Risk Management Framework

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1. Introduction

We operate in a risky environment which means that everything we do carries a degree of risk. It's inherent to how we deliver our services, and so, it is important that we are aware of and able to manage risks. It is not something we can avoid, but risk taking is something that is very much part of how we do business.

What is fundamental is that the risks we take are done so with a full understanding of the impact, and that we are able to manage any negative consequences effectively, without risking delivery of our services.

This framework is designed to provide practical guidance and tools to enable you to identify, evaluate and manage risks in a consistent and effective way. By ensuring that we properly respond to risks will play a large part in the certainty of achieving our objectives and desired outcomes.

2. What is risk management and why do we need it?

A risk is defined as the "*effect of uncertainty on objectives*". Risk management is the systematic process of identifying, evaluating, and managing those uncertainties and bringing them to an acceptable level. By doing this we increase the chances of our objectives being achieved, safeguard public money, and protect our reputation.
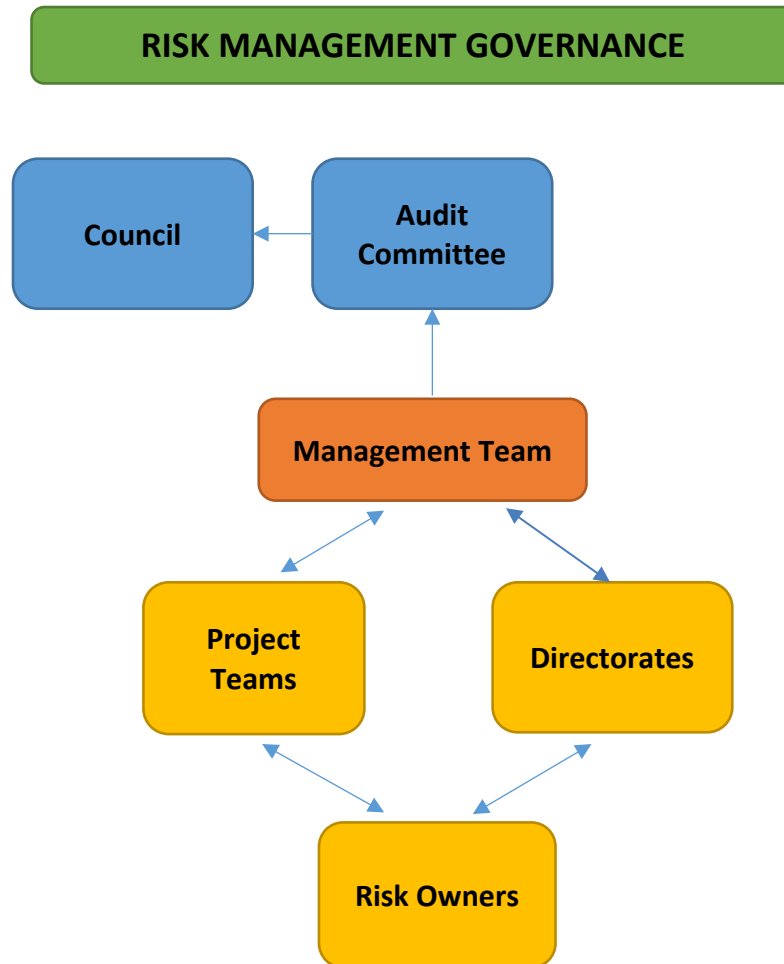
Risk management is not just concerned with the negative consequences of uncertainty. There are risks relating to the opportunities that we take as a Council, particularly as we consider new ventures, commercial projects, and new ways of working.

We assess risks in terms of *impact* and *likelihood*. The combined overall assessment gives us a view on the impact to the Council if the risk was to materialise, and whether or not the event is likely to occur. The overall score against these two criteria enables us to see those risks that are of biggest impact, and those risks that are too damaging or costly to take.

By identifying, evaluating and managing our risks in this way, we are able to better understand the appropriate course of action and be more confident in the delivery of priorities and the achievement of our objectives across all levels of the Council.

3. Roles & Responsibilities

Effective risk management requires a collaborative approach with responsibility embedded throughout the organisation. Risks are managed during day-to-day service delivery and throughout project lifecycles. It is important that everyone that is part of the process is clear about their roles and responsibilities. The illustration below shows the governance structure for risk management for the Council:

RISK MANAGEMENT GOVERNANCE

Council

Audit Committee

Management Team

Project Teams

Directorates

Risk Owners

Approve risk management activities

Deliver risk management activities

Provides independent oversight of risk management activities

- **Council:** has ultimate responsibility for ensuring that risks are being effectively managed across the Council. They look at substance and the response to individual risks.
- **Audit Committee:** provide independent assurance over the effectiveness of risk management activities, providing oversight and monitoring of the Council's risk register and mitigation plans.
- **Management Team:** sets the risk culture and are responsible for ensuring effective delivery of the Risk Management Framework across Council. They monitor the Council's risk register, identify risks that could impact on the Council's objectives and take decisions relating to those risks.
- **Project Teams, Directorates and risk owners:** identify, review and take action to manage risks.

4. Our risk management process

The following 5 step process is followed as part of our risk management framework:

a) Setting our objectives

A risk is the effect of uncertainty on objectives. So before we can identify our risks, we need to know the *objectives*. To understand the context in which we are undertaking the risk assessment is it important to know:

- **What** are we seeking to achieve?
- by **When**? And
- **Who** is responsible?

This includes understanding what the Council wants to achieve and the resources it has available to deliver. The Council has set out its corporate objectives in the *__Corporate Plan__*. Individual services set objectives in their *service plans*.

This link between Council objectives and service objectives is called the *golden thread*. When everyone is pulling in the same direction we will have a much greater chance of being able to achieve our shared goals.

b) Identifying our risks

The purpose of any risk identification exercise is to identify those things that could prevent us from achieving what we set out to do. As time passes, the things we need to do will inevitably change. As such this step has two principal elements:

- *Initial risk identification*, for example when embarking on a new project, following a major service change or creating a new service plan, and
- *Continuous risk identification*: required to identify new risks, changes to existing risks, including those which become irrelevant over time.

Common techniques used across the Council to identify risks are horizon scanning, brainstorming, workshops and facilitated discussions. The following questions can help identify risks to your objectives:

- If in a year from now we haven't achieved this objective, why – what could have stopped us?
- What could realistically do wrong?
- What do we need in order to achieve this objective? Do we depend on others to succeed?
- What opportunities might arise?

The risks generated from the identification exercise should be recorded so that they can then be evaluated.

c) Evaluating our risks

The purpose of this step is to understand the scale over the risks that have been identified and whether or not we need to take action to manage the impact, or likelihood.

A key element of this is identifying what controls are currently in place to manage the risk. A control is defined as *an action taken by management and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved.* There are different types of internal controls, set out in the table below:

Control Category	Description	Examples
Preventative	Designed to limit the possibility of an undesirable outcome (this will be the majority of risk related controls)	Financial Standard Orders Prior authorisation of expenditure Separation of duties Access controls (systems and physical) Data retention and destruction
Detective	Designed to identify problems when undesirable events have occurred, allowing them to be addressed	Assessment of controls in place Analytical review Exception reporting Sample checking Physical checks
Directive	Designed to set desired outcomes and expectations	Policies and procedures Training and awareness Manuals Job Descriptions and Duties Critical thinking

When documenting your controls it is important to be clear about what the control is and how it works to manage the risk. For example, "*Quarterly reporting to Management Team who review and challenge the information.*" or *"Use of service plans to communicate objectives."*

Risk evaluation incorporates two principal elements:

- **Impact** – This is a consideration of how severely the organisation would be affected if the risk transpires. In other words if the risk was to materialise then what will that do to the organisation?
- **Likelihood** – This is a consideration of how likely it is that the risk will occur. In other words the probability that the risk will happen and become an event that needs to be managed.

A scale of 1-5 is used to assign a score to both the impact and likelihood. The bands and criteria used to assess impact and likelihood are attached in appendix 1 and should be used to guide your evaluation of each risk identified.

Risk impact is considered across a number of different criteria, financial and non-financial. **The highest potential impact score should be taken as your overall impact score.** This means that the overall score for the highest level risk will be 5 x 5 (25) and the lowest 1 x 1 (1).

This initial scoring of risks is known as **inherent risk.** This means the risk as it exists currently, with no additional measures taken.

d) Taking actions to manage risks

There are 4 principal ways in which we can respond to risks, these are known collectively as 'the Four Ts':

TREAT	TOLERATE	TRANSFER	TERMINATE
This is the most common way of managing risks.	This means accepting the likelihood and consequences of the risk.	This means shifting the risk, in whole or part, to a third party.	The means deciding to cease the activity which causes the risk.

Addressing risks involves taking actions to reduce the likelihood of the risk occurring, or limiting the impact if the risks did materialise. One of the key ways in which a risk can be addressed is through implementation or enhancement of internal controls.

Risk Matrix

Once you have established a risk score, you will need to plot that score onto the **risk matrix** which produces an overall risk profile (example below, with the risk just identified shown as **R1**).

Likelihood						
	5				**R1**	
	4					
	3					
	2					
	1					
		1	2	3	4	5
				Impact		

The position of the risk on the matrix can help us to quickly see those risks that are of higher impact and likelihood.

The following guide can help to assist you in considering how to respond to, and manage each risk:

Risk Rating	
20-25	Risks at this level sit above the tolerance of the Council and are of such magnitude that they form the Council's biggest risks. The Council is not willing to take risks at this level and action should be taken immediately to manage the risk.
12-16	These risks are within the upper limit of risk appetite. While these risks can be tolerated, controls should be identified to bring the risk down to a more manageable level where possible.
5-10	These risks sit on the borders of the Council's risk appetite and so while they don't pose an immediate threat, they are still risks that should remain under review. If the impact or likelihood increases then risk owners should seek to manage the increase.
3-4	These are low level risks that could impede or hinder achievement of objectives. Due to the relative low level it is unlikely that additional controls will be identified to respond to the risk.
1-2	Minor level risks with little consequence but not to be overlooked completely. They are enough of a risk to have been assessed through the process, but unlikely to prevent the achievement of objectives.

Residual Risks

If actions have been identified and planned, then the final next stage is to re-evaluate the risk. This means assessing the impact and likelihood again, but taking into account the further actions being taken. This is referred to as the **residual risk**.

Once you have established a risk score, you will need to plot that score onto the **risk matrix** which produces an overall risk profile. This shows how the risk actions will affect the overall impact and likelihood of the risks (example below).

Likelihood	5				R1	
	4				↓	
	3					
	2					
	1					
		1	2	3	4	5
		Impact				

e) Monitoring & Reporting

Risks are identified from the 'bottom up' through service planning for the year ahead. Management Team review the risks to identify cross cutting issues and challenges for a 'top down' assessment of the key themes. The key monitoring and reporting activities are set out below:

- Annual service planning includes the formal review of all risks and identification of new risks for the coming year.
- Quarterly reporting of risks to Management Team
- 6 monthly updates to Audit Committee of strategic, financial and compliance risks above set appetite
- High level risks (red and black) should be managed appropriately at Service/Directorate level.
- Financial risks reported to Budget Scrutiny meetings annually.

The risks above the council's risk appetite for the strategic, compliance and financial risk types will be reported to the Audit Committee on a six-monthly basis, and will receive updates on progress on the implementation of risk actions. This is to ensure that the Committee can fulfil its duties in providing assurance over the effectiveness of the risk management process.

In addition, financial risks are reported on an annual basis to Budget Scrutiny as part of consideration of the draft budget.

5. Risk Appetite

Risk appetite is a way of articulating how much risk ABC is willing to take.

The council's Corporate Plan 2015-20 sets out the context within which the council operates and sets the direction of travel for the lifetime of the Plan. Within the Corporate Plan there are a number of statements about the council's priorities which help to set the council's risk appetite. The risk appetite defines the amount of risk the council is willing to take to achieve the priorities set out in the corporate plan.

The council's risk appetite will be reviewed at the start of every Corporate Plan period to ensure it reflects the council's current priorities.

Out of a range of very low to very high, the council will take risks within the very low to moderate range. It will not take very high risks with consequences defined as catastrophic.

The appetite varies depending on the risk type as explained below:

Risk type	Corporate Plan statement	Risk appetite
Strategic	'Aspirational Ashford' Maintaining ABC's direction of travel and knowing when to change course.	**Moderate** to reflect the council's approach to taking commercial opportunities in order to fulfil its strategy to become financially self sufficient from government formula grant. We will take moderate risks when there is a sound business case that does not compromise the sustainability and/or reputation of the council.
Delivery	A fair deal for all our residents and businesses through the use of council powers to ensure quality and compliance.	**Moderate** as the delivery of high quality and consistent services to our residents and businesses underpins all of our priorities.
Financial	A viable and sustainable replacement for Formula Grant: investing in the borough ourselves, in line with our borrowing an acquisitions policy; managing our costs and inflation.	**Low** as long term financial sustainability and independence is of upmost importance as is the council's position as the lowest Council Tax authority in Kent.
Compliance	Demonstrating good compliance and high standards	**Very low** as a local authority we lead by example and can be trusted so we take a very low risk approach to compliance.

Risk Impact Definitions

The following risk impact table should be used to score and plot your risks on the risk matrix. The highest impact score should be used for each risk:

Headings	Reputation	Strategic	Delivery	Finance	Compliance
5 Catastrophic	Council receives nationally adverse publicity perceived as failing in a significant area of responsibility	Failure to deliver council priorities or major project	Failure to deliver a service / project 50%-95% schedule overrun on project	Significant financial loss or overspends in multiple £ms leading to the Section 151 officer having to issue a statutory report 50%-95% project overspend	Breach of law, regulations leading to significant sanctions Litigation almost certain with minimal defence
4 Major	Public confidence in the council undermined	Significant impact on delivery of council priorities or major priorities	Unsatisfactory service performance / service disruption for 5 days + 25%-50% schedule overrun on projects	Financial loss or overspend greater than £1m 25% - 50% project overspend	Breach of law leading to some sanction Litigation almost certain with some defence
3 Moderate	Significant adverse local publicity	Possible impact on the delivery of council priorities	Reduction in service performance / service disruption for 1 – 2 days	Financial loss or overspend between £250k- £1m	Breach of regulation or responsibility or internal standard Litigation possible
2 Minor	Minor impact on staff morale/public attitudes	Minor adverse local publicity	Poor service / service disruption up to one day 10% - 25% project schedule overrun	Financial loss or overspend between £100k- £249k 10% - 25% project overspend	Breach of internal procedure or policy Complaints likely
1 Minimal	Unlikely to cause adverse publicity	No significant impact on the delivery of Council priorities	No significant difficulty providing a service or delivery of a project Less than 10% schedule overrun on projects	Financial loss or overspend under £100k	Minor breach of policy or internal procedure Complaints Unlikely

Likelihood

The following likelihood table should be used to score and plot your risks on the risk matrix.

Score	Probability	Description
Almost Certain (5)	More than 90%	Expected to occur, frequent similar occurrences elsewhere
Likely (4)	More than 65%	Will probably occur, known to occur elsewhere
Possible (3)	More than 40%	Might occur, similar occurrences elsewhere
Unlikely (2)	Less than 40%	Could occur, not expected but no unheard of elsewhere
Remote (1)	Less than 10%	Very unlikely to occur, no recent instance elsewhere

Appendix 2

Risk types

Strategic Risks	Delivery Risks	Financial Risks	Compliance Risks
Definition: Achievement of strategic priorities	*Definition: D*ay to day operation of Council services	*Definition:* Financial impact or loss	*Definition:* Breaches to law or regulation
External factors Economic Political Social Partners	Project Delivery/Project management	Revenues Council Tax Business Rates Benefits overpayments Sundry debt Debt recovery Commercial income generation	Data Protection Health & Safety Public Health Government Regulation Safeguarding compliance Asbestos compliance Procurement Best Value Transparency Constitution Code of conduct Regulatory bodies Planning inspectorate
Reputation Service users Media relations	Service Service delivery	Benefits Housing Benefit Management Treasury Management Debt management Investment Strategy	
Strategy Commercial strategy Digital strategy Local Plan Communications strategy	Staff Recruitment Retention Training Key personnel	Accountancy Insurance Tax Statutory accounts Budget monitoring Capital Spending Income Generation Grants / Funding Budget Management	
Governance Council structure and performance Risk appetite	IT Network infrastructure Business applications IT security	Costs Premises costs Premises energy inflation	
	Business resilience Continuity Emergency planning		
	External 3rd party performance		

Appendix 3

Contact Details

Contacts for providing risk management advice and support:

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