Draft Risk Management Strategy

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APPENDICES

1. Risk Management Strategy

1.1. Introduction

Effective risk management is part of a well-run organisation, delivering effective and efficient services and achieving value for money. Crawley Borough Council recognises its responsibility to manage risk as a key component of good governance.

The Council is committed to integrating and embedding risk management into policy, planning and operational management and into the culture of the organisation.

The focus of risk management is the identification and treatment of risks. It increases the probability of success and reduces the likelihood of failure and the uncertainty of achieving objectives. Risk management should be a continuous and evolving process, which runs throughout the Council's strategies and service delivery.

A pro-active corporate approach is important if risks are to be identified and managed systematically and consistently across the organisation. In order to create an integrated risk management culture that is embedded into medium-term planning, a collaborative approach to risk is undertaken. Business/service plans, budgets and risk registers are developed simultaneously, and these are regularly reviewed.

Applying the risk management process - identifying, assessing, controlling and reviewing risk helps strategic decision makers and managers make informed decisions about the appropriateness of adopting policy or service delivery options and helps in improving the performance of services.

There are four levels of risk register linked to the achievement of the corporate priorities:

(i) **Operational Risk Register** – owned by individual Heads of Service and their service managers - comprising the service risk registers that fall within their area of responsibility

(ii) **Projects Risk Register** - owned by individual Senior Managers/Groups. These include the New Town Hall and District Heat Network project, Towns Funds and some major Capital project schemes. These are reviewed by the Corporate Projects Assurance Group.

(iii) **Strategic Risk Register** – owned by the Chief Executive and Corporate Management Team.

(iv) **Contracts and partnerships** arrangements risk registers.

See Sections 3 and 4 for more information. Project managers and sponsors have the major responsibility for managing the risks on their projects.

Most activities involve risks. If those risks do materialise, they may have an adverse effect on what the Council is trying to achieve. Therefore it needs to manage the risks that it faces. This paper sets out how the Council intends to approach the management of risk across the organisation.

1.2. Policy Statement

Crawley Borough Council will:

Adopt best practice in the identification, assessment and cost-effective control and management of risks to ensure that they are eliminated or reduced to an acceptable level.

The Council is aware that some risks will always exist and will not be totally eliminated. It understands the importance of managing these risks effectively.

All employees must understand the nature of risk and accept responsibility for risks associated with their area of authority. The necessary support, assistance and commitment of Senior Management will be provided.

1.3. Risk Management Objectives

The risk management objectives of the Council are to:

1. Integrate risk management into the culture of the Council by engendering a positive attitude and understanding of risk throughout all service areas
2. Manage risks in accordance with best practice
3. Prevent injury, damage and financial loss to all those connected with the Council's delivery of services

These objectives will be achieved by having in place:

1. Clear roles and responsibilities
2. Full incorporation of risk management considerations into the Council's performance management system (including project management and financial planning)
3. Documented risk assessment and control procedures
4. Appropriate resource allocation
5. Appropriate learning opportunities available on effective risk management for employees and Councillors
6. Contingency plans where risk assessment shows these to be necessary
7. Monitoring and review arrangement

1.4. Risk Management Strategy Review

The Corporate Management team is responsible for ensuring that the Strategy is kept under review. Changes will be agreed with the Audit Committee.

2. Risk Management Framework

2.1. Introduction

The Council has arrangements in place to ensure the effective management of risk throughout the organisation.

There are four main elements to the effective management of risk. The Council adopts this approach to ensure risks are properly managed and reduced to an acceptable level.

- **Identification –** what could happen that could prevent the Council from achieving its corporate priorities

- **Evaluation/assessment –** what is the impact in terms of cost, reputation, service delivery, and what is the likelihood of the risk occurring
- **Management/control –** the techniques applied to manage the risk e.g. tolerate, treat, transfer, terminate
- **Review –** continual review of risk management to ensure that it is effective and making improvements where necessary

This process applies to existing service activities. It also applies when the Council is entering new partnerships, when embarking on a new project or when a new contract is being procured.

The roles and responsibilities of all employees, managers and Councillors are set out in Appendix 1.

2.2. The Nature of Risk

Likelihood – by definition a risk is something that might or might not happen.

Impact – if a risk does happen, there will be an impact. That impact may be significant – for example it might jeopardise the project. Alternatively it might be relatively insignificant.

Mitigation – usually there is some mitigating action that can either eliminate a risk or, more typically, reduce the likelihood of it happening or the impact if it does.

Costs – taking mitigating action will have associated costs – even if it is only in terms of staff time.

Benefits – often the benefits of completing a project or providing a service are a given. However, the position can be more complicated when looking at options to achieve desired policy outcomes. Sometimes the benefits can vary depending on the choice taken.

2.3. Risk Culture

The risk culture of an organisation can be categorised in a number of different ways. Typically the categorisation is based on the risk appetite of the organisation. Risk appetite has been defined as the "amount and type of risk that an organisation is prepared to seek, accept or tolerate."

Risk appetite provides a framework which enables the organisation to make informed management decisions. The benefits of adopting a risk appetite include:

- Supporting informed decision-making
- Reducing uncertainty
- Improving consistency across governance mechanisms and decision-making
- Supporting performance improvement
- Focusing on priority areas within an organisations
- Informing spending review and resource prioritised processes.

The risk appetite scales the Council has agreed to adopt are set out below:

Risk appetite	Description
Opposed	Avoidance of risk and uncertainly is key objective
Minimalist	Preference for safe options that have a low degree of inherent risk
Cautious	Preference for safe options that have a low degree of residual risk
Mindful	Willing to consider all options and choose one that is most likely to result in successful delivery
Enterprise	Eager to be innovative and to choose options that suspend previous held assumptions and accept greater uncertainty

There is a strong relationship between the approach to risk and the level of controls an organisation operates. A risk adverse culture requires a significant level of controls, where as a risk receptive organisation requires far less.

If a risk materialises, it can have one or more of several different impacts:

- Financial loss
- Reduction or prevention of service provision
- Health and safety
- Objectives not achieved
- Reputational (which can have political impacts)
- Relationships/partnerships adversely impacted

Another way of categorising risk is between strategic, tactical and operational risks. It is not unusual to refer to project risks as a type of operational risk.

Strategic Risks – are those which may impact on the ability of the Council to achieve its corporate objectives and execute its strategies successfully. By their nature, strategic risks are generally not service or objective specific; they are areas of risk that cut across service and objective boundaries. These risks can be both negative and positive. They include risks associated with projects or procurement, and risks associated with partnership arrangements. They can also be a potential opportunity that enhances and accelerates the achievement of corporate objectives.

Tactical Risks – are those which may impact on those activities that which support the implementation of actions to achieve those corporate objectives.

Operational Risks – are those that may impact on the day to day operations of the Council

Project Risks – are those that may impact on the ability of an individual project to deliver its objectives. These risks will usually be operational, but may be tactical.

2.4. Assessment of Risk

Once risks have been identified, each one is assessed according to the impact on the service if it happened and on the probability that it will happen.

Risks are prioritised using a scoring system as set out in the risk assessment matrix below. Each risk is scored for inherent risk (i.e. with no controls in place) and for residual risk (i.e. with controls in place).

IMPACT	**Catastrophic 5**	5	10	15	20	25
	Major 4	4	8	12	16	20
	Moderate 3	3	6	9	12	15
	Minor 2	2	4	6	8	10
	Insignificant 1	1	2	3	4	5
		Remote 1	**Possible 2**	**Likely 3**	**Probable 4**	**Highly probable 5**
PROBABILITY						

See Appendix 3 (Risk Assessment Criteria) for further details for assessing each category.

2.5. Risk Tolerance

The risk tolerance of the Council is the threshold above which the level of risk is not acceptable and requires further action to reduce the risk. The level has been agreed by the Corporate Management Team to be any risk with a residual score of 15 or above (red risks).

2.6. Management/ Control of Risks

Senior Managers have overall responsibility for managing risks in their service area. This may include refusal to take the risk, controlling the risk as far as reasonably possible or transferring (via contract etc.) the risk to another party e.g. insurance. To ensure that this is done in the most effective manner, ownership and control of the risk may be delegated to the person (risk owner) directly responsible for managing the business activity specific to the risk - this will usually be a Business Manager. Risk registers will be updated as new risks arise.

Further actions may be identified that will improve resilience. Where this is the case, an action owner is identified together with a timeframe for this to be achieved.

Heads of Service are required to review and update their Operational Risk Registers at least quarterly to:

- Ensure controls are effective and do not require further planned actions
- Ensure identified risks are still relevant and have not changed over time
- Re-assess risks when change happens e.g. re-organisation, different systems, new equipment etc. or at the start of a new project/procurement
- Review key project, procurement, contract management and partnership risks and, where risks impact on services, consider for inclusion in the relevant Service Risk Register
- Prevent loss and damage and reduce the cost of risk to all involved
- Use best practice to manage risk

The Strategic Risk Register is reviewed quarterly by the Corporate Management Team. This ensures that identified risks are current and relevant to the planned activities for the coming year(s); controls put in place to mitigate risks are effective and adequate resources and budgets are allocated for the delivery of planned projects.

Significant risks are reviewed by the Corporate Projects Assurance Group where key projects have their own business case that has risks and mitigations identified, these use the grid method. The group includes the Chief Executive, the Deputy Chief Executive, the Monitoring and s151 officers Procurement Manager and Corporate Performance Manager. Business cases are reviewed by this group before being progressed further within the organisation. These projects can be where there is major expenditure such as a capital programme scheme or a review of a service delivery such as the new ways of working programme.

It is important to note and accept that no organisation will, or should, have the same approach to all risks at all times. For instance, it would be inappropriate for the Council to behave unlawfully. Therefore, it should have a high level of controls to avoid the risks of acting unlawfully.

It is also true that risks will vary over time, both in terms of their likelihood and impact. Therefore, risks have to be managed – not just recorded for some types of risk.

2.7. Risk Registers

As stated above there are four levels of risk register maintained across the organisation:

Operational Risk Register – owned by individual Heads of Service and their service managers - comprising the service risk registers that fall within their area of responsibility. Each Departmental Management Team is jointly responsible for maintaining.

Projects Risk Register - owned by individual Senior Managers/Groups. These include the New Town Hall and District Heat Network project, Towns Funds and some major Capital project schemes. These are reviewed by the Corporate Projects Assurance Group.

Strategic Risk Register – owned by the Chief Executive and Corporate Management Team. CMT has the responsibility for ensuring that there is effective management of strategic risks. The Head of Corporate Finance has a responsibility to satisfy themselves that effective management is in place and reporting to the Audit Committee.

Risk registers for contracts and partnership arrangements. See Sections 3 and 4 for more information. Project managers and sponsors have the major responsibility for managing the risks on their projects.

See Appendix 2 for information on categories of risk.

2.8. Risk Management Assurance Framework

The Council has a risk management assurance framework in place which ensures that controls put in place for mitigating risks are effective. The framework is applied to risks on the Strategic and Significant Risk Registers.

It aims to give the Council assurance that the controls defined for each of these risks are in place and operate effectively.

See Appendix 4 for further information.

2.9. Reporting Risks

As stated above the Corporate Management Team (CMT) receive a risk management update on a quarterly basis which includes the Strategic Risk Register.

Departmental Management Teams ensure that they review their operational risks on a quarterly basis.

Special projects such as the Town Hall board have an agenda item on each meeting to review the risk register, this register is presented to the Audit Committee together with the Strategic Risks.

Financial risks are included within the annual Budget Report and the Budget Strategy report(s).

2.10. Incorporating Risk in Reports

Risk management is a fundamental part of the decision making process. It is therefore critical that risks are identified and included in Committee reports, to enable Councillors to make informed decisions. All reports to Cabinet are reviewed by the Head of Governance, People and Performance and the Head of Corporate Finance who will ensure that they are satisfied that risks have been identified and any mitigations covered.

3. Project/ Procurement/ Contract Risk

3.1. Project Management

In the context of a project, it is the project's objectives that are at risk. These will include completing the project to a number of targets, typically covering time, cost, quality, scope and benefits. Each major project should have its own risk register containing information on all of the identified threats and opportunities relating to the project. In the context of a project, a threat is an uncertain event that could have a negative impact on the project's objectives; an opportunity is an uncertain event that could have a favourable impact on the objectives. Both the Business Case and Project Initiation Document templates includes a Risk Register template.

3.2. Procurement Approach

In instances where there is a commercial relationship involved in the project (i.e. supply is contracted out to a third party) risk should be placed with the party best able to manage that risk. The procurement approach employed determines the way in which risk is managed. A well-defined, low risk project will suit traditional tendering and contracting approaches where transferred risk can be readily quantified and competitively priced by the market. At the other end of the spectrum, partnering contracts suit projects of higher risk and complexity that require collaboration under risk reward sharing arrangements.

3.3. Contract Management

Contracts where the risk of contract failure poses significant risk to the Council (for example, it provides a significant income stream, delivers a key service to residents, is integral to the Council's operations, would result in the Council itself being in breach of contract/statute and/or incurring significant reputational damage) are likely to require the most focus (high levels of reporting and pro-active monitoring), whilst a lighter touch approach with exception reporting may be acceptable for lower risk contracts.

The degree of contract management may need to be periodically re-assessed in light of the service provider performance, previous experience of delivering such contracts and the contract maturity. Risk registers should include:

- How will you ensure that risks related to the contract are formally identified, appropriately mitigated and regularly reviewed, with ‘obsolete’ risks removed from consideration where appropriate? Is there clear identification of who is best placed to manage risk?
- What escalation and reporting routes are in place for risk governance?
- What contingency planning will the provider undertake, and what contingency planning are you putting in place? Consider both temporary and long-term failure/default, with arrangement proportional to the business impact or the difficulty in moving to a new service provider. Does the service provider’s contingency plan integrate with the Council’s own contingency plans?
- Have you diarised your tracking of the on-going financial health of the service provider, any guarantor and/or any key sub-contractors.

4. Partnership Risk

Partnership working and joint arrangements are playing an increasingly important and practical role in helping local authorities, including Crawley Borough Council, to maintain service and financial resilience. In this context the term partnership working involves achieving objectives by co-operation.

Examples of partnership working include:

- Joint commissioning with other public bodies
- Joint management teams
- Joint provision with other local authorities
- Joint ventures with the public sector
- Partnerships and joint ventures with the private sector
- Local authority companies, social enterprises and trusts

Partnership working can bring many benefits, but can also carry significant risks. It is therefore imperative that, as part of the process of setting up partnerships, that relevant risks are identified, shared and a risk management plan agreed.

In Crawley partnerships are for the most part shared service arrangements (where there may be a contract in the form of an inter-authority agreement) where in reality rights aren’t typically going to be enforced in a legal way, so having good governance arrangements is more important than in a commercial arrangement. Unlike commercial contracts, where consideration is given upfront as to how long the relationship will last, in a shared service environment, the duration of arrangements are more long-term, and so having a review function to make sure that the shared service is still fit for purpose and working for all partners is probably more important.

The key questions to consider are:

- What are our objectives?
- What will stop us from achieving them?
- What mitigating factors can we apply?

Clear reference should be made as to which partner has responsibility for each risk, control and improvement plan. In joint working (shared services), certain responsibilities are held by the lead authority. If it is not clear who the lead authority is (e.g. in a consortium) or where the lead may change depending on the activity (e.g. in a Community Safety Partnership) there should be a clear understanding between the partners of who is responsible for what and, ideally, that agreement should be recorded.

The Council's objective for being involved in the partnership can be identified by undertaking it as part of a strategic risk exercise. It should address how the terms of the partnership deal with risk allocation, seek assurance that the partners understand risk management and consider how robust the partnership is. Risk management may have a direct effect on resource requirements and all parties need to agree on the allocation of risk. The control of some risks will be in the hands of partners and the Council will need to have a means of assurance that the risk is being suitably managed. The choice of partner at the outset might be the Council's main control but monitoring and break clauses can provide ongoing assurance.

Risk Management Arrangements: Roles and Responsibilities **Appendix 1**

Councillors	**All Councillors** • Apply principles of risk management in all aspects of their functions/duties • Ensure that risks have been considered during all decision making	**Cabinet** • Oversees effective risk management across the Council and ensure that key risks are identified, managed and monitored • Ensures that key risks within their portfolio are effectively managed through discussions with Senior Managers • Are proactive in raising risks from the wider Crawley area and community	**Audit Committee** • Ensures that an effective Risk Management Strategy is in place and implemented • Approves major changes to the Risk Management Strategy • Regularly reviews the effectiveness of the Council's risk management strategy and overall arrangements • Ensures an appropriate challenge is provided to risks identified

Management Teams	**The Corporate Management Team (CMT)** • Implements and drives policies on risk across the Council • Ensures the Risk Management Strategy is regularly reviewed • Annually carries out a strategic risk and issues assessment and review of the risk tolerance level • Sets priorities for dealing with unacceptable risk and significant improvable risks • Considers proposals for additional funding for risk control measures • Ensures that regular and appropriate risk management briefings are made to Cabinet Members • Ensures that risk is an integral element of decision making • Oversees departmental risks and ensures they are being actively managed with appropriate controls in place and working effectively	**Corporate Projects Assurance Group (CPAG)** • Monitors and manages strategic and significant risks and ensures improvement plans are adequate and managed effectively • Supports a framework of corporate controls to manage risks across the Council	**Service Managers** • Has responsibility for the identification, assessment, management and control of all risks arising out of the activities, assets and resources under their authority • Documents risk assessment and controls i.e. maintain their Operational Risk Register • Ensures that risk, including project and procurement risk, is effectively managed within their departments and across service areas as a whole. • Regularly reviews and reports on risks as part of the business review and monitoring process • Identifies partnership and contract arrangements where the risk is shared and ensures that these are managed appropriately • Provides information to the Insurance Officer on new assets, liabilities, significant risks and other matters on request to enable the insurance programme to be put in place and maintained • Provides information to the Insurance Officer on risk incidents, accidents and losses so that any insurance claim may be made and post-incident analysis carried out • Regularly reports and offers appropriate assurance on management of risks within the Council

Staff	**Project Managers** • Identify and assess risks arising from any new or proposed projects in line with the Council's Project Management Approach • Document all risk assessments and put controls in place to eliminate or reduce risks to a manageable level • Identify partnership or contractual arrangements where the risk is shared and ensure that these are effectively managed • Consider high project risks, where relevant, for inclusion in the Operational Risk Register **All Staff** All staff have a responsibility for managing risks effectively within their own work and area of authority, and to report risks to management	**Insurance** Insurance will sometimes be an appropriate control for financial risks. The Head of Corporate Finance / Chief Accountant, together with the Insurance Officer will: • Consider how insurance should be funded • Manage the operation of any internal insurance fund • Review insurance policies and new exclusions and assess their impact on the internal insurance fund • Review the Council's insurance renewal strategy • Determine the most economic balance between self-retention and Insurance purchase

Categories of Risks[1] **Appendix 2**

The risk categories are neither prescriptive nor exhaustive; they however provide a framework for identifying and categorising a broad range of risks facing each service.

1. Strategic Risks

Strategic risks are risks to be taken into account in judgements about medium to long-term goals and objectives of the Council.

- **Political:** those associated with a failure to deliver either local or central government policy, or to meet the local administration's manifesto commitments
- **Economic:** those affecting the Council's ability to meet its financial commitments, including internal budgetary pressures, the failure to purchase adequate insurance, inadequate reserves or the consequence of investment decisions
- **Social:** those relating to the effects of changes in demographic, residential or socio-economic trends on the Council's ability to deliver its objectives
- **Technological:** those associated with the Council's capacity to deal with the pace/scale of technological change, or its ability to use technology to address changing demands. They may also include the consequences of internal technological failures on the Council's ability to deliver its objectives
- **Legislative:** those associated with current or potential changes in law (e.g. TUPE[2] Regulations, Health and Safety Regulations, Human Rights Act, Freedom of Information, Data Protection etc.)
- **Environmental:** those relating to the environmental consequences of progressing the Council's strategic objectives (e.g. energy efficiency, pollution, recycling, landfill requirements, biodiversity, emissions etc.)
- **Competitive:** those affecting the competitiveness of the service (in terms of cost or quality) and/or its ability to deliver best value
- **Customer/Citizen:** those associated with the failure to meet the current and changing needs and expectations of customers and citizens

Managing strategic risk is a core responsibility for Senior Managers in close liaison with elected Councillors. Strategic risk assessments should be undertaken as part of the corporate and service planning process, and as a key element of service reviews. Strategic risk assessment draws on techniques such as group assessment, brainstorming and SWOT[3] or PESTLE[4] analysis.

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[1] Audit commission – Worth the Risk: Improving Risk Management in Local Government
[2] Transfer of Undertakings (Protection of Employment) Regulations relating to the possible transfer of staff terms and conditions when in-house work is transferred to an external contractor.
[3] SWOT – Strengths, Weaknesses, Opportunities and Threats
[4] PESTLE – Political, Economic, Social, Technological, Legislative and Environmental.

2. Operational Risks

Operational risks are risks that managers and staff will encounter in the daily course of their work.

- **Professional:** those associated with the particular nature of each profession (e.g. social work service concerns over children at risk; housing service concerns as to the welfare of tenants)
- **Financial:** those associated with financial planning and control and the adequacy of insurance cover
- **Legal:** those related to possible breaches of legislation
- **Physical:** those related to fire, security, accident prevention and health and safety (for example, hazards/risks associated with buildings, vehicles, plant and equipment, etc.)
- **Contractual:** those associated with the failure of contractors to deliver services or products to the agreed cost and specification
- **Technological:** those relating to a reliance on operational equipment (for example, IT systems or equipment and machinery)
- **Environmental:** those relating to air, land and water pollution, noise, biodiversity (which includes the protection of habitats and wildlife), or the energy efficiency of ongoing service operations

3. Organisational Risks

Organisational risks relate to the reputation and tools of the Council such as people, information and corporate governance.

Risk Assessment Criteria **Appendix 3**

Risk assessment categorises risk according to impact and probability and results in a total risk score. Risks are assessed on both inherent risk level (no controls in place) and residual risk level (after controls).

1. Impact Criteria

Risk Level		Financial[5]	Service	Reputation[6]
5	**Catastrophic**	>£1m	Total service failure	National publicity more than 3 days. Resignation of leading Member or Chief Officer
4	**Major**	£500k - £1m	Serious disruption to service	National public or press interest
3	**Moderate**	£50-500k	Moderate disruption to service	Local public/press interest
2	**Minor**	£5k-£50k	Some minor impact on service	Contained within service
1	**Insignificant**	<£5k	Annoyance but does not disrupt service	Contained within business unit

N.B: The overall score should be weighted in favour of the highest score in either financial, service or reputational impact. This will include health and safety considerations under 'reputation'.

2. Probability Criteria

Risk level		Description
5	**Highly probable**	Expected to occur in most circumstances (>80%)
4	**Probable**	Will probably occur in most circumstances (>50% to 80%)
3	**Likely**	Fairly likely to occur (>20%-50%)
2	**Possible**	Could occur at some time (>5%-20%)
1	**Remote**	May occur only in exceptional circumstances (0%-5%)

The scores are calculated as follows to make up the total risk score:

Total risk score = Impact x probability

Risk Management Assurance Framework **Appendix 4**

The Risk Management Assurance Framework aims to give the Council assurances that controls defined for those risks included in the Strategic Risk Register are in place and operate effectively.

Controls in place will be assessed for their effectiveness by the Corporate Governance and Strategy Team during the quarterly review of the Strategic Risk Register.

A gap in assurance will be deemed to exist where there is no evidence that there are controls in place, or that they are effective. Whenever a gap in assurance is identified, an action must immediately be put in place and allocated to an owner.

Where controls exist, levels of assurance will be attributed to them during the review process. Levels of assurance to be applied are:

Assurance Level	Details
Level 1: None	There is no evidence to support the effectiveness of the control and/or based on evidence the control is completely ineffective
Level 2: Limited	The control is appropriately designed, however it is not consistently applied resulting in it being ineffective and inefficient
Level 3: Adequate	The control is working effectively but there is scope for improvement to make it more efficient to reduce the cost of mitigation
Level 4: Substantial	The control is working effectively and efficiently

The Council aims to obtain an assurance level 3 in all cases, depending on the severity of the risk in terms of impact on the Council. A substantial level of assurance needs to be obtained for risks with higher impact, as determined by management.