AGENDA ITEM NO: 4

HAMBLETON DISTRICT COUNCIL

Report To: Audit, Governance and Standards Committee
26 September 2012

From: Director of Corporate Services

Subject: **RISK MANAGEMENT GUIDE**

All Wards

1.0 PURPOSE AND BACKGROUND:

1.1 As part of the annual review of the risk management process the risk management guidance document has been amended, the revised document is attached at Annex 1.

2.0 DECISIONS SOUGHT:

2.1 Members are asked to consider the revised risk management guidance and give approval for implementation of the revised procedures.

3.0 RISK ANALYSIS:

3.1 There are no risks associated with approving the recommendation.

4.0 RECOMMENDATION(S):

4.1 It is recommended that the Committee approve the revised risk management guidance.

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Background papers: Hambleton District Council Risk Management Guidance 2012

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HAMBLETON

DISTRICT COUNCIL

Risk Management Guidance

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RISK MANAGEMENT GUIDANCE

1 Introduction

This document sets out The Council's Risk Management Process which aims to improve the effectiveness of Risk Management across the Council.

Effective Risk Management allows the Council to:

- Maximise the Council's opportunities whilst minimising the impact from risk
- Increase the Council's ability to achieving it's priorities and outcomes for residents.
- Constrain risks to acceptable levels
- Take informed decisions
- Ensure that we get the right balance between opportunity and risk
- Improve partnership working arrangements and corporate governance.

Risk Management is a statutory requirement and an indispensable element of good management. Uncertainty and change when considered thoroughly however can also give the Council an opportunity to introduce new more innovative and effective ways of delivering services and act as a catalyst for developing services with better outcomes and fewer risks.

This Guidance explains the Council's approach to Risk Management and the framework that operates to ensure that risks are effectively managed.

2 Risk Management Overview

2.1 The Council recognises risk as the chance or possibility of loss, damage, injury or failure to achieve our corporate objectives caused by uncertain actions or events.

2.2 Risk Management is the adoption of a planned and systematic approach to the identification, evaluation and economic control of those risks which can threaten the assets or financial and organisational well-being of the Council. It is a means of minimising the costs and disruption to the Council caused by undesired events.

2.3 Risk Management is not about being "risk averse" – it is about being "risk aware". Risk is ever present and some degree of risk-taking is inevitable and desirable if the Council is to achieve its objectives. Risk Management is about making the most of opportunities and about achieving objectives once those decisions are made. By being risk aware the Council is in a better position to avoid threats and take advantage of opportunities.

2.4 The Process has critical links to the following areas:-

- strategic objectives;
- corporate governance arrangements;
- performance management;
- community focus;
- organisational structures and processes;
- standards of conduct;
- service delivery arrangements.

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3. What are the benefits of Risk Management?

- Increased likelihood of achieving objectives by identifying and dealing with the barriers to achievement – improved strategic management;
- Becoming less risk averse in innovation, because of understanding of risk and hence becoming more innovative;
- Improved business planning through a risk based decision making process;
- Improved operational management;
- Improved customer service;
- Enhanced performance – feeds into performance management framework;
- Focus on doing what matters to make a difference. Demonstrable improvement and;
- Better governance and demonstration of it to stakeholders.

4. The Objectives of the Council's Risk Management Process

4.1 The objective of this Process is to improve the ability to deliver strategic priorities by managing risks and as such the following elements are included:-

- To integrate Risk Management into the day to day activities of the Council;
- To identify and measure risks associated with business decisions;
- To eliminate or control risks associated with business decisions;
- To review risks in response to changes in the internal and external environment;
- To ensure effective Risk Management within partnerships and;
- To raise awareness of Risk Management within the Council.

These objectives will be achieved by:-

Ref	Action	Lead
1	Maintaining an up to date Risk Register and Guidance.	Improvement Team
2	Providing practical guidance to staff and Councillors.	Improvement Team
3	Including risk arrangement issues within Service Plans.	Directors/Business Managers
4	Including Risk Management assessments in Committee/Board reports as appropriate.	Directors/Service Managers
5	Including Risk Management within financial procedure rules.	s151 officer
6	Allocating specific responsibilities for risk to officers throughout the organisation.	Directors/ Service Managers
7	Review of Risk Management arrangements as part of the review of internal controls.	Management Team
8	Annual report to the Audit Committee/Board reviewing the Risk Management process.	Improvement Team
9	Maintaining contingency plans in areas where there is potential for risk to business capability.	Directors/Service Managers

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10	Providing Risk Management awareness training for Councillors and officers.	Improvement Team
11	Statement on Risk Management to be included in the Annual Governance Statement which forms part of the Statement of Accounts of the Council.	Is151 officer
12	Challenging the progress being made on the action plans relating to risk.	Directors/Service Managers

5 The Risk Management Process

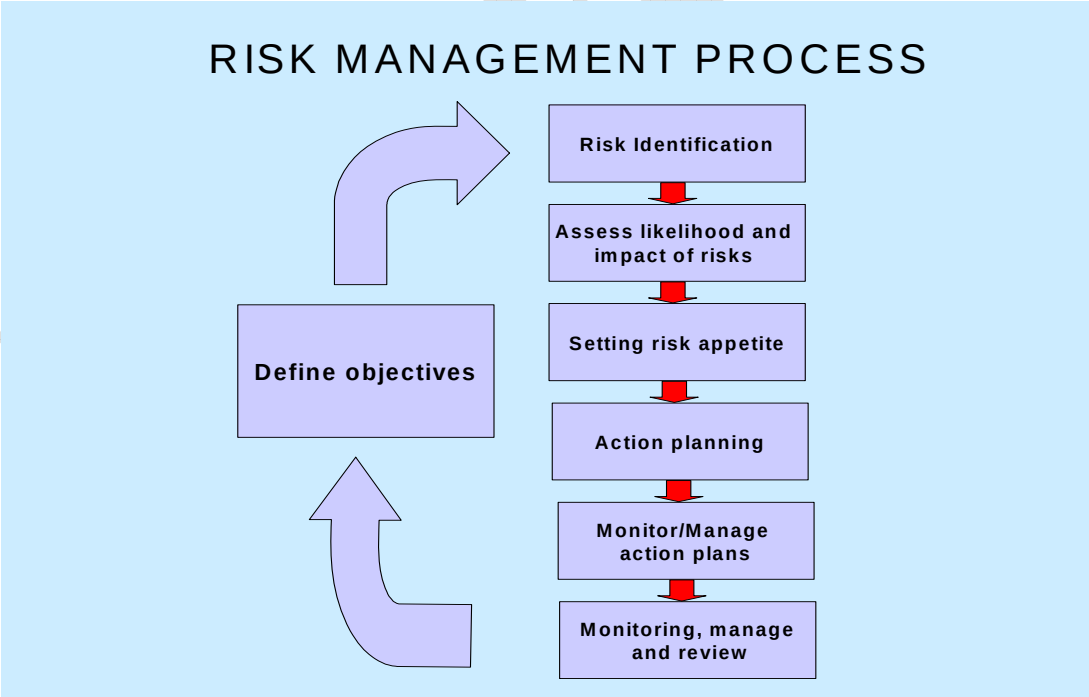
5.1 There are two broad types of business risks which are assessed and managed by the Council. These are;

I. Strategic Risks – high level risks that may impact on the Council's ability to meet it's overall objectives.

II. Operational Risks – service based risks that may prevent individual service aims and objectives being met and therefore impact upon the attainment of the Council's objectives.

5.2 The basic risk process is the same for any type of risk and is a continuous process which involves identifying, analysing, managing and monitoring risks. Figure 1 shows the Risk Management Process.

Figure 1 The Risk Management Process



5.3 The critical steps in the process of identifying and managing risk within the Council's activities in order to populate the Councils risk register are detailed in Appendix A.

5.4 The key processes are undertaken by officers and Members and are outlined in Figure 2.

Figure 2 Key Processes of Risk Management

1) Understanding the Strategic and Operational Priorities

The starting point is to ensure a clear understanding of what it is the Council is aiming to achieve. Risk Management is about managing threats that may hinder delivery and maximise the opportunities.

2) Identifying risks

There is a need to identify potential risks that may arise if informed decisions are to be made about policies or service delivery methods. They may be general relating to the environment within which we work or specific relating to a key area of service delivery.

3) Analysing risks

Available data should be used to provide information to help assess the likelihood of any risk arising or the potential impact on our activities.

4) Profiling & prioritising risks

Risks are profiled according to their likelihood and severity. Action determined based on tolerance and aversion to risk balanced against resource availability

5) Determining action on risk

Action based on whether the risk should be avoided, eliminated, reduced, transferred, or accepted.

6) Controlling risk

Once appropriate action is determined for each risk, the process of controlling that risk can commence. This will either involve minimising/eliminating the risk and/or alleviating its potential impact.

7) Monitoring and reporting on progress

Progress in managing risks monitored and reported to minimize losses and achieve actions

6 Risk Registers - Monitoring & Reporting Arrangements

6.1 A framework of monitoring and reporting is shown in Figure 3.

6.2 The Council's Management Team review the Risk Management process annually to ensure the mechanism(s) by which Risk Management is systematically embedded in the every day business of the Council is effective and mitigates the level of risk to the Council achieving it's objectives.

6.3 Managers assess the potential risks and their effect and pinpoint areas of weaknesses and interdependencies, differentiating between tolerable risks and those that require mitigation.

6.4 The risk from all Service units together with identified strategic risks form The Council's Risk Profile. The Council's Management Team has the responsibility of moderating and regulating the Risk Profile. The Risk Register is compiled from the top risks identified in the Risk Profile based upon a "risk appetite" recommended by the Management Team.

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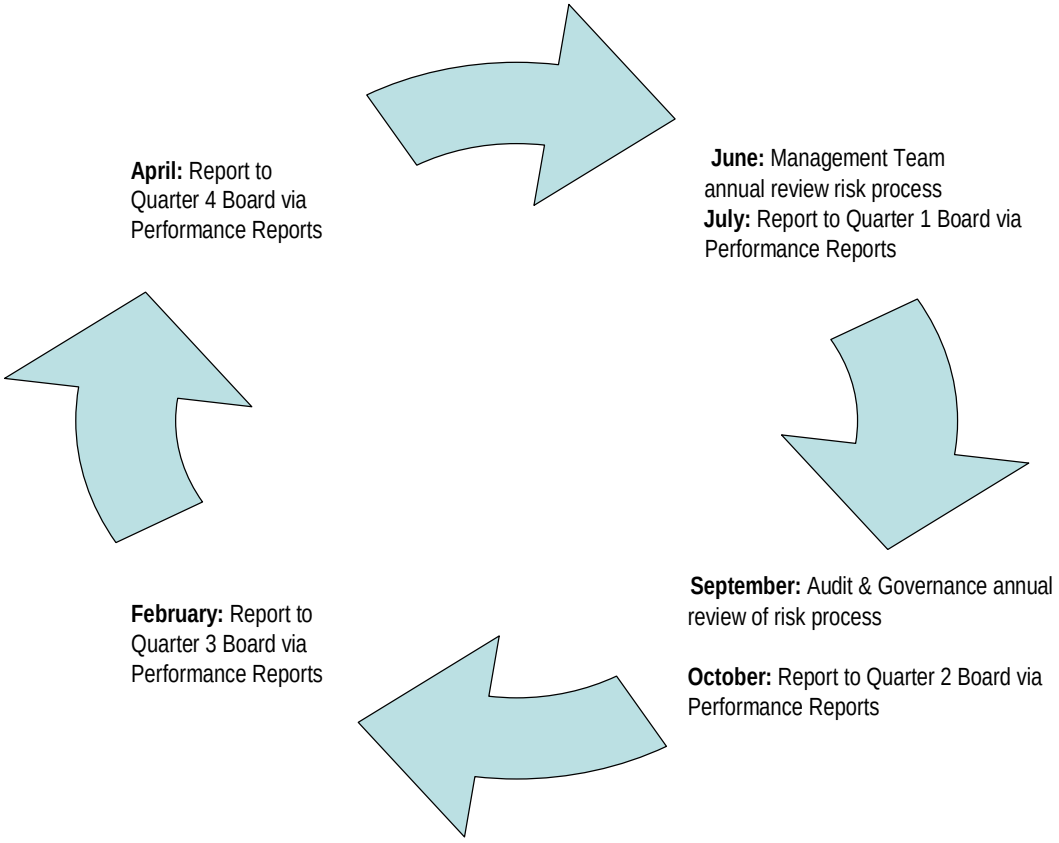
6.5 Each risk featured on the Risk Register has an action plan completed by the responsible officer that identifies measures required to mitigate, lessen or remove the risk. Each action plan is linked to the service unit plans and budgets.

6.6 A review of the Risk Register by Service Managers takes place six-monthly in April, and November. The review identifies new risks that have been added, any amendments to existing risks, any old risks to be deleted and a discussion on progress made with action plans.

6.7 All high risks are reported to the Management Board quarterly with performance reports, where there is an opportunity to discuss new risks, amend or delete risks and to challenge the content of the register. These high risk reports and subsequent recommendations form part of the information provided to the Council's Management Team within the quarterly performance management process.

6.8 Exception reports are provided to the Audit & Governance Committee on request and the annual review of the process undertaken by the Council's Management Team is tabled for discussion and approval.

Figure 3 Monitoring and Reporting



7 New Risks

7.1 The Risk Management process is continual and if any new risks are identified, details must be included on the Risk Register. Committee Reports' pro-forma include a Risk Management section to ensure that consideration is given whether any Risk Management issues need to be reported.

8 Knowledge Management and Information Systems

Effective Risk Management depends not only on commitment, culture and the competence of individuals, but also on the sharing of knowledge and the availability of reliable data and information.

The Council will need to ensure that its knowledge management and information systems facilitate effective Risk Management.

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Stage 1 – Identification, analysis, profiling and prioritisation of risks

S1.1 Identifying the Risks

When identifying risks it is suggested that the categories of possible risk areas shown in Figure 4 are used. They will act as a prompt and as a trigger for officers involved in the process. They will ensure that a holistic approach to risk identification is taken and that the risk process does not just concentrate on operational, financial or legal risks.

Figure 4 – Categories of Risk

Risk	Definition	Examples
1. Partnership/ Contractual	Associated with failure of contractors and partnership arrangements to deliver services or products to the agreed cost and specification	Contractor fails to deliver, partnership agencies do not have common goals
2. Customer/ Citizen	Associated with failure to meet the current and changing needs and expectations of customers and citizens	Managing expectations, extent of consultation
3. Economic	Affecting the ability of the Council to meet its financial commitments. These include internal budgetary pressures, the failure to purchase adequate insurance cover, external macro level economic changes or consequences proposed investment decisions	Cost of living, changes in interest rates, inflation, poverty indicators
4. Environmental	Relating to the environmental consequences of progressing, or not progressing, the Council's strategic objectives	Land use, recycling, pollution
5. Financial	Associated with financial planning and control	Budgeting, level of Council tax & reserves
6. Health & Safety	Related to fire, security, accident prevention, involves possibility of injury, illness or death	Injury of staff due to actions of customer
7. Legal	Related to possible breaches of legislation	Legal challenge against Council
8. Reputational	Outcome would do damage to the good name of the Council	Officers/Members being involved in inappropriate activities
9. Social	Relating to the effects of changes in demographic, residential or socio-economic trends on the Council's ability to meet its objectives	Staff levels from available workforce, ageing population, health statistics
10. Managerial	DO NOT USE – Use Customer instead	
11. Physical	DO NOT USE – Use Health & Safety instead	
12. Political	DO NOT USE – Use Economic, Financial or Reputational instead	
13. Techno-logical	DO NOT USE – Use Customer instead	

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S1.2 Description of a Risk

The description of a risk should identify the 3 elements if a risk event occurs. These can be thought of Action, Reaction and Outcome.

Typical phrasing could be: -

Action		Reaction		Outcome
Loss of	)			
Failure of/to	)	leads to		)
Lack of	)	means	)	results in
Partnership with	)	produces		)
Damage to	)	places		)
Deterioration in	)			
Missed	)			

Examples of risks from each category can be found in Appendix A.

S1.3 Impact if Risk Event Occurs

The following guidance should be used when scoring the impact if a risk event occurring: -

1 = No-one outside organisation would be aware of occurrence (negligible);

- Report would be buried in the local paper – small article, no headline or picture;
- Value would be up to £15000;
- Physical injury/damage would be very slight;
- No psychological impact;
- Loss of or failure to attract a small business; say 3 – 7 FTE jobs;
- Service not interrupted at all.

2 = A few people outside organisation would be aware (marginal);

- Report in local paper would be a bit more prominent – 2 small columns, a small headline + possible picture.
- Value would be £15,001 - £100,000;
- Injury/damage would be slightly greater, but still regarded as minor;
- Little psychological effect;
- Loss of or failure to attract a few small businesses; say 8 – 15 FTE jobs
- Service would only be affected very slightly.

3 = A number of people outside organisation would be aware (medium);

- Report may be larger with a headline and photograph + in a more prominent position + possibly appearing in a regional or national paper;
- Value would be £100,001 - £250,000;
- Injury/damage would be more serious – possible permanent injury/damage etc.;
- Psychological impact would be more serious and may require some assistance to overcome;
- Loss of or failure to attract 4/5 small + 1 medium business; say 16 – 30 FTE jobs
- Service to public would be affected but would continue in some form.

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4 = A larger number of people would be aware of the occurrence (critical);

- Report would be larger, with headline and photograph(s) – in 1 or more national papers;
- Value would be £250,001 - £500,000;
- Injury/damage would be permanent – loss of limb/eye or permanent damage;
- Psychological impact would require some intervention of professional help;
- Loss of or failure to attract 7/8 small, 2/3 medium or 1 large business; say 31 – 75 FTE jobs
- Service would be greatly affected and public etc would suffer as a consequence.

5 = Almost everyone would know about occurrence (catastrophic);

- Report on front/key page of most national papers – banner headlines & numerous photographs;
- Value would be £500,001+;
- Injury/damage would be great – loss of life, severe lasting damage;
- Psychological impact would have permanent lasting effect; subject would require professional help for some time;
- Loss of or failure to attract 3/5 med or 1 very large business; say 75 – 400 FTE jobs;
- Service would not be able to cope at all – catastrophic failure.

S1.4 Likelihood of Risk Event Occurring

The following guidance should be used when scoring the probability of a risk event occurring: -

1 = Very low it is regarded as **unlikely to occur**

2 = Low and more likely to happen, but would still be regarded as a **fairly uncommon** event.

3 = Significant and is **as likely to happen as it is not**. (It is a 50:50 or "even" chance.)

4 = High and is **more likely to happen than not**. It is regarded as more than likely to happen.

5 = Very High and is **almost certain to happen**, the question is simply when.

S1.5 Allocating the "type" of risk

The risk should be allocated a "type", there are two broad types of business risks which are assessed and managed by the Council in the same way. These are;

I. Strategic Risks – high level risks that may impact on the Council's ability to meet it's overall objectives.

II. Operational Risks – service based risks that may prevent individual service aims and objectives being met and therefore impact upon the attainment of the Council's objectives.

S1.6 Analysis, risk profiling and prioritisation - Risk Appetite

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Following identification, the risks need to be entered into the Risk Register on the Risk Management system, TEN and evaluated. Management will look at the risks identified and decide their ranking according to the likelihood of the risk occurring and its impact, if it did occur. A matrix is used to plot the risks and once completed this risk profile clearly illustrates the priority.

Although the risk profile produces a priority for addressing each risk determining the appetite for risk can enhance this. All risks above the appetite cannot be tolerated and must be managed down, transferred or avoided. The appetite for risk will be determined by management. The risk profile used and key are shown in Figure 5.

Figure 5

Impact					
5	5	10	15	20	25
4	4	8	12	16	20
3	3	6	9	12	15
2	2	4	6	8	10
1	1	2	3	4	5
	1	2	3	4	5

Likelihood

Score	Likelihood	Score	Impact
1	Very Low	1	Negligible
2	Low	2	Marginal
3	Significant	3	Medium
4	High	4	Critical
5	Very High	5	Catastrophic

S1.7 Risks are categorised as 'high', 'medium' or 'low'.

Risks falling within the high category require mitigating action. If these are existing service plan actions they should be linked to the risk on TEN. Alternatively, a new action should be set up in the service plan and linked to the risk. The progress in delivering these actions can then be monitored using TEN.

When prioritising risks, those located in the top right hand side box are the first priority or the most important risks to be managed. The risk scores can then guide the next level of priorities.

Stage 2 - Action Planning

S2.1 Action Plans

The potential for controlling the risks identified will be addressed through the management action plans. Most risks are capable of being managed – either through mitigation planning (managing down the likelihood), contingency planning (managing the impact) or a mixture of both. Relatively few risks have to be avoided or transferred, although there will be a greater tendency to transfer (insure) risks that have a high impact, but a low likelihood. Action plans will also identify the resources required to deliver the improvements, key dates and deadlines and critical success factors/key performance indicators.

These plans should not be seen as a separate initiative but should be incorporated into the business planning process and included and linked to service plans.

Stage 3 Management of risks

S3.1 Management of Risks

Using TEN to manage and monitor risk allows the risks to be linked to projects, service plan actions and performance indicators. Reports are generated from TEN and can be accessed on-line by Senior Management, Members and auditors

S3.2 Responsibilities

It is vital that everybody understands the role they play in effective Risk Management. In other words every employee and Member of the Council is responsible for ensuring effective Risk Management.

S3.2.1 Elected Members

Members have the role of overseeing the effective management of risk by officers. In effect this means that they will review and agree the Process, framework and process put forward by officers – as well as the priorities for action. They will also review the effectiveness of Risk Management.

Elected Members may also be involved in identifying, analysing and profiling risk and in determining the risk appetite and priorities for action. They may also be involved in providing reports to stakeholders on the effectiveness of the Risk Management framework, and process.

S3.2.2 The Management Team

The Management Team has a crucial role to play in Risk Management and takes the lead in identifying and managing the risks and opportunities facing the authority. They will also identify, analyse and profile corporate and cross-cutting risks associated with new policies and service delivery methods and with existing operations; and determine the Council's risk appetite and priorities for action.

S3.2.3 Risk Process

Management of the Council's Risk Process is undertaken within the Improvement Team, they are responsible for the management and the implementation of the integrated framework, on behalf of the Council and the Management Team. The Improvement Team fulfil a controlling and facilitation role – to ensure the processes are implemented and to offer guidance and advice.

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S3.2.4 Service Managers

Service Managers will extend the process cascaded from levels above to within their own service areas. Some risk actions and tasks will be cascaded to them from processes above, but there will be other risks that are specifically important to the service concerned and that will be identified through the completion of the Risk Register.

S3.2.5 Service Providers

Individuals involved in service delivery, whether employed by The Council or by its partners and contractors, have a crucial role too as they deal with risk on a daily basis. They not only need to carry out those tasks delegated to them in controlling risks but also need to have a more general awareness of risk issues and should be encouraged to feed views into the formal processes above them.

S3.2.6 Partners

The Council works with a wide range of partners in delivering its services. It is important that those partners are brought into the Risk Management framework. At times it will be appropriate for joint profiles to be undertaken. However, it is essential that accountabilities are adequately determined and that The Council does not overlook any risks that may fall on it arising from its part in a joint venture. Even where there is transfer of operational risks, for example under a PFI, there will undoubtedly be some residual risks falling on the authority. It is not possible to outsource the Risk Management process.

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Appendix B

Risk Register Guidance Notes

The Council maintains a Risk Register which encompasses all service areas, the Council Plan Objectives and Partnerships. The Register is held on the TEN Performance Management system and contains all the key risks.

The following notes give guidance on the entry required for each field within the Risk Management System.

Risk ID - This is the identifier for your unit and ultimately the risk itself. The format is alphanumeric and should consist of a word or letters to identify the unit, separated by a "-"and then two numerals.
For example: Audit-01 or Dev Con-13 etc. Please ensure that all your risk ID's are uniform (and that numbers 1 to 9 are used with a leading zero e.g. Audit-01, Audit-02 etc).

Risk Type - The 'Risk Type' associated with any risk may have more than one category and is, therefore, largely a case of personal interpretation. The category, which you feel has the closest link with the risk, should be used. For example a risk of 'increasing fees & charges by too much' may have a number of categories such as: Financial, Reputational and Customer. Any one of these categories could be used. Helpful guidance can be found at "4. Definition of Risk Types."

Date Raised - This is the actual date that you entered the risk onto the register and must be populated using the date format DD/MM/YY.

Description of Risk - This should describe the risk that your unit is facing. Helpful guidance can be found at "5. Description of a Risk."

Impact/Likelihood - Both of these fields range from Very Low to Very High with a score of 1 to 5. The risk should be scored based on the impact and severity to your unit and not the department or the Council as a whole. Guidance is available at "6. Impact if Risk Event Occurs" and at "7. Likelihood of Risk Event Occurring."

Action Plan - Any action, which could negate the risk or reduce the score, should be entered here. It may be that there is no action plan for a particular risk due to its nature, but wherever possible one should be included. Any risk above the risk appetite score with no action plan will be questioned. If a multiple action plan is required then enter 'Please see Risk Owner for Action Plan'. The Risk Owner can then hold a manual plan with details on the individual actions and their respective action dates.

Action Date - This field should be populated with the date that the action plan will be completed using the date format DD/MM/YY. Alternatively if the action plan is continuous then either 'Ongoing' or 'Continuous' can be entered.

Risk Owner - This is the officer who is responsible for monitoring and reporting on each risk.

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Appendix C

An example of the description of a typical current risk is **"A lack of resources"** = Action
Ask the question "So what?" Think what may follow if this risk event occurs.

"A lack of resources **means staff will only be able to undertake daily activities."** = Reaction
"So what will this lead to?" What is/are the likely outcome(s)?

"A lack of resources means staff will only be able to undertake daily activities **resulting in a failure to progress project X."** = Outcome.

Note: an Action could result in more than one Reaction each of which could generate several Outcomes. A number of risks could be identified from a single Action.

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Detailed below is a sample of risks abstracted from the current Risk Registers and that have been given the "So what?" treatment: -

Current risk description	**Improved 3 element risk description**
Loss or damage to ICT passwords.	Server passwords lost/damaged leads to ICT being unable to access servers resulting in system failure.
Insufficient management time to adequately operate a leisure facility.	Leisure facility is not adequately staffed leading to a lower usage which results in the loss of revenue income.
Staff turnover.	Unsustainable staff turnover leads to lower competency of staff resulting in a reduction in the quality of service provided.
Incorrect treatment of VAT.	Incorrect treatment of VAT leading to incorrect claim resulting in financial penalties.
Unable to send out bills.	Unable to send out Council Tax bills leading to delays in payment being received which results in reduced cash flow.
Fear of crime does not reduce.	Community Safety Strategy does not reduce crime statistics resulting in failure to improve public perception of crime reduction leading to lower public satisfaction with the Council.
Failure to meet customer requirements at 1st point of contact.	Customer queries not addressed at first point of contact resulting in customer dissatisfaction which leads to low public satisfaction levels for the Council.
Predicted rise in recycling rate does not occur.	Resident participation in the recycling scheme is lower than anticipated resulting in failure to meet local and national targets leading to increased revenue costs for the Council.

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To be added = Screen shots of TEN risk register

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