South Staffordshire Council

(Draft) Risk Management Strategy

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APPENDIX 1 – RISK STRATEGY REPORT

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APPENDIX 1 – RISK STRATEGY REPORT

1. Introduction

Risk management underpins all parts of our daily lives and decision-making. From choosing to insure our homes and vehicles, taking an umbrella just in case right through to making decisions related to our work that requires resource management, political decision-making and compliance with policy and legislation.

Effective risk management is a key characteristic of a strong, high performing organisation. It allows us to identify and plan for known threats to the delivery of community, corporate and service delivery priorities.

This document supersedes the 2019 Risk Strategy and follows an extensive and independent review of the Council's risk management control processes, its application in day-to-day delivery and an understanding of wider organisational awareness.

Risk management and this Strategy provide a proactive, management tool to help and support the Council to achieve the ambitions set out in its Council Plan 2024.

Risk can be defined as **'the possibility of loss, damage or any other undesirable event'** or…

'the effect of uncertainty on objectives, whether positive or negative'.

Risk Management is the process by which we aim to reduce the **likelihood** of a risk happening and/or minimise the **impact** of such an event if it did.

Accepting that it is rare for risk to be entirely eliminated, Risk Appetite is defined as 'how much risk the organisation is willing to tolerate in pursuit of its strategic objectives' and therefore helps to determine the level of control and further mitigating actions that are required.

Risk, risk management and risk appetite are covered in more detail throughout this Strategy document.

2. Why Risk Management is important

2.1 The international Framework for Good Governance, first published in July 2014, identifies risk management as one of its seven pillars of good governance. Specifically, and in addition to acting in the public interest, "achieving good governance in the public sector requires":

Managing risks and performance through robust internal controls and strong public financial management.

2.2 Effective risk management can deliver a number of organisational benefits:

- **Improved strategic management and decision-making**
  - Greater ability to deliver against Plans, Priorities and Objectives
  - More informed decision-making
- **Improved operational management and customer service**
  - More informed, operational decision-making
  - Reduction in interruptions to service delivery
  - Minimised impact of the consequences of a risk event having occurred
  - Improved health and safety of those employed, and those affected, by the Council's delivery of services
  - Minimal service disruption to customers and a positive impact on the reputation of the Council overall.
- **Improved financial management**
  - Better informed financial decision-making
  - Enhanced financial control
  - Reduction in the financial costs associated with the impact of service interruption, litigation.

2.3 Risk management is also important because it helps the Council meet a number of legal requirements:

- The Accounts and Audit Regulations (2015) makes the Council "responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes effective arrangements for the management of risk."

- The Health and Safety at Work Act 1974 states that "Employers must, so far as reasonably practicable, conduct their activities so as to ensure that people other than their employees, for example, members of the public, are not exposed to risks to health and safety."

- The Civil Contingencies Act 2004 sets out that the Council has a duty that it has "an accurate and shared understanding of the risks they face so that planning has a sound foundation and is proportionate to the risks."

3. Risk Management Strategy: objectives and principles

3.1 The Council's Risk Management Strategy is designed to promote and apply best practice in identifying, evaluating, controlling and communicating risks to ensure that any residual risks are at an acceptable level.

3.2 Acknowledging that it is not possible to eliminate risk absolutely, the Council actively promotes and applies this best practice at all levels and to all its activities, including its work with external partners.

Objectives

3.3 South Staffordshire Council has six key objectives that guide our approach to Risk Management:

1. Adopt a strategic approach to risk management in order to make well-informed decisions.
2. Integrate risk management into how we run Council services and deliver key projects.
3. Support a culture of well measured risk taking throughout the Council including setting risk ownership and accountabilities.
4. Accept that even with good risk management and our best endeavours things can go wrong. We will learn lessons where this happens.
5. Ensure that the Council continues to meet all statutory and best practice requirements in relation to risk management.
6. Ensure that risk management continues to be a key and effective element of our corporate governance.

Benefits

3.4 By delivering against the objectives of our approach to Risk Management, the Council will deliver the following benefits:

- Integrate risk management into the day-to-day workings of the Council and project management.
- Integrate the management of risk into the management of finances, performance and throughout decision-making protocols.
- Balance risk and reward in relation to business cases, projects and commercial decision making and investment decisions.
- Manage risk in accordance with best practice and apply the Plan-Do-Check-Act cycle at a regular frequency.
- Anticipate and respond to changing social, environmental and legislative requirements.
- Prevent injury, damage and losses and reduce the cost of risk.
- Raise awareness of the need for risk management by all those involved with the delivery of council services.

3.5 These objectives and the associated benefits will support the following outcomes:

- Improved strategic management:
  - Greater ability to deliver against corporate objectives and targets
  - Improved decision making, planning and prioritisation
- Improved operational management:
  - Plans in place to respond to incidents when they occur
  - Better service delivery

- Improved financial management:
  - Better informed financial decision making
  - Greater financial control
  - Minimising waste and improving Value for Money
- Improved customer service:
  - Service disruption to customers, and other key stakeholders, minimised.

4. Risk Appetite

4.1 Accepting that it is rare for a risk to be entirely eliminated, risk appetite is defined as 'how much risk the organisation is willing to tolerate in pursuit of its strategic objectives'. Understanding appetite for the organisation or activity being undertaken is a critical consideration in determining the management and mitigation of any risks that are present.

4.2 South Staffordshire Council categorises its risk appetite across five distinct levels:

1. Zero/Minimal – avoiding risk altogether
2. Cautious – preferring ultra safe/low risk options
3. Balanced – preferring safe/relatively low risk options
4. Enquiring – willing to consider all potential options
5. Entrepreneurial – innovating, exploring options that carry greater risk but potentially higher reward.

4.3 Generally, as with most organisations, a balanced approach to risk taking would apply. However, it is normal, and perfectly acceptable, across different disciplines to have a variation in risk appetite. For example, Legal and Finance would be more likely to operate at the zero or cautious end of the scale, reflecting the need for legislative and regulatory compliance; whereas Economic Development may operate with a more enquiring or even entrepreneurial appetite, investing to achieve a greater reward or return, but accepting a higher degree of risk in doing so.

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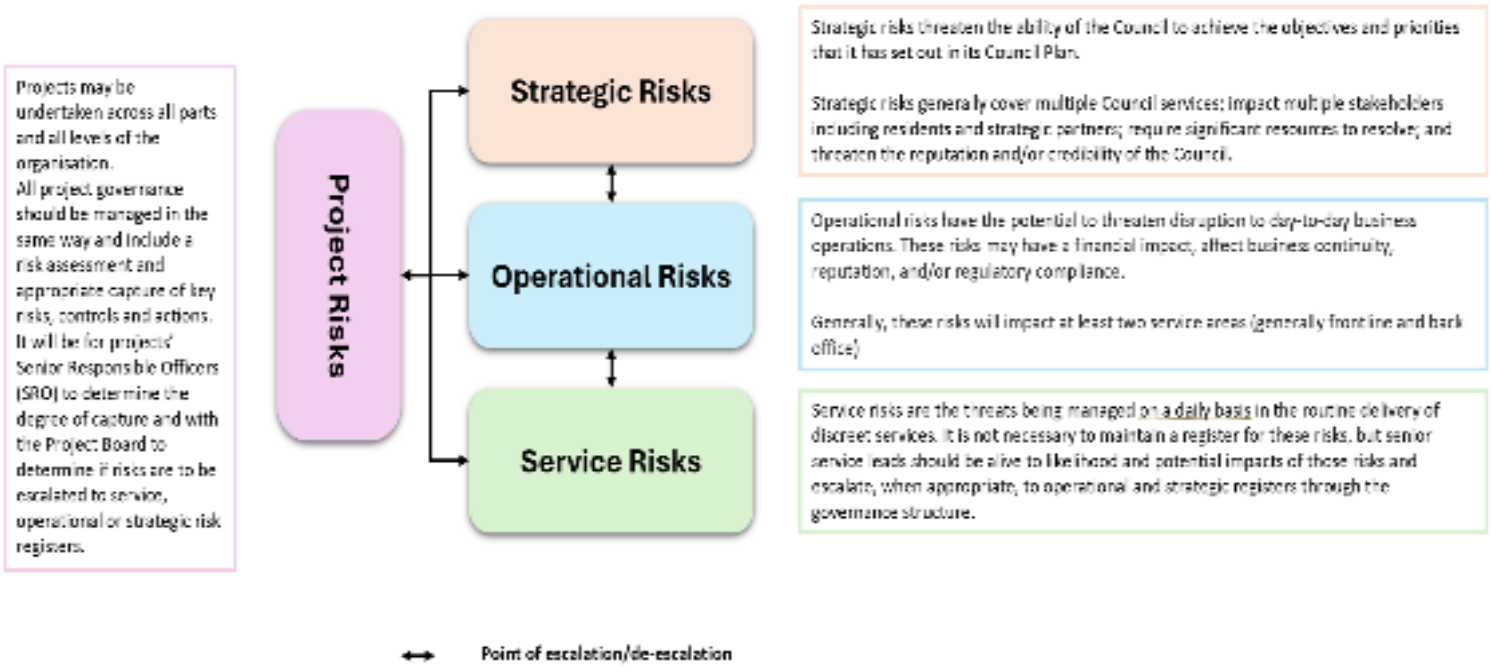
5. Strategic, Operational, Service & Project Risks

5.1 As outlined in the diagram below, the Council's risk management framework is split into strategic, operational, service and project risks. All four types of risk are linked, through the framework hierarchy, and individual risks can be escalated or de-escalated based on the likelihood of occurrence or potential impact should they become issues.

5.2 Generally, the following definitions apply:

- Strategic risks – are the those that threaten the delivery of the Council's strategic objectives as set out in the Council Plan
- Operational risks – are those that impact the delivery of operational/directorate plans
- Service risks – are those that impact day to day business as usual delivery. They may not require a risk register, but are controlled through rules, process and/or ICT system fail safes.
- Project risks – need to be considered on an individual basis and, depending on the size of that project, may impact strategic and/or operational objectives and plans. All projects should be managed through a consistent system of governance that includes risk identification and management.

5.3 Movement (up or down) between risks registers needs to be clearly governed and should form part of the regular risk reporting to the Corporate Leadership Team (CLT) and the Audit & Risk Committee.



6. Roles & Responsibilities

Risk management is part of all stakeholders' roles and responsibilities. The definitions associated with each role within the process have been determined on the basis of:

- **Empowerment** – ensuring that individuals are equipped to manage risks based upon their professional knowledge and expertise, at the right level of the organisation and within the overall process
- **Responsibility** – risks are owned and led by the most appropriate person, with a clear understanding of the expectations placed upon them
- **Accountability** – that individual role holders are held accountable for the effective delivery/management of those risks within their control.

Group	Role	Responsibilities
Cabinet	Has overall ownership of the Council's Risk Management Strategy and effective oversight of risk registers and risk management.	• To monitor the Council's Strategic Risk Register and significant operational risks and gain appropriate assurances that risks are being effectively managed and that the organisation is safe.
Audit & Risk Committee	Under the terms of the Council's Constitution, the role of the Audit and Risk Committee is to provide independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes	• To promote risk management and its benefits in the context of delivery of the Council Plan. • To receive regular reports on and challenge the operational approach to risk management. • Where relevant, to hold risk owners to account for their risks. • Where warranted, to commission deep dives into the management of individual risks. • To review and approve, for signature, the Annual Governance Statement. • To make recommendations on improvements to the Council's wider control environment and associated risks.
Corporate Leadership Team (CLT)	To determine overall risk appetite and be collectively accountable for the Council's comprehensive corporate Risk Management	• To determine the appropriate level of corporate risk appetite,

Group	Role	Responsibilities
	Strategy and ensuring that robust arrangements for the identification, management and mitigation of risk is in place.	for agreement with Audit & Risk Committee. • To challenge and review the effectiveness of the Risk Management Strategy and associated arrangements. • To hold risk owners and/or leads to account for the management of strategic and operational risks. • To receive regular monitoring reports on strategic and significant operational risks. • To decide when operational risks become strategic risks and vice versa • To agree the closure of redundant strategic and/or operational risks • To determine where further mitigating actions are required. • To ensure effective training is in place and delivered for officers and Members
Risk Owner (Accountable Person)	To be the accountable person, to those charged with governance, for those risks assigned to them.	• To challenge, review and monitor their risks in dialogue with the Risk Lead. • To be accountable to CLT, Audit & Risk Committee or other forum, as appropriate, for the identification, reporting and on-going management of assigned risks. • To identify when operational risks should be escalated, via CLT, to the strategic risks • To champion risk management as a positive, proactive tool within their area(s) of responsibility.

Group	Role	Responsibilities
Risk Lead	Reporting to the Risk Owner but with responsibility for the day-to-day management of the risk(s) associated with their area of responsibility. Further, ensuring that monitoring, controls reviews and the completion of further mitigating actions is completed within approve timescales.	• To undertake agreed actions in order to mitigate their assigned risks. • To commit to reporting progress to agreed standards and within appropriate timescales to the accountable officer. • To operate as risk owner in the absence of the designated risk owner.
Project Managers	To develop, review and update project risk registers in accordance with the Council's project management approach.	• To develop and maintain a Project Risk Register. • To escalate risks where necessary.
Team Managers		• To include risk management and relevant operational risk registers as a standing agenda item on all team meetings. • To facilitate the time, for officers under their supervision, to undertake appropriate training
All Staff	To understand the importance of risk management in the context of their role.	• To undertake risk awareness/management training as mandated by management. • To understand their individual contribution to mitigating the Council's exposure to relevant risks. • Participate in the identification, assessment and management of risk. • Report incidents, accidents, 'near misses' and other concerns.
Internal Audit	To provide independent assurance, through the delivery of a risk-based Plan, as to the effectiveness of risk management and the controls in place to mitigate key risk areas.	• To provide independent assurance on the Council's control environment including its management of risk. • To periodically provide assurance on the management of risk across the Council

Risk Champions/Coordinators

The Institute of Risk Management identifies risk champions as an officer and/or, in a Local Authority setting, an elected Member of the Council who do not have risk management as a primary responsibility. Champions are an extension of the risk management function and can communicate risk information and influence risk culture and behaviours.

The role of the risk champion/coordinator can vary but could include:

- Providing feedback on an employee's or Member's view of the risk management process
- Supporting identification and reporting of risk
- Ability to identify blockers
- Communicating the risk management vision to staff
- Acting as a subject matter expert in certain disciplines
- Acting as a "translator" between risk management and operational service delivery and/or political decision-making
- Building a risk-aware culture within the organisation including appropriate education
- Providing guidance on the best way to implement risk management in specific areas of the business and at what pace.

7. Arrangements for Managing Risk

7.1 Building upon our 2019 Risk Strategy, the Council has evolved its process for managing risk into a new six-step process that reinforces South Staffordshire as a learning organisation and increases individual and collective accountability for the management of risk.

1. Step 1 is the **identification and recording** of risks. An initial judgement on where in the risk hierarchy a new risk will sit will need to be taken based upon the broad definitions in section 4 and taken through the appropriate governance route as identified within the roles and responsibilities section.

   Risks should be captured in the agreed format and include an assessment of the cause and effect of the risk together with a consideration of the gross risk score. The gross risk score is an assessment of the probability and impact of a risk occurring with no controls in place.

2. Step 2 (New 2024) is the **allocation of accountability and responsibility**. Identifying risk ownership and using reporting and governance mechanisms to hold individuals to account is a positive way of raising risk profiles, empowering the development of controls or further mitigating actions and ultimately contributes to lowering the organisation's exposure to risk.

   To reinforce the importance of risk management, to provide clear accountability and to ensure risk is managed at the appropriate level it is proposed that a risk owner and a risk lead is identified for all strategic and operational risks.

3. Step 3 **analyse and assess the risk** should be undertaken using a standardised process and moderated at the appropriate level of the organisation. Analysing in this way provides a degree of consistency, a more meaningful picture of risk exposure and clear identification of wider dependencies/interdependencies. More details on the process of scoring and reporting risks is detailed within section 8.

4. Step 4 **responding to the risk** is about how the risk owner/risk lead identify current controls, develop/action further mitigation to reduce the risk to a level that is acceptable to the organisation.

   Responding to risk is not necessarily about removing the risk altogether but managing to an acceptable level. Sometimes the options to managing risk are referred to as the 4Ts:

   Transfer – move the management or impact of the risk, through insurance, as an example.
   Tolerate – accept the risk as is because further control may be too costly or difficult to achieve.
   Treat – devise strategies, controls and mitigations to reduce the risk to an acceptable level
   Terminate – cease the activity that is exposing the organisation to the risk.

5. Step 5 is **monitor and report**. The monitoring and reporting of risks is a critical step in keeping the organisation safe, informing effective decision-making and supporting the organisation to achieve its ambitions and objectives. Reporting should be standardised across all risks and should enable those charged with governance to understand the wider

risk landscape, not just one part of it. The Council has now enhanced its strategic risk reporting by including a summary of the highest scoring operational risks.

6. Step 6 **integrating learning** is about ensuring that we reflect, develop an understanding of what is working well, what can be improved and using challenge as a positive management tool to support wider, individual, risk strategies.

   It is also about identifying where specific training and/or support needs to be directed and providing commitment to make this happen.

8. Risk Monitoring

8.1 Having identified the risk and those responsible for managing it (our risk owners and risk leads), it is then important to determine the level of risk that the Council is exposed to. Answers to this will determine if risks are strategic, operational, service and/or project. To do this we use a 5 x 5 matrix to assess the likelihood of a risk becoming an issue and the impact that it would have on the organisation. As part of this process, we identify three risk scores:

- **Gross Risk** – this is the level of risk exposure with no controls in place
- **Net Risk** – this is the level of risk taking into account the current associated controls/mitigations
- **Target Risk** – is the level of risk the Council would like to mitigate to and may consider the delivery of any further mitigating actions.

Risk Scoring Matrix

Risk	Impact				
Likelihood	Insignificant (1)	Minor (2)	Moderate (3)	Major (4)	Catastrohpic (5)
Almost Certain (5)	5	10	15	20	25
Probable (4)	4	8	12	16	20
Likely (3)	3	6	9	12	15
Possible (2)	2	4	6	8	10
Rare (1)	1	2	3	4	5

Key to risk management action level	Tolerable Risk/Low Priority	Medium Priority	High Priority

8.2 Risk analysis and scoring relies, to a certain extent, on a subjective assessment of that risk, drawing on knowledge, experience and professional judgement. However, to assist with this process a summary of key likelihood and impact considerations are provided below:

Likelihood

Score	Description	Characteristics
5	Almost Certain	• Is expected to occur in most circumstances • Will undoubtedly happen, possibly regularly such as annually • Is imminent
4	Probable	• Will probably occur in most circumstances • Will probably happen, but not on a regular basis • Has occurred previously
3	Likely	• Could occur in certain circumstances • May happen occasionally • Has happened in other locations, has impacted other local authorities and/or partners
2	Possible	• May occur only in exceptional circumstances • Not expected to happen, but is possible • Not known in this particular activity or scenario
1	Rare	• Is never likely to occur • Very unlikely this will ever happen

Impact

Score	Description	Characteristics
5	Catastrophic	Risks which can have a catastrophic effect on the operation of the Council or service. This may result in critical financial loss, severe service disruption or a severe impact on the public, for example: • Unable to function without aid of Government or other external Agency. • Inability to fulfil obligations. • Medium to long-term damage to service capability. • Severe financial loss - supplementary estimate needed which will have a catastrophic impact on the Council's financial plan and resources are unlikely to be available (>£1m uninsured loss). • Death. • Adverse national publicity - highly damaging, severe loss of public confidence. • Litigation certain and difficult to defend. • Breaches of law punishable by imprisonment.
4	Major	Risks which can have a severe effect on the operation of the Council or service. This may result in major financial loss, major service disruption or a significant impact on the public, for example: • Significant impact on service objectives. • Short to medium-term impairment to service capability. • Major financial loss - supplementary estimate needed which will have a major impact on the Council's financial plan (>£500k uninsured loss). • Extensive injuries, major permanent harm, long-term sick. Major adverse local publicity, major loss of confidence. • Litigation likely and may be difficult to defend. • Breaches of law punishable by fines or possible imprisonment
3	Moderate	Risks which have a noticeable effect on the services provided. Each one will cause a degree of disruption to service provision and impinge on the budget, for example: Service objectives partially achievable. Short-term disruption to service capability. Significant financial loss - supplementary estimate needed which will have an impact on the Council's financial plan (>£250k uninsured loss). Medical treatment required, semi-permanent harm up to one year. Some adverse publicity, needs careful public relations. High potential for complaint, litigation possible.

Score	Description	Characteristics
		Breaches of law punishable by fines only.
2	Minor	Risks where the consequences will not be severe and any associated losses will be minor. As individual occurrences, they will have a negligible effect on service provision. However, if action is not taken, then such risks may have a more significant cumulative effect. For example: • Minor impact on service objectives. • No significant disruption to service capability. • Moderate financial loss - can be accommodated at service level (>£100k uninsured loss). • First aid treatment, non-permanent harm up to one month. • Some public embarrassment, no damage to reputation. • May result in complaints/litigation. • Breaches of regulations/standards.
1	Insignificant	Risks where the consequences will not be severe and any associated losses will be relatively small. As individual occurrences, they will have a negligible effect on service provision. However, if action is not taken, then such risks may have a more significant cumulative effect. For example: • Minimal impact, no service disruption. • Negligible impact on service capability. • Minimal loss - can be accommodated at service level (<£10k uninsured loss). • No obvious harm/injury. • Unlikely to cause any adverse publicity, internal only. • Breaches of local procedures/standards.

8.3 To support the management of risk, and to provide a consistency of approach across all risks being managed, the Council has developed a standard template for all of its risk registers. The revised registers include a link to the Corporate Plan objectives being threatened by the risk and clearly identify risk accountability with the inclusion of both risk owners and risk leads. The layout is shown below:

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Strategic Risk Register

Risk Register Completed:
Date of Revision:

								Gross score					Current				Target score		
Risk Title	Risk No.	Corp Plan Priority	Risk Owner	Risk Lead	Risk in Full	Cause	Effect	Likelihood	Impact	Total Score = L*I	Current Mitigating Controls	Likelihood	Impact	Total Score = L*I	Planned Risk Actions	Likelihood	Impact	Total Score = L*I
										0				0				0
										0				0				0
										0				0				0
										0				0				0
										0				0				0

Owner Key:

Lead Key:

8.4 At appropriate levels of the risk hierarchy, see section 4.3, the reporting of risk to those charged with governance needs to be clear, should be a call to action, not just for information, and any agreed actions should be tracked from meeting to meeting.

Particularly for the Leadership team and Audit & Risk Committee, it is important the highest scoring operational risks are also reported alongside strategic risks. This information may allow a wider understanding of those risks impacting operational delivery but contained within directorate or service areas.

Given that an escalation of an operational risk in likelihood and/or impact may result in an additional strategic risk, it is proposed that the highest scoring operational risks will be included within a revised reporting template. An example is shown below:

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Reporting Template

Strategic Risks

Risk Name:		Risk Owner:	
Corporate Priority(ies):		Risk Lead:	
Risk Ref:	Last Updated:	Committee:	
Risk Description:		Risk Scoring	
		Likelihood	0
		Impact	0
		Overall	0
		Direction of Travel	
Interdependencies (Potential Impacts):			
Key Mitigating Controls:			

DoT Key:	
Worsening	↑
Improving	↓
Neutral	↔

Further Mitigating Actions:	Milestone Dates:

Highest Scoring Operational Risks

Risk Name:		Risk Owner:	
Corporate Priority(ies):		Risk Lead:	
Risk Ref:	Last Updated:	Committee:	
Risk Description:		Risk Scoring	
		Likelihood	0
		Impact	0
		Overall	0
		Direction of Travel	

Risk Name:		Risk Owner:	
Corporate Priority(ies):		Risk Lead:	
Risk Ref:	Last Updated:	Committee:	
Risk Description:		Risk Scoring	
		Likelihood	0
		Impact	0
		Overall	0
		Direction of Travel	

9. Training & Development

9.1 Risk management cuts across everything that the Council does. Organisational development and training should encompass risk awareness, as a minimum. More detailed risk management training should be carried out for those who are or likely to be risk owners and risk leaders.