



# East Northamptonshire Council

## Audit and Risk Management Committee - 23 September 2009 Risk Management Strategy

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### Summary

The purpose of this report is to seek approval for the revised Risk Management Strategy.

### Attachment(s)

Risk Management Strategy

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- 1.1 At the meeting of this Committee on 1 February 2007 the current risk management strategy was approved. This strategy set out the Council's approach for managing business risks within the Council. At the time it was written a formal risk management approach was fairly new and therefore it is only right and proper that it be reviewed.
- 1.2 The key elements of the risk management strategy are to set out how the Council will manage risks and in particular;
  - The mechanism for identification and scoring
  - How these risks are recorded and monitored
  - The responsibilities for managing business risk
  - The level of risk the Council is prepared to take
  - Performance targets to measure how effective the Council is at the above.
- 1.3 Attached to this report is the updated risk management strategy. The strategy reflects the manner in which risks are currently managed throughout the Council which in turn is reflective of the original strategy adjusted for the reviews of risk management arrangements that have taken place since February 2007.
- 1.4 During the process of revising the strategy we have taken the opportunity to remove text which added no value and put the remainder in plain English and in our standard strategy template. Certain changes have been made and these are;
  - Scoring of risks – the previous categories of Primary, Contingency, House Keeping and Low have been abandoned and replaced with High, Medium and Low. The reasoning behind this is that these categories are far simpler and more intuitive. The previous strategy of managing Primary Risks to a lower category will now simply apply to High Risks. The scoring of the impact and likelihood remain the same using the range unlikely to very high.
  - Classification of High, Medium and Low risks. The range of risks that will fall into the High category has been extended and increased to include those with a high impact and low likelihood and also those with a low impact but a high likelihood. This will mean that more risks will fall into the category that need to be managed to a lower classification but it will mean that the classification of risk will be more akin to what Officers and Members would consider as High.
  - Scoring of impact and likelihood – these have been tweaked ever so slightly to make the range covered by each category more even, to make the descriptions more intuitive and to allow them to be more easily applied to project risks.
  - Additional requirements relating to the management of project risks have been added.
  - Roles and responsibilities updated to reflect the Council's Knowledge Skills and Behaviours framework.

- Specific guidance added as to what constitutes an inconsequential risk and therefore does not need recording.

1.5 The draft strategy has been out to consultation with staff and our external risk advisors. Comments received have been incorporated into the draft strategy.

1.6 It is recommended that the revised Risk Management Strategy be adopted.

<b>Implications:</b>	
<b>Corporate Outcomes or Other Policy/Priority/Strategy</b>	
Good Quality of Life	<input type="checkbox"/> Good Reputation <input checked="" type="checkbox"/>
Good Value for Money	<input checked="" type="checkbox"/> High Quality Service Delivery <input type="checkbox"/>
Effective Partnership Working	<input type="checkbox"/> Strong Community Leadership <input type="checkbox"/>
Effective Management	<input checked="" type="checkbox"/> Knowledge of our Customers and Communities <input type="checkbox"/>
Employees and Members with the Right Knowledge, Skills and Behaviours	<input checked="" type="checkbox"/>
<b>Other:</b>	
Decision(s) would be outside the budget or policy framework and require full Council approval <input type="checkbox"/>	
<b>Financial</b>	There are no financial implications at this stage <input checked="" type="checkbox"/>
	There will be financial implications – see paragraph <input type="checkbox"/>
	There is provision within existing budget <input type="checkbox"/>
	Decisions may give rise to additional expenditure at a later date <input type="checkbox"/>
	Decisions may have potential for income generation <input type="checkbox"/>
<b>Risk Management</b>	An assessment has been carried out and there are no material risks <input checked="" type="checkbox"/>
	Material risks exist and these are recorded at Risk Register Reference - inherent risk score - residual risk score - <input type="checkbox"/>
<b>Staff</b>	There are no additional staffing implications <input checked="" type="checkbox"/>
	Additional staff will be required – see paragraph <input type="checkbox"/>
<b>Equalities and Human Rights</b>	There will be no impact on equality (race, age, gender, disability, religion/belief, sexual orientation) or human rights implications <input checked="" type="checkbox"/>
	There will be an impact on equality (see categories above) or human rights implications – see paragraph <input type="checkbox"/>
<b>Legal</b>	Power: Local Government Act 1972 & 2003; Accounts and Audit Regulations
	Other considerations:
<b>Background Papers:</b> None	
<b>Person Originating Report:</b> Robert Austin, Head of Resources	
<b>Date:</b> 8 June 2009	
<b>CFO</b>	<b>MO</b>
	<b>CX</b>

(Committee Report Normal Rev. 19)



East  
Northamptonshire  
Council

# Risk Management Strategy

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## Document Version Control

Author (Post holder title)	
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Approval date and by who (SMT / committee)	
Document held by (name/section)	
For internal publication only or external also?	Internal only / internal and external * delete as appropriate
Document stored on Council website or Eunice?	Eunice / Website * delete as appropriate
Next review date	

## Change History

Issue	Date	Comments

*NB: Draft versions 0.1 - final published versions 1.0*

## Consultees

Internal	External
e.g. Individual(s) / Group / Section	e.g. Stakeholders / Partners /Organisation(s)

## Distribution List

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## Links to other documents

Document	Link

## Additional Comments to note

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(to be completed on agreement of document)

# 1. Executive summary

- 1.1** Effective risk management is essential if the Council is to achieve its stated outcomes. It not only underpins the continuous improvement process but also the systems and procedures for governing the business of the Council.
- 1.2** In basic terms Risk Management is about identifying events or occurrences (Risks) that could prevent the Council achieving its stated outcomes, assessing the impact these will have should they occur and then putting in place adequate arrangement for the control, mitigation or transference of these risks. To be effective these risks and their mitigation need to be recorded and also reviewed on a regular basis.
- 1.3** It is neither efficient nor effective to try and control, mitigate or remove all risk from an organization's activities. Risk mitigation needs to be proportionate to the risks they are designed to manage and as a result there will be a level of risk that the Council is prepared to take. This is known as the risk appetite and for the purpose of this strategy "high" level risks (see Appendix 1 for definition) are those outside this appetite and therefore require managing.
- 1.4** This document is designed to set out;
- The level of risk the Council is prepared to take (i.e. risks which do not need any mitigation strategy)
  - the responsibilities for risk management
  - the process for managing risk

## **2. Statement of Intent**

- 2.1. The Council's approach to risk management is to ensure that all business risks are managed to a level that is within its risk appetite (i.e. to a level of low or medium).
- 2.2. Mitigation that is put in place to manage these risks will be reviewed by risk owners, management and Internal Audit at a frequency that is proportionate to the impact and likelihood of the risk occurring.
- 2.3. In order to ensure proportionality, risks with a low inherent risk classification (i.e. the risk level before any mitigation is considered) will not be required to be recorded or managed in accordance with this strategy.
- 2.4. Regular reports will be submitted to the Audit and Risk Management Committee so that it is able to monitor the effectiveness of risk management generally.
- 2.5. Risks associated with the decision making process will be identified and recorded. Specifically, reports to Sub-Committees, Committees and full Council will identify the risks associated with the decision to be made and the controls that will be put in place to mitigate them. Similarly, project and service planning documentation will set out the associated risks.
- 2.6. The effectiveness of risk management arrangements will be reviewed annually by the Council's Internal Auditors.

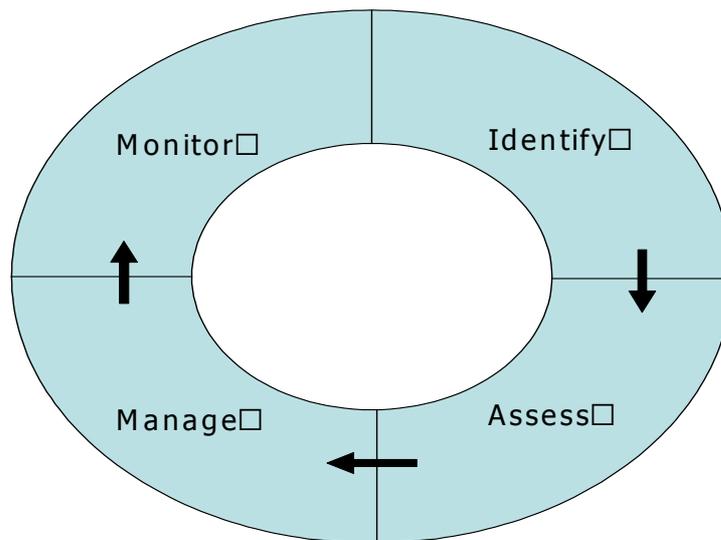
### 3 Overview of Risk Management

- 3.1. Risk management is the process by which the Council seeks to identify, assess and manage key risks which might prevent it from achieving its corporate outcomes and hence to work effectively as an organisation. Risk management is not though a standalone process but is simply part of other managerial processes such as performance management, financial management, project management, service planning and the governance of the Council as whole. The identification of risk forms part of these process and is reflected in the documentation and reports stemming from them.
- 3.2. Risk management is an ongoing process. It should be used from the point at which a risk is first identified until such time as it no longer represents a significant inherent risk to the Council. The risks and the controls used to mitigate them should be reviewed at a frequency commensurate with the impact the risk may have and the adequacy on the controls.
- 3.3. There are a number of benefits of having an effective risks management process in place and these are:
- Risk management alerts management and Councillors to the key risks which might prevent the achievement of the Council's corporate outcomes and service plan objectives, in order that timely mitigation can be developed to either prevent the risks occurring, or to manage them effectively if they do occur.
  - Risk management contributes to better decision making and the process of achieving corporate outcomes and service plan objectives. When embedded within existing business processes such as planning, performance management, project management and budgeting, it provides a basis for ensuring implications are thought through, the impact of other decisions, initiatives and projects are considered and conflicts are balanced. It also assists managers to design mitigation that is proportionate to the degree of risk faced.
  - Risk management provides assurance to councillors and management on the adequacy of arrangements for the conduct

of business. It demonstrates openness and accountability to various regulatory bodies and stakeholders more widely.

- Risk management leads to greater risk awareness and an improved control environment, which should mean fewer incidents and other control failures and better service outcomes.

3.4. The Council's risk management approach is based upon the standard management cycle of:



Guidance and training on how to identify, assess, manage and monitor will be provided to Officers and Members where a need has been identified.

3.5. All significant risks (see section on risk classification for guidance) are to be recorded in the Council's risk register. As a minimum the following should be recorded;

- A brief description of the risk
- What may cause the risk to materialize
- The effect it will have if materialized
- The level of impact the risk will have and the likelihood of occurrence (see guides on scoring)
- Details of controls or mitigating actions taken to reduce either the impact or likelihood of the risk occurring.
- Any further actions needed to manage the risk

3.6. Risks will be classified in three main ways;

- Strategic Risks – high level risks that could affect the Council achieving its overall objectives.
- Corporate or Cross Cutting Risks – risks that affect all areas of the Council to one extent or another but are managed from a central point.
- Operational Risks – risks specific to a service area and these will be subdivided as follows
  - Performance Risks – risks that will prevent individual performance objectives being achieved
  - Internal Control Risks – risks associated with the day to day checks and balances
  - Project Risks

## 4. Strategy Outcomes

- 4.1. The key outcome of this strategy is that primary inherent risks are managed to a lower category within a maximum of three months of identification.
- 4.2. Appendix 1 sets out how risks are classified and scored.

## 5. Responsibilities for Risk Management

### 5.1. Audit and Risk Management Committee

5.1.1. The Audit & Risk Committee has separately established Terms of Reference, and will be responsible for:

- preparing terms of reference in connection with its risk management responsibilities in consultation with the Chief Finance Officer and Strategic Management Team;
- reviewing risk management initiatives at both a strategic, corporate and operational level;
- monitoring and where necessary reporting further on risk management initiatives and activities to ensure suitable accountability and effective implementation; and
- reviewing, at least annually, the Council's risk management policy and strategy and any changes required;
- reviewing the annual report on Risk Management (in the form of the SIC), in conjunction with the Chief Finance Officer and Strategic Management Team to ensure that it is 'fair and representative' of the Council's arrangements prior to inclusion in the annual accounts.

### 5.2. Head of Resources

5.2.1. The Head of Resources will be responsible for;

- Producing and reviewing the Risk Management Strategy
- Reporting to the Risk Management Committee on a regular basis on the effectiveness of risk management activities
- Providing advice, guidance, support and training to Officers and Members.
- Providing and maintaining the corporate risk register.

## 5.3. Managers

5.3.1. In accordance with the Council's Knowledge Skills and Behaviours document officers designated as managers will be responsible for managing risks effectively. This will mean;

- Identification of risks associated with their role and responsibility
- Putting in place adequate and effective arrangements to ensure that these risks are managed within the risk appetite of the Council.
- Identifying any actions that are required to manage risks in accordance with this strategy and ensuring that these are delivered.
- Recoding risks, controls and actions (including progress made against them) on the Council's Risk Register.
- Reviewing risks and the effectiveness of controls at a frequency proportionate to the level of risk being faced and the potential for the risk to materialize. Any changes to the control environment or the risk being faced should be recorded.
- Providing an assurance statement on the risk register of the adequacy of controls on an annual basis.
- Advising SMT and the Head of Resources of any risks recorded on the risk register that have materialized.
- Ensuring that Managers that report to them also effectively manage risks in line with the above.

## 6. Project Risk Management

- 6.1. As the risks associated with projects are sometimes more acute and there is also a need to ensure that they are managed proactively it is felt that additional requirements should be placed on the management of project risks.
- 6.2. As is the case with normal risks, the approach taken needs to be proportionate to the risks being faced and therefore the approach taken is on a two tier system based on the contract value.
- 6.3. For projects over £100,000 the following requirements will apply;
- A risk workshop at the planning stage (involving expert support) to identify all relevant risks and strategies (including controls) to manage these.
  - Risks and controls to be recorded and managed through the Council's risk register (with a separate record for at each project)
  - A standard item on each project board meeting to review existing risks and the effectiveness of the control and identification
  - Regular check and challenge from our RM support on the risks and effectiveness of controls.
  - Only staff that are assessed as competent (via LNA – “recognises potential risks” and “manages risks effectively”) are put forward as project owners.
- 6.4. For projects under £100,000 a risk log will be maintained with only those risks with an inherent risk score of Medium or higher being required to be recorded in the risk register.

## 7. Monitoring and Review

7.1. The effectiveness of this strategy and the Council's risk management arrangements will be reviewed in the following ways;

- A report will be submitted to each meeting of the Audit and Risk Management Committee so that the committee can form an opinion on the effectiveness of the risk management process.
- The percentage of primary risks managed to a lower category within three months will be reported through our performance management framework.
- Annual Internal Audit will review our risk management processes.

## Appendix 1 – Defining and Scoring Risk and Risk Appetite

1. The risk score is calculated through the assessment of the impact the risk would have on the Council if it occurred and the likelihood of it occurring. This scoring is carried out initially on the inherent risk (i.e. before any controls or mitigation is put in place) and then on the residual risk (i.e. the level after controls are in place).
2. Scores for the 2 elements of impact and likelihood are plotted on the below table so that the risk score can be identified.

<b>Very High</b>	H	H	H	H	H	H
<b>High</b>	M	H	H	H	H	H
<b>Medium</b>	M	M	H	H	H	H
<b>Low</b>	M	M	M	H	H	H
<b>Very Low</b>	L	M	M	M	H	H
<b>Negligible</b>	L	L	L	L	L	L
<b>Impact/ likelihood</b>	<b>Unlikely</b>	<b>Very Low</b>	<b>Low</b>	<b>Medium</b>	<b>High</b>	<b>Very High</b>

Key – L = Low level of risk  
M = Medium level of risk  
H = High Level of Risk

3. The likelihood of a risk occurring can be considered in a number of ways and therefore careful consideration needs to be given when assessing this. The two basic ways of assessing likelihood is to consider “how soon” or “how often”. “How often” should be considered as the default option if you are unable to accurately assess “how soon”.

<b>Likelihood</b>	
(6) Very High Likelihood	Could occur immediately or many times in a month
(5) High Likelihood	Could occur within a month or once a month
(4) Medium Likelihood	Could occur within a or every 6 months
(3) Low Likelihood	Could occur within a or every year
(2) Very Low Likelihood	Could occur within the next or every 1 to 5 years
(1) Unlikely	Unlikely to with the next 5 years or once in 5 years

4. The impact a risks can have can be scored in a number of ways. The table below sets out the ways in which a risk can be scored.

<b>Impact</b>				
	<b>£</b>	<b>Service Quality</b>	<b>Health &amp; Safety</b>	<b>Reputation</b>
(6) Very High	£100k +	Complete failure of services.	Fatality	Reputation damage is irrecoverable i.e. Government intervention
(5) High	£50k to £100k	Service quality cannot be maintained such that there is a need to re-assess corporate priorities.	Serious injury occurring	Reputation damage occurs with Key Stakeholders
(4) Medium	£20k to £50k	Significant reduction in service quality expected.	Some injury occurring	Reputation damage is uncomfortable for AVBC
(3) Low	£5k to £20k	Service quality impaired leading to changes in service delivery required to maintain quality.	Minor injury	Slight reputation damage arising
(2) Very Low	Up to £5k	Marginally impaired, a slight adjustment to service delivery required.	Very minor injury	Negligible effect
(1) Negligible	Negligible cost	Negligible Effects on service quality.	No injury	No Effects on reputation





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