DRAFT
RISK MANAGEMENT
FRAMEWORK
East Lindsey District Council

Abstract

This policy sets out the East Lindsey District Council's commitment to managing risk. It states the principles that will be followed for implementing effective risk management and provides an overview of the anticipated benefits in taking this approach to risk management.

EAST LINDSEY DISTRICT COUNCIL
Risk Management Policy

Policy Review Date	
Review Cycle	*4 Year*
Next Policy Review Date	
Final Panel for Approval	*Full Council*

Introduction

A risk can be defined as **"An uncertain event or set of events that, should it occur, will have an effect on the achievement of objectives. A risk is measured by a combination of a perceived threat or opportunity and the magnitude of its impact on objectives[1]".**

Every aspect of Council work involves some risk, there is an increasing expectation that risk needs to be managed well, to cut waste and inefficiency, and reduce unanticipated problems. Successful organisations are not afraid to take risks; unsuccessful organisations take risks without understanding them. Making the most of opportunities to improve public services, involves some amount of risk taking.

This policy and the accompanying risk management process guide take account of the Management of Risk (M_o_R)[1] Best Management Practice Guide from the Cabinet Office and the principles of the international standard for risk management. Implementation of these principles and the risk management framework will ensure that the Council achieves excellence in the approach to the management of risk.

Risk is unavoidable. It is an important part of life that allows us all to move forward and develop. The Council's overriding attitude to risk is to operate in a culture that is open to all potential options in which all risks are identified, understood and proportionately managed, rather than avoided. Risk management therefore needs to be taken into the heart of the Council with councillors and officers at all levels recognising that risk management is part of their role within the council. We need to have the structures and processes in place to ensure the risks and opportunities of daily Council activities are identified, assessed and addressed in a standard way. We do not shy away from risk but instead seek to proactively manage it. This will allow us not only to meet the needs of the community today, but also be prepared to meet future challenges.

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[1] M_o_R is a Registered Trade Mark of the Cabinet Office.

The Principles and Objectives of Risk Management

The following general principles of risk management activities will be applied across the authority:

1. ALIGNS WITH OBJECTIVES

Risk management aligns continually with organisational and partnership focused objectives.

2. FITS THE CONTEXT

Risk management is designed to fit the current context.

3. ENGAGES STAKEHOLDERS

Risk management engages stakeholders and deals with differing perceptions of risk.

4. PROVIDES CLEAR GUIDANCE

Risk management provides clear and coherent guidance to stakeholders.

5. INFORMS DECISION MAKING

Risk management is linked to and informs decision-making across the organisation

6. FACILITATES CONTINUAL IMPROVEMENT

Risk management uses historical data and facilitates learning and continual improvement

7. CREATES A SUPPORTIVE CULTURE

Risk management creates a culture that recognises uncertainty and supports considered risk-taking.

8. ACHIEVES MEASURABLE VALUE

Risk management enables achievement of measurable organisational value.

Risk Management

In carrying out its objectives the Council faces internal and external factors that make the successful achievement of our objectives uncertain. Risk arises because our objectives are pursued against this uncertain background.

As risk is very much concerned with the achievement of our objectives, the management of risk is closely linked to the creation of our corporate, business, project and partnership plans and objectives. Risk is implicit in the decisions that the Council makes and how we make those decisions will affect how successful we are in achieving our objectives.

The risk management framework will be fully integrated with the normal business and performance management frameworks across the authority.

Risk Governance Levels

The Council manages risk at three governance levels – strategic, operational and programme/project management, each having their own risk management responsibilities.
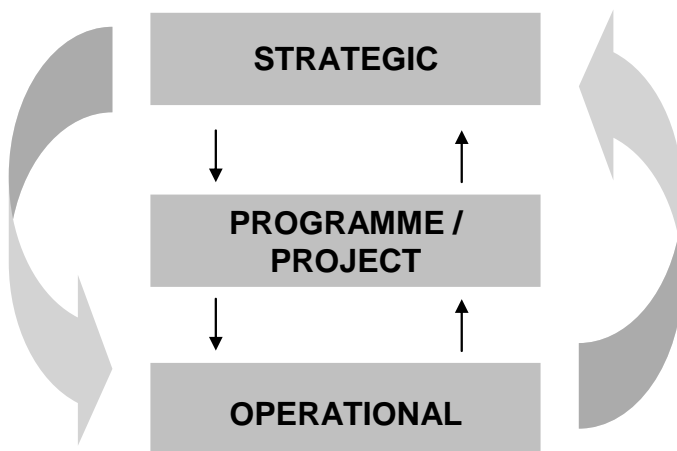
Strategic: Future direction of the Council and integrity of the Council. These risks sit at a corporate level and will pose a direct threat to the achievement of the council's strategic aims/objectives as set out in the Sub-Regional strategy and its delivery plan.

Programme/Project: This is a risk that has a direct threat to the objectives of a programme or project within the organisation, regardless of internal/external delivery.

Operational: Day to day business activities and services, people, processes, information security, health and safety, business continuity, etc. (Including those carried out under contract)

Figure 1 – The different governance levels of risk within the organisation

NB: Partnership governance arrangements will have their individual specific agreements that may involve the Council managing the performance and risk on behalf of the Partnership or may involve the Council participating in an externally managed process.

Benefits of Risk Management

Effective risk management and strategy delivers benefits to individual services and the Council as a whole. The key benefits include:

- A better, more informed, decision-making process.
- The ability to manage the process of achieving objectives.

By delivering enhanced risk management practice and adhering to the above principles, we expect the following benefits to be realised:

- Clear focus on objectives
- Established and reliable basis for decision making and planning.
- Increased likelihood of achieving our objectives
- More robust assessment of opportunities
- Improved business planning through risk-based decision making.
- Improved governance
- Improved controls
- Enhanced stakeholder confidence and trust
- Enhanced performance through an integrated approach
- Effective allocation and use of resources for risk treatment
- Improved organisational resilience.

Roles and Responsibilities

To implement the framework specific roles and responsibilities have been identified. All members, managers, officers, and partners must understand the nature of risk and accept responsibility for managing those risks associated with their area of activity. The key roles for the councils risk management framework is demonstrated in the table below.

The Roles and Responsibilities of the Risk Management Framework

Leadership ← CMT/ Executive

Oversight & Escalation ← Audit and Governance Committee

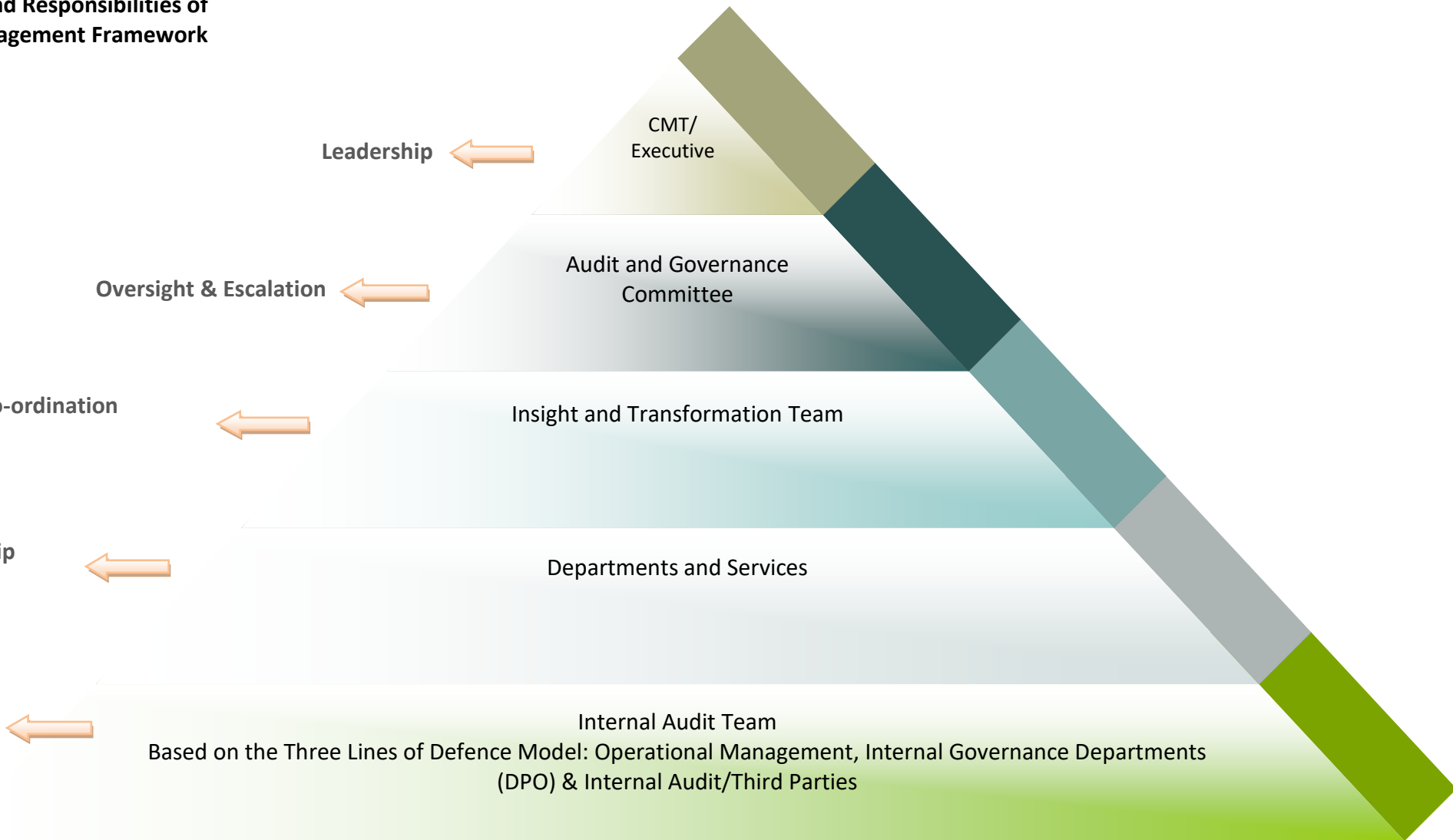Co-ordination ← Insight and Transformation Team

Ownership ← Departments and Services

Assurance ← Internal Audit Team
Based on the Three Lines of Defence Model: Operational Management, Internal Governance Departments (DPO) & Internal Audit/Third Parties

CMT/Executive Board

As the political and corporate leaders of the organisation both parties are responsible for driving and embedding risk as part of the organisations culture promoting and practicing risk management throughout the Council as part of usual activities and the sharing of best practice and experience between services. CMT/Executive Board key tasks are:

- to own and assure adherence to the risk management policy
- to validate the review of the risk management policy and associated documentation
- to agree a risk appetite score for the council
- to identify strategic risks which are likely to have a significant negative or positive impact on the achievement of the council's objectives and monitor and update these risks on a regular basis
- individual members of CMT will be responsible for developing action plans for the strategic risks identified and establishing measures of their performance
- to review the risk implications identified for all reports before going to Council, Executive Board or other relevant committees
- work with Executive members to identify the risk appetite for the Council.
- to prioritise the implementation of risk improvement measures for strategic risks in terms of significance to the council, against available resources
- to make recommendations for the treatment of strategic risks above the council's risk appetite
- to review proposed recommendations for the treatment of operational risks above the council's recognised risk appetite
- building a corporate culture of risk awareness within the council
- encouraging staff to be open and honest in identifying risks or opportunities
- to review risk management arrangements across the council ensuring the risk management process is part of all major projects, partnerships, contracts and change management initiatives

Audit and Governance Committee

The Audit and Governance Committee is responsible for reviewing the effectiveness of the systems and processes in place for managing risk. Audit and Governance Committee members have a responsibility to understand the strategic risks that the Council faces and will be made aware of how these risks are being managed through the annual strategic and service planning process.

The Audit and Governance Committee key tasks are:-
- approving the risk management policy and associated documentation on an annual basis
- approve, support and monitor the implementation and ongoing processes for identifying and managing the Council's risks
- receive reports on a regular basis on the management of the risks identified in the strategic risk register and exceptions reported from the operational risk register
- review and comment on proposed recommendations for risk treatment measures for risks above the Council's recognised risk appetite (red status)
- make recommendations to Executive Board if changes are needed to improve risk management

Insights and Transformation Team

The Insights and Transformation team will work closely with the Designated Risk Officer supporting CMT and the managers in championing risk management and driving its implementation within the Council.

Key tasks are:
- ensuring the risk management policy is implemented.
- support and advise CMT and managers.
- review and update the risk management policy and framework and submit to CMT and Audit and Governance Committee for approval.
- co-ordinate the ongoing identification of strategic and operational risks with CMT and service managers
- report monitoring information including significant control failings or weaknesses and quality of management's ongoing monitoring of risks on a regular basis
- establish any links between operational and strategic risk registers and action plans and ensure consistency of approach.
- co-ordinate the monitoring of progress action plans (both strategic and operational) that have been put in place to manage risks.
- co-ordinate risk management training when required.
- to research, attend risk management conferences/seminars, identify best practice in risk management, to provide guidance and support on introducing risk management measures and techniques, and assist with promoting best practice.
- maintaining internal risk management information and material resources up-to-date with best practice
- working with the SIRO/DPO to review risks to data and information

Managers

(A manager is used here generically as someone who leads a service irrespective of formal title)

Managers will demonstrate their commitment to risk management within their services through: -
- identifying operational risks which are likely to have a significant negative or positive impact on service delivery and/or on the achievement of the Council's aims/priorities
- prioritising the implementation of risk improvement measures for operational risks in terms of significance to the service, against available resources
- individual managers will be responsible for developing action plans for service risks identified and establishing measures of their performance
- monitoring and updating owned risks on a regular basis
- encouraging staff to be open and honest in identifying risks or missed opportunities
- ensuring the risk management process is part of all major projects, partnerships, contracts and change management initiatives within their service areas
- producing reports to CMT with recommendations for the treatment of service risks above the council's approved risk appetite (red status)

- attend risk management training when required
- promoting risk awareness within own service area as key part of the council's culture and providing risk advice and support to staff within their service areas.

All Staff

All staff will need to understand their role in the risk management process and why they should be concerned with risk in order to achieve their aims/objectives. They need to know how to evaluate risks and when to accept the right risks in order to pursue an opportunity. To do this staff will need to have an understanding of the different risk management techniques available to use and when to use them.

It is important that all staff recognise that they share responsibility for embedding a risk management culture into the heart of the council by ensuring that risk management becomes an integral and natural part of the way they work. This involves staff incorporating risk management into core business processes such as service planning, project management, performance, decision making, policy making and partnership working within their service areas. By embedding an effective risk management culture, the council is able to demonstrate value for money gains, long term sustainability, effective decision making and leadership, and how it supports innovation. Therefore, all staff will need to recognise and understand the contribution they make and be proactive in supporting and driving a culture of well-managed risk taking.

Internal Audit

The role of internal audit is to provide independent assurance that an organisation's risk management, governance and internal control processes are operating effectively.

Key tasks are:
- Evaluate and improve the effectiveness of governance, risk management and control processes.
- Provides members and senior management with assurance that helps them fulfil their duties to the organisation/stakeholders and residents.

Key Components of Risk Management

Risk Management Process

The risk management process is set out in this policy and describes how risks are identified and assessed, resulting in each risk having a final risk rating.

Risk Appetite

This is the level of risk the council is willing to "tolerate" to meet its objectives. The Executive Board will work with the senior leadership team to define a risk appetite level. This will set a tolerance for any strategic or operational risks that are rated above a certain score to be viewed as unacceptable in the first instance and must be "treated" with Corporate Management Team involvement. At this stage some form of *cost / benefit analysis* may be needed to ensure that the cost of further risk mitigation action does not outweigh the cost of tolerating or accepting the risk. CMT will determine in the overall context of pursuing corporate objectives, the evidence as to the merits of any risk treatment, or ultimately to accept a "High" rated risk and keep it under continuous review.

Procedure for Escalation and Delegation

All operational, programme and project risks rated "Medium/Low" remain in the delegated responsibility of the relevant risk owner, e.g., manager, or programme/project sponsor.

All operational, programme and project risks rated "Critical" (red status) and/or where additional control measures need approval, or delegated authority is required in order to effectively manage risk, will be escalated to CMT. If it becomes appropriate, for example due to an increased impact affect on the Council, any risk may be escalated to strategic level to ensure it receives the relevant attention and support.

Risk Reporting

Risk reporting takes place at various governance levels across the Council. The Audit and Governance Committee has responsibility for overseeing the work of the internal and external audit functions of the Council and provides independent assurance of the effectiveness of governance arrangements, risk management and financial management processes. All strategic risks will be reported to the Audit and Governance Committee on a quarterly basis, in order that they can review the effectiveness of the management of the authority's strategic risks. The Insights and Transformation Team will review risks on a regular basis with all risk owners to ensure that the identified control measures and mitigation plans continue to remain effective. Risk updates will be provided to the Audit and Governance Committee and Corporate Management Team as necessary.

The table below sets out the way in which the different governance levels of risk will be monitored and reviewed:

What	Why	Who	When
Partnership Risk Registers	To monitor progress of risk treatments and to add or remove risks from the register.	Partnership boards	As agreed by the Partnership boards.
Strategic Risk Registers	To monitor progress of risk treatments and to add or remove risks from the register	Corporate Management Team/ Executive Board	Quarterly
Programme / Project Risk Registers	To monitor progress of risk treatments and to add or remove risks from the register. To escalate existing risks if necessary.	Programme & Project Sponsors	As agreed by the relevant Programme / Project boards
Operational Risk Registers	To monitor progress of risk treatments and to add or remove risks from the register. To escalate existing risks if necessary.	Service Management	Monthly

Risk Training

It is important to provide Members and staff with the knowledge and skills necessary to enable them to carry out their duties competently.

Training requirements fall into 3 broad categories:

1. **General Awareness** – all members and staff need a general awareness of what risk management is and how the Council aims to manage risk effectively.

2. **Corporate Responsibility** – those with corporate responsibility under the framework need to fully understand what those responsibilities are and how they should fulfil them.

3. **Actively Managing Risk** – Those responsible for actively managing risks need the appropriate skills and knowledge to use the tools at their disposal.

Performance Management

Risk management and performance are closely aligned, as risk management encompasses managing uncertainties and the impact this will have on the achievement of objectives. Risk reporting is an integral part of the council's governance system.

Risk Management Process

The risk management cycle

RISK IDENTIFICATION

RISK ANALYSIS

PRIORITISATION

RISK MANAGEMENT

MONITORING
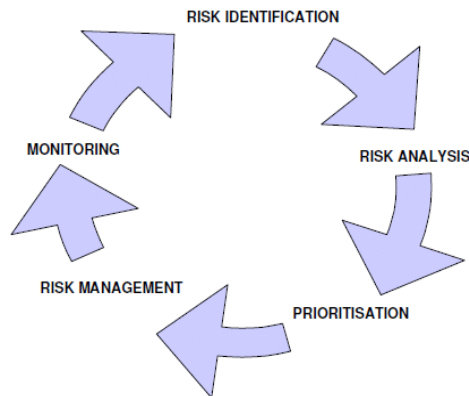
Risk identification

This stage involves identifying the risks that could have an impact on the achievement of objectives. Techniques which can be used to identify risks include:

- workshops with team members
- discussion/review sessions
- questionnaires/surveys
- process mapping
- comparisons with other organisations/internal departments
- discussions with peers

There are numerous different types of risks that the Council may face. To ensure that a holistic approach to risk identification is taken and that the risk process does not just concentrate on financial risks the following checklist of risk types/drivers should be considered when identifying risks.

• Political	• Customer / citizen	• Fraud
• Economic	• Managerial / professional	• Competitive
• Social	• Financial	• Reputational
• Technological	• Legal	• External changes
• Legislative / Regulatory	• Partnership / contractual	• Changes to internal arrangements
• Environmental	• Physical	• Global

Describing the risk fully is vital to ensuring that it is properly understood, and relevant actions are taken to manage it. To assist this the following are recorded on the risk register for each risk:

- Risk Description – A short description of the risk. Typical phrases include *Risk of… Failure to…. Failure of… Lack of… Loss of… Uncertainty of…. Delay in…. Inability to… Inadequate… Partnership with… Development of… Opportunity to…Damage to…*

- Risk Causes - Why might the risk happen? There can be immediate causes of a risk and underlying causes. A typical "cause" sentence is: "Because we do not have … because financial pressures mean … because we have no expertise … etc." Describing this thoroughly will make it easier to identify current mitigations and future actions

- Risk Impact/Implications - What the consequences might be if the risk were to occur? In other words, answer the "so what?" question. Consider both immediate effects and future effects. This will give a better sense of the impact of the risk and whether or not action is required.

Once identified, the risk is recorded in a 'Risk Register'. A risk owner must be allocated and recorded against each risk on the risk register. Such accountability helps to ensure 'ownership' of the risk is documented and recognised. A risk owner is defined as a person with the accountability and authority to effectively manage the risk. At this stage there may well be a long list of possible risks. The next step will help to assess these in order of importance.

Risk analysis

To ensure resources are focused on the most significant risks, the Council's approach to risk management is to assess the risks identified in terms of both:

- <u>Current</u> risk likelihood - How likely is the risk to occur? and
- <u>Current</u> risk impact - What are the impacts of the risk?

To ensure that a consistent scoring mechanism is in place across the Council, risks are assessed using the agreed criteria for likelihood and impact detailed in Tables 2 and 3.

A risk may have multiple impacts; in these cases, the highest scoring impact should always be utilised to generate the risk score.

Existing actions, which are helping to minimise the likelihood and/or impact of the risk occurring, are identified for each risk and taken into account when scoring the risk. These actions are specifically those in place or completed.

Unless it is a new area of activity it is likely that some action will already be undertaken to manage identified risks. Details of mitigations that are in place to manage the risk should be recorded in the risk register with an owner.

The following is recommended when reviewing or considering a risk
- Consider whether the risks are still valid.
- Ensure the risks are the "live" issues facing the Organisation;
- Identify any new risks to propose for inclusion, either as a result of escalation from operational level or entirely new;
- Review the trigger indicators and whether any circumstances have materialised which impact on the risk rating;
- Ensure the Risk Owner is correctly identified;
- Ensure that the cause and effect of the risk are clearly identified;
- Assess the triggers and indicate whether each one is distant, imminent or has been reached;
- Provide likelihood and impact ratings for inherent risk if required;
- Review the mitigating actions to ensure that they are SMART, in particular, clearly identify a target date for each mitigating action;
- If the mitigating action is an ongoing control issue, consider rewording this to reflect any action you will be taking in relation to this;
- Only include key mitigating actions (ideally a maximum of 5);
- Provide probability and impact ratings for residual;
- Set direction of travel for each risk. This can either be increasing, static or reducing.
- Consider whether the risk remaining after mitigating actions is within the stated risk appetite and select any further management action;
- Complete a short narrative on the current status of the risk including off-track mitigating action, direction of travel of the risk over the following 3 months and proposed action if residual risk is beyond risk appetite in that area.

Risk Response

The risk appetite for an organisation will dictate the most appropriate response to control each risk. Risk appetites are defined by the Executive Board and the Corporate Management Team.

Each response to risk is categorised into one the 4Ts of risk control:

- Terminate – rarely, we may be able to stop doing the activity altogether and thereby remove the risk altogether
- Tolerate – accept the risk and live with it because it is within our risk appetite and the cost of mitigating action would outweigh the benefits
- Transfer – move all or part of the risk to a third party or through insurance; however, sometimes accountability remains, particularly with a Council, so caution is advised
- Treat - take action to control the likelihood and/or impact and set a target to move the risk to within the risk appetite once the action has been implemented

Those risks within the risk appetite are generally acceptable and require no further intervention. However, they should still be documented and monitored to ensure they do not move beyond the risk appetite in the future. Those risks beyond the risk appetite require mitigation.

Any existing mitigating actions should be challenged to see if they are appropriate and then any extra or alternative actions should be considered. Should the risk be avoided, eliminated, reduced, transferred or accepted?

It is important to make sure that any action taken is appropriate to the risk and not to take action for the sake of it. A cost benefit analysis may be needed to help to achieve the right balance.

It also helps to be clear about exactly what is being treated – cause, consequence, likelihood, impact or a combination.

Control actions should always be SMART – Specific, Measurable, Achievable, Realistic and Time-bound.

Review cycles will depend largely on the level of risk with high-risk areas being reviewed more frequently than lower risk areas. Reviews may also be triggered by changes in circumstance, as risks do not remain static.

Opportunity

Risk management is the process for effectively identifying, evaluating, prioritising and mitigating the risks. Effectively managing our risks means that we can maximise opportunities and minimise the costs and disruption to the Council caused by undesired events.

Table 2: Scoring risk likelihood

Likelihood score	1	2	3	4	5
Definition	Rare	Unlikely	Possible	Likely	Almost certain
Description	This risk would occur only in rare / particular circumstances	The risk is technically possible, but an occurrence is not foreseeable in the medium-long term	The risk is a real possibility but the likelihood of an occurrence in the short-medium term is small	The risk is probably going to occur at some point in the medium term, possibly sooner	The risk is expected to occur imminently / regularly
Timeframe	Will occur at some point in the next 10 or more years	Will occur at some point in the next 3-10 years	Will occur at some point in the next 1-3 years	Will occur at some point within the year	Will occur at some point in the next few months
Probability	10% or less	Between 10-30%	Between 30-50%	Between 50-85%	85% or more

Table 3: Scoring risk impact

Impact score	1	2	3	4	5
Title	Minimal	Low	Medium	High	Critical
Reputation risk	Individual complaint raised	Multiple complaints	Negative local press coverage for one day, increased complaints for more than one week	Negative national press coverage for one day, ongoing negative local coverage	Negative national press coverage over several days. Public criticism from MP, LGA, County Council or national service body
Financial risk	Up to £10,000	£10,000-£50,000	£50,000-£250,000	£250,000-£500,000	Over £500,0000
Service Delivery/Operations risk	Individual members of staff having work disrupted	Multiple members of staff unable to work	Total service outage for one day or less	Total service outage for several days	Total service outage for more than a week
Environmental risk	Immediately remedied damage in an isolated area	Easily remedied damage in an isolated area	Short term damage in an isolated area requiring partners assistance	Damage requiring special budget provision to rectify	Major or widespread damage requiring central government assistance
Health and Safety risk	People engaging in hazardous activities without awareness	Individual receives minor injuries	Multiple people receive minor injuries	Individual serious injury	Multiple people seriously injured, individual loss of life

Risk prioritisation

The combination of risk likelihood and risk impact is then plotted onto a Risk Scoring Matrix to provide an overall Risk Score.

Risk Scoring Matrix

Risk Scoring Matrix						
Impact	Critical	5	10	15	20	25
	High	4	8	12	16	20
	Medium	3	6	9	12	15
	Low	2	4	6	6	10
	Minimal	1	2	3	4	5
		Rare	Unlikely	Possible	Likely	Almost certain
		Likelihood				

The risk score indicates the action required to be taken by risk owners to manage the risk as indicated below:

Final Risk scoring	Colour
Minimal Risk	
Low Risk	
Medium Risk	
High Risk	
Critical Risk	

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