fraud and corruption, failures in management systems, poor policy and decision making.	1.4 Due diligence 1.10 Fraud and corruption 1.23 GDPR 1.24 Financial Ledger software replacement
Data management and security	Deliberate or unintentional loss/disclosure of personal, sensitive, confidential or	1.7 Loss of ICT 1.8 ICT failure of back up 1.17 Cyber security attack

CORPORATE RISK REGISTER MONITORING REPORT
OCTOBER 2018

	business critical information or breach of information governance legislation.	
Reputation management	The risk that the council's reputation is damaged by major service failure, failure to respond to a significant incident(s), governance issues, dispute with a key partner, failure to deliver corporate business plan.	1.3 Reputation management 3.3 Council reputation
Transformational change	Ensuring that the council, its members and its workforce have the skills, resources, ability and capacity to adequately respond to current and future organisational change meaning the council is able to deliver its services in the most efficient and effective manner.	1.9 Capacity 1.17 Channel shift 1.21 Pay policy

3.7.6 This creates a schedule of potential strategic risks with related corporate and operational risks. Some councils manage these types of risks with periodic meetings, say quarterly or six monthly, chaired by the strategic risk owner with input from corporate and operational risk owners and officers tasked with delivering mitigation measures.

3.7.7 Management Team were supportive of a move towards the concept of strategic risks and reviews and this has been incorporated into the draft framework.

3.8 Risk management of projects

3.8.1 The current risk management strategy refers to roles and responsibilities. Project managers are identified and references are made to project risk registers. The onus is on project managers to notify relevant Executive Directors of significant risks and review risks on an annual basis. These may be escalated into the corporate risk register.

3.8.2 Property Services are in the process of setting up a risk register for each capital project using a consistent format.

3.8.3 Practice has overtaken the current policy and strategy and the draft framework seeks to address this gap.

3.9 Service area risks

3.9.1 The current risk management strategy refers to roles and responsibilities. Service managers are identified and references are made to operational risks. The onus is on

CORPORATE RISK REGISTER MONITORING REPORT
OCTOBER 2018

service managers to notify relevant Executive Directors of significant risks and review risks on an annual basis. These may be escalated into the corporate risk register.

3.9.2 Some councils integrate service area risks within their annual service plans. Management Team are supportive of adopting that practice and this has been incorporated into the draft framework.

3.10 Risk and management roles

3.10.1 The refresh of the policy and strategy presents an opportunity to consider management responsibilities for different types of risk. The model used in some councils is:

<i>Risk type</i>	<i>Lead officer</i>
Strategic	Executive tier
Corporate	Executive tier and senior managers
Operational/service	Senior managers
Project	Senior managers
Fraud and corruption	Internal Audit and senior managers

3.10.2 If the move towards strategic risks is endorsed the council's framework will be amended accordingly.

3.11 Report templates

3.11.1 The final element of the council's approach to risk management is inclusion of risk within the templates for reports to members.

3.11.2 This is not reflected within the current policy or strategy and this has been incorporated into the draft framework. .

3.12 Risk management training

3.12.1 Once finalised, the refreshed policy and strategy will be deployed using a combination of training, briefings and internal communications to direct officers and members to key documents and guidance.

4.0 Corporate Priorities

4.1 The risk management process supports the delivery of corporate priorities.

5.0 Policy Implications

5.1 The report seeks to refresh existing policy and strategy.

6.0 Financial Implications

6.1 None.

7.0 Personnel Implications

CORPORATE RISK REGISTER MONITORING REPORT
OCTOBER 2018

7.1 None.

8.0 Statutory Considerations

8.1 Account and Audit Regulations 2015 - s3(c). The Council must ensure that it has 'effective arrangements for the management of risk'.

9.0 Equality Opportunity Considerations

9.1 None

10.0 Risk Management Implications

10.1 The Council has in place a Risk Management Policy (last adopted in March 2016) and an associated Risk Management Strategy.

10.2 The Corporate Risk Register records high level risks which pose a threat or opportunity to the Council's objectives. It is a tool used by the Chief Executive and the Executive Directors (Management Team) to help manage risk within the Authority and is a key document within the governance controls applied within the Council.

11.0 Recommendations

11.1 Members are requested to consider the contents of the draft policy and strategy and make comment.

12.0 Declarations of Interest / Dispensations Granted

12.1 None

Background Papers

October 2018 Corporate Risk Register

Previous Corporate Risk Registers

Risk Management Policy and Strategy – approved in March 2016