

Risk Management **Policy**

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Version control

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1.0 Introduction

1.1 Risk is unavoidable and is part of all our lives. As an organisation, we need to take risks to grow and develop. Risk management involves understanding, analysing and addressing risks to make sure the organisation achieves its objectives. Successful risk management can make a council more flexible and responsive to new pressures and external demands. It allows an organisation to deliver services better and to meet the needs and expectations of its community in what is a fast changing and dynamic environment. The benefits of successful risk management include improved service delivery, financial performance and corporate governance.

1.2 This policy explains Lancaster City Council's approach to risk management and the framework that will operate to establish and drive an effective system not only to minimise risk but also to enable continuous improvement at every level of the organisation.

2.0 Scope

2.1 This policy applies to all staff, the council's elected Members and all working groups and partnerships. The responsibilities of these groups and the individuals within them, for the implementation and the effective management of risk is detailed below.

2.2 This policy and guidance will be reviewed periodically to take account of changing legislation, government initiatives, best practice and experience gained within the council.

3.0 Risk Management Objectives

3.1 The council has identified a number of key risk management objectives that need to be met to ensure a robust risk management framework is embedded across the council; namely:

- Adopt a strategic approach to risk management to make better informed decisions which is vital to successful transformational change;
- Set the 'tone from the top' on the level of risk we are prepared to accept on our different service delivery activities and priorities;
- Acknowledge that even with good risk management and our best endeavours, things can go wrong. Where this happens, we use the lessons learnt to try to prevent it from happening again;
- Develop leadership capacity and skills in identifying, understanding and managing the risks facing the council;
- Integrate risk management into how we run council business/services. Robust risk management processes help us to achieve our core purpose, priorities and outcomes;
- Support a culture of well-measured risk taking throughout the council's business. This includes setting risk ownership and accountabilities and responding to risk in a balanced way, considering the level of risk, reward, impact and cost of control measures;

- Ensure that the council continues to meet all statutory and best practice requirements in relation to risk management; and
- Ensure risk management continues to be a key and effective element of our Corporate Governance arrangements.

4.0 Benefits

4.1 In addition to supporting strategic and operational business planning, if risk management is thoroughly embedded and practices are consistently applied it can bring a number of other key benefits to the organisation, namely;

- Improved service delivery and financial performance, supporting the effective use of the council's resources;
- Improved decision making and budgeting;
- Continuous service improvement; and
- Enhanced communication between staff, Elected Members and partners.

5.0 Definitions

5.1 Risk can be defined as;

“An uncertain event that, should it occur, will have an effect on the council's objectives and/or reputation. It is the combination of the probability of an event (likelihood) and its effect (impact)”.

Risk management can be defined as;

“The systematic application of principles, approach and processes to the identification, assessment and monitoring of risks.”

5.2 By managing our risk process effectively we will be in a better position to safeguard against potential threats and exploit potential opportunities to improve services and provide better value for money.

5.3 Risk management is applied at all levels of service delivery across the council. The council separates risk into two categories;

Corporate Strategic Risks – Risks that could have an effect on the successful achievement of our long term core purpose, priorities and outcomes. These are risks that could potentially have a council-wide impact and/or risks that cannot be managed solely at a service level because higher level support/intervention is needed.

Operational / Service Risks – Risks that could have an effect on the successful achievement of the service or business outcomes / objectives. Potentially these risks could have a significant financial, reputational and/or service delivery impact on the business unit as a whole.

6.0 Risk Management Standards

6.1 A number of standards have been developed worldwide to help organisations implement risk management systematically and effectively. These standards seek to establish a common view on frameworks, processes and practice, and are generally set by recognised international standards bodies or by industry

groups. Risk management is a fast-moving discipline and standards are regularly supplemented and updated.

- 6.2 Despite the publication of the global risk management standard in 2009; ISO 31000, the Institute of Risk Management (IRM) has decided to retain its support for the original 'Risk Management Standard' that was published in 2002 because it is a simple guide that outlines a practical and systematic approach to the management of risk. The standard is not prescriptive i.e. a box ticking exercise or a certifiable process. Instead, the standard represents best practice against which organisations can measure themselves. The council has reviewed this policy against this standard.

7.0 Risk Management Approach

- 7.1 The purpose of the risk management approach outlined in this policy is to:

- ◆ Provide standard definitions and language to underpin the risk management process;
- ◆ Ensure risks are identified and assessed consistently throughout the organisation through the clarification of key concepts;
- ◆ Clarify roles and responsibilities for managing risk; and
- ◆ Implement an approach that meets current legislative requirements and follows best practice and relevant standards.

- 7.2 Before we can identify our risks we need to establish the context by looking at what we are trying to achieve and what our proposed outcomes are. Depending on the area under review, the relevant objectives and outcomes will usually be detailed in existing documents, e.g. council plan, individual services plans, project briefs, partnership agreements etc.

To ensure consistency, the following four steps should be followed when identifying, evaluating, treating / mitigating and reviewing risks;

Step 1 – Identifying risk

Risk identification should be approached in a methodical way to ensure that all significant activities within the organisation have been identified and all risks flowing from these activities have been defined. Many risks will be identified as part of the routine service planning stages where barriers to specific business objectives can easily be recognised. All staff have a duty to report emerging risks to their heads of service / manager as and when they are identified. Risks can arise and be identified when the following events occur:

- the change of internal or external processes;
- staff/councillors leave and/or restructuring takes place;
- through procurement of a new supplier or asset;
- partners change or are re-structured;
- legislation is revised or introduced;
- the social and or economic climate alters; or
- an incident occurs.

To help in the risk identification process a number of common risk assessment techniques/methods can be used, for example, questionnaires, checklists, workshops, brainstorming sessions, audits and inspection reports or flowcharts.

There are several different types of risks that an organisation may face including financial loss, failure of service delivery, physical risks to people, and damage to the organisation's reputation. To act as a prompt and to ensure completeness, a checklist of risk categories has been developed around the acronym '**PERFORMANCE**'. Examples of risks from each category are detailed in the Risk Identification Checklist at Appendix 1.

When describing risks, it helps to display the identified risk in a structured format to ensure a comprehensive risk identification, description and assessment process takes place. The council has developed a corporate format which must be used to identify, evaluate and mitigate risk. Templates can be located on the intranet.

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

Step 2: Analysing and Evaluating risk

In order to analyse and evaluate risks, a thorough risk assessment needs to be undertaken. That is, a detailed analysis of the potential threats faced by the council which may prevent achievement of its objectives. Through consideration of the sources of the risk, possible consequences, and the likelihood of those consequences occurring, it helps make decisions about the significance of risks and whether they should be accepted or treated.

To ensure that a consistent scoring mechanism is in place across the council, risks are assessed using the agreed criteria for likelihood and impact detailed in Appendix 2. When assessing the risk, the highest measure identified in each table is the score taken to plot the risk level on the risk matrix (Diagram 1). Where the likelihood and impact cross, determines the risk level. For example, Possible Likelihood (2) and Very High Impact (4) would result in a risk level of 8.

A "traffic light" approach is used to show high (red), medium (amber) and low (green) risks.

First Risk Score – Inherent (Gross) Risk Score

Following identification of the risk, a score for the gross likelihood and gross impact will be given to the risk as it currently stands, to ascertain the inherent (gross) risk score. The inherent risk score is the score given before any controls or actions are taken to alter the risk's impact or likelihood. This risk score is given to assist Internal Audit when pulling together the Risk Based Audit Plan. Those risks that have scored as 'red' risks will be the risks that Internal Audit will want to ensure are appropriately mitigated and will therefore take priority when the audit plan is produced.

Second Risk Score – Residual Risk Score

Risks are then re-scored to ascertain the residual risk score. This is the score given when taking into consideration any controls already in place and/or any existing actions that are not operating effectively. To ensure resources are focused on the most significant risks, the council's approach to risk management is to focus on the risks that have scored as 'red' or 'amber' on the matrix. This may also be referred to as the council's risk appetite.

The residual risk score will be the deciding factor as to whether further action is required in order to reduce the risk to within the council's 'risk appetite'. It is at this point that a risk response category is assigned by the risk owner to determine what, if any, action is to be taken e.g. reduce or accept the level of risk. (See appendix three for further information on risk response categories).

Any risks that are NOT scored as a 'red' or 'amber' risk, therefore falls below the risk appetite, and will be accepted and kept under review for any significant changes that may increase the risk score. Anything identified as a 'red' or 'amber' risk will take priority and the necessary actions will be taken to mitigate the risk.

Third Risk Score – Target Risk (Retained Risk) Score

If a risk requires further mitigating action in order to reduce the risk score to within a tolerable level, the risk owner needs to set a realistic target score, and develop an action plan which when implemented will reduce the risk to within the target risk score.

Step 3: Treatment and Action Planning

Actions, which will help to minimise the likelihood and / or impact of the risk occurring, are identified for each 'red' or 'amber' risk. A risk owner should be identified for each action.

The authorisation status of any included mitigation action should be maintained such that it is not wrongly considered that the severity of a risk is reduced without the mitigation action forming a part of the implementation of the activity concerned.

Net risks are prioritised by applying the same criteria and matrix used for assessing the gross risk level (Step 2). It is the risk owner's responsibility to ensure that the agreed net risk level for each risk is an accurate reflection of the likelihood and impact measures detailed in Appendix 2.

Not all risks can be managed all of the time, so having assessed and prioritised the identified risks, cost effective action needs to be taken to manage those that pose the most significant threat.

Risk may be managed in one, or a combination of, the following ways:

- Avoid - A decision is made not to take a risk;
- Accept - A decision is taken to accept the risk;
- Transfer - All or part of the risk is transferred through insurance or to a third party;

- Reduce - Further additional actions are implemented to reduce the risk; or
- Exploit - Whilst taking action to mitigate risks, a decision is made to exploit a resulting opportunity.

These are described in more detail in Appendix 3. The managed approach to risk should always be documented in the risk register, for example, after assessment of the risk, a decision may be made to 'transfer' the risk, therefore no further mitigating controls are required. This must be clearly stated in the register to evidence the effectiveness of the evaluation and scoring process. In another example, a decision may be made following assessment, that despite additional controls the residual risk is still too great and that a decision is made to avoid the risk entirely by stopping the activity. Again this must be clearly documented.

Step 4 – Monitoring and Reporting

Risk management should be thought of as an ongoing process and as such risks need to be reviewed regularly to ensure that prompt and appropriate action is taken to reduce their likelihood and/or impact.

Regular reporting enables senior managers and Members to be more fully aware of the extent of the risks and progression being made to manage them. Both strategic and operational risk workshops will be administered by Internal Audit on an annual basis. However, the Grace Risk Management system will encourage risk owners to continually monitor and update identified risks on a regular basis.

In addition, quarterly reminders will be sent to Heads of Service / Managers asking them to consider / add newly identified risks to the system throughout the course of the year.

Progress on high 'red' risks for both strategic and operational risk registers will be reported to the Audit Committee at each of their meetings.

8.0 Risk Registers

8.1 To ensure that the risk registers are comprehensive and accurately reflect the levels of risk within the council, all relevant and available sources of information will be used in their compilation and review, namely:-

- The council's Annual Governance Statement;
- Internal audit reports;
- External audit reports;
- Committee reports / portfolio holder / officer delegation reports;
- Risk Assessments;
- Incident / accident reports;
- Insurance claims and advice from the council's Insurers;
- Complaints; and
- Any relevant articles from risk management publications.

8.2 The Internal Audit and Assurance Team will oversee administration of both strategic and operational risk registers within the Grace Risk Management

system (Grace). However, identified risk owners will ultimately be responsible for monitoring and updating their risk scores and actions plans.

- 8.3 The Grace system will automatically send risk owners with a weekly email reminder of any overdue risk reviews and overdue actions, and Internal Audit will monitor risk movements to ensure that risk owners are updating records as and when required.

Managers are encouraged to amend risk scores or descriptions with the intention of maintaining a culture of openness. However Internal Audit will monitor these amendments to ensure that actions taken e.g. increased or improved control, or another viable explanation e.g. the activity ceases altogether, has been recorded within the system to support the change.

9.0 Roles and Responsibilities

- 9.1 To ensure risk management is effectively implemented, all staff and Members should have a level of understanding of the Council's risk management approach and regard risk management as part of their responsibilities:

All Employees

- ◆ Manage day to day risks and opportunities effectively and report risk management concerns to their line managers;
- ◆ Participate fully in risk workshops and action planning as appropriate; and
- ◆ Attend training and awareness sessions as appropriate.

All Members

- ◆ Support and promote an effective risk management culture; and
- ◆ Constructively review and scrutinise the risks involved in delivering the council's core purpose, priorities and outcomes.

Some individuals and groups have specific leadership roles or responsibilities and these are identified below:

Cabinet

- ◆ Risk manage the council in delivering its core purpose, priorities and outcome; and
- ◆ Consider and challenge the risks involved in making any 'key decisions'.

Audit Committee

- ◆ Provide independent assurance to the council on the overall adequacy of the risk management framework, including review of proposed amendments to the Risk Management Policy prior to its presentation to Cabinet;
- ◆ Review and challenge the content of risk registers;
- ◆ Where appropriate escalate operational risks for possible inclusion on the strategic risk register; and
- ◆ Approve and review recommendations and amendments to the Risk Management Policy.

The Executive Team

- ◆ Champion an effective council-wide risk management culture;

- ◆ Ensure Members receive relevant risk information; and
- ◆ Responsible for owning and managing corporate strategic risks.

Corporate Directors

- ◆ Risk manage their directorate in delivering the council's core purpose, priorities and outcomes;
- ◆ Constructively review and challenge the risks involved in decision making; and
- ◆ The Director of Corporate Services, supported by the Internal Audit and Assurance Manager champion's risk management. It is their responsibility to promote the adequate and proper consideration of risk management to senior managers and more widely within the council.

Heads of Service / Managers

- ◆ Responsible for the effective leadership and management of risk in their service areas to meet service objectives / outcomes in line with the council's risk management framework;
- ◆ With the appropriate risk owner, maintain the relevant risk registers ensuring all key risks are identified, managed and reviewed in line with the corporate risk management approach;
- ◆ Promptly escalate risks appropriately;
- ◆ Encourage staff to be open and honest in identifying risks and opportunities;
- ◆ Ensure risk management process is an explicit part of transformation and all significant projects;
- ◆ Ensure that appropriate resources and importance are allocated to the process; and
- ◆ Provide assurance that the risks for which they are the risk owner are being effectively managed. This will be completed as part of the Annual Governance review process.

Risk Owners

- ◆ Take ownership of the action/s they are responsible for by either confirming the existence and effectiveness of existing actions or ensuring that any further actions are implemented.

Partners

- ◆ Where appropriate participate in the development of a joint partnership risk register;
- ◆ Actively manage risk within the partnership; and
- ◆ Report on risk management issues to partnership boards or equivalent.

Internal Audit

- ◆ Design and facilitate the implementation of a risk management framework ensuring it meets the needs of the organisation;
- ◆ Act as a centre of expertise, providing support and guidance as required;
- ◆ Collate risk information and prepare reports as necessary to both the Executive Team and the Audit Committee;
- ◆ Ensure the Internal Audit work plan is focused on the key risks facing the council;

- ◆ Provide assurance that risks are being effectively assessed and managed;
- ◆ During all relevant audits, challenge the content of risk registers; and
- ◆ Periodically arrange for the independent review of the council's risk management process and provide an independent objective opinion on its operation and effectiveness.

10.0 Embedding Risk Management

10.1 For risk management to be effective and a meaningful management tool, it needs to be an integral part of key management processes and day-to-day working. As such, risks and the monitoring of associated actions should be considered as part of a number of the council's significant business processes, including:

- ◆ Corporate Decision Making – significant risks, which are associated with policy or action to be taken when making key decisions, are included in appropriate committee reports.
- ◆ Business / budget planning – this annual process includes updating the relevant risk registers to reflect current aims / outcomes.
- ◆ Project Management – all significant projects should formally consider the risks to delivering the project outcomes before and throughout the project. This includes risks that could have an effect on service delivery, benefits realisation and engagement with key stakeholders (service users, third parties, partners etc.).
- ◆ Partnership Working – partnerships should establish procedures to record and monitor risks and opportunities that may impact the council and/or the partnership's aims and objectives.
- ◆ Procurement – all risks and actions associated with a purchase need to be identified and assessed, kept under review and amended as necessary during the procurement process.
- ◆ Contract Management – significant risks associated with all stages of contract management are identified and kept under review
- ◆ Insurance – the council's Insurance Officer manages insurable risks and self-insurance arrangements.
- ◆ Health and Safety – the council has specific policies and procedures to be followed in relation to health and safety risks.

11.0 Culture

11.1 The council will be open in its approach to managing risks and will seek to avoid a blame culture. Lessons from events that lead to loss or reputational damage will be shared as well as lessons from things that go well. Discussion on risk in any context will be conducted in an open and honest manner.

12.0 Training and Awareness

12.1 Having documented a robust approach and established clear roles and responsibilities and reporting lines, it is important to provide officers and Members with the knowledge and skills necessary to enable them to manage risk effectively. The Internal Audit Team will use a range of training methods to meet the needs of the organisation. Furthermore, risk management information and templates will be developed and will be available on the intranet to ensure the council can apply a consistent approach when managing risk.

13.0 Summary

13.1 The adoption of this policy and the ongoing efforts to embed sound risk management principles into the council's 'fabric' will improve the way in which services are delivered. A solid, well-documented and comprehensive approach to risk management and its adoption into the decision-making process is good practice, essential to good management and strengthens the council's governance framework.

Check List for Risk Identification (PERFORMANCE)

Political

- ◆ Change in Government policy
- ◆ Member support / approval
- ◆ Political personalities
- ◆ New political arrangements

Economic

- ◆ Demographics
- ◆ Economic downturn - prosperity of local businesses / local communities

Regulatory

- ◆ Legislation and internal policies/regulations including:
 - Health & Safety at Work Act, Data Protection, Freedom of Information, Human Rights, Equalities Act 2010 and Public Sector Equality Duty 2011, Employment Law, TUPE, Environmental legislation etc.
- ◆ Grant funding conditions
- ◆ Legal challenges, legal powers, judicial reviews or public interest reports

Financial

- ◆ Budgetary pressures
- ◆ Loss of/reduction in income/funding
- ◆ Cost of living/inflation, interest rates, increase in energy costs
- ◆ Financial management arrangements
- ◆ Investment decisions, Sustainable economic growth
- ◆ Affordability models and financial checks
- ◆ Inadequate insurance cover
- ◆ System / procedure weaknesses that could lead to fraud

Opportunities/ Outcomes

- ◆ Add value or improve customer experience/satisfaction
- ◆ Reduce waste and inefficiency
- ◆ Maximising independence for older people with disabilities
- ◆ Developing sustainable places and communities
- ◆ Protecting the community and making Lancaster a safer place to live

Reputation

- ◆ Negative publicity (local and national), increase in complaints

Management

- ◆ Loss of key staff, recruitment and retention issues
- ◆ Training issues
- ◆ Lack of/or inadequate management support
- ◆ Poor communication/consultation
- ◆ Capacity issues - availability, sickness absence
- ◆ Emergency preparedness / Business continuity

Assets

- ◆ Property - land, buildings and equipment,
- ◆ Information – security, retention, timeliness, accuracy, intellectual property rights
- ◆ ICT – integrity, security, availability, e-government
- ◆ Environmental - landscape, countryside, historic environment, open space

New Partnerships/ Projects/ Contracts

- ◆ New initiatives, new ways of working, new policies and procedures
- ◆ New relationships – accountability issues / unclear roles and responsibilities
- ◆ Monitoring arrangements
- ◆ Managing change

Customers/ Citizens

- ◆ Changing needs and expectations of customers - poor communication/consultation
- ◆ Poor quality / reduced service delivery - impact on vulnerable groups
- ◆ Crime and disorder, health inequalities, safeguarding issues

Environment

- ◆ Recycling, green issues, energy efficiency, land use and green belt issues, noise, contamination, pollution, increased waste or emissions,
- ◆ Impact of planning or transportation policies
- ◆ Climate change – hotter drier summers, milder wetter winters and more extreme events – heat waves, flooding, storms etc.

Measures of Likelihood and Impact

Diagram 1

Impact	Very High	4	8	12	16
	High	3	6	9	12
	Medium	2	4	6	8
	Low	1	2	3	4
		Unlikely	Possible	Likely	Very Likely
		Likelihood			

Likelihood Measures

	Unlikely 1	Possible 2	Likely 3	Very Likely 4
Probability	Less than 10% chance of circumstances arising	10% to 40% chance of circumstances arising	41% to 75% chance of circumstances arising	More than 75% chance of circumstances arising
Timescale	Is unlikely to occur.	Possible in the next 3 or more years.	Likely to occur in the next 1-2 years.	Occurred in the past year or is very likely to occur in the next year.

Impact Measures

	Low 1	Medium 2	High 3	Very High 4
People / Duty of Care	Low level of foreseeable minor injuries	High level of foreseeable minor injuries Low level of foreseeable serious injuries	High level of foreseeable severe injuries	Foreseeable long-term injury, illness
Financial Impact	Up to £500k Less than 5% over project budget	Up to £2 million 5-10% over project budget	Up to £5 million 11-25% over project budget	Over £5 million More than 25% over project budget
Legal Impact	Minor civil litigation	Major civil litigation and/or local public enquiry	Major civil litigation and/or national public enquiry	Legal action certain Section 151 or government intervention or criminal charges
Service Impact	Short term service disruption	Noticeable service disruption affecting customers	Significant service failure but not directly affecting vulnerable groups	Serious service failure directly affecting vulnerable groups

Project Delivery	Minor delay to project	Significant delay to project	Project fails to deliver target impacting on the service performance	Project fails to deliver target impacting on council's performance
Intervention Required	Intervention by Service Manager, Project Manager or equivalent	Intervention by Head of Service or equivalent.	Intervention by the Executive or Board	Intervention by Boars or Council
Reputation Impact	Short term negative local media attention	Significant negative local media attention	Sustained negative local media attention and/or significant national media attention	Sustained negative national media attention

Risk Response Categories

	Description
Avoid	<p>A decision is made not to take a risk.</p> <p>Where the risks outweigh the possible benefits, avoid the risk by doing things differently e.g. revise strategy, revisit objectives or stop the activity.</p>
Accept	<p>A decision is taken to accept the risk.</p> <p>Management and/or the risk owner make an informed decision to accept that existing actions sufficiently reduce the likelihood and impact of a risk and there is no added value in doing more.</p>
Transfer	<p>Transfer all or part of the risk through insurance or to a third party e.g. contractor or partner, who is better able to manage the risk.</p> <p>Although responsibility can be transferred, in most cases accountability remains with the council, so this still needs to be monitored.</p>
Reduce	<p>Implement further additional action(s) to reduce the risk by;</p> <ul style="list-style-type: none"> • minimising the likelihood of an event occurring (e.g. preventative action) and/or • reducing the potential impact should the risk occur (e.g. business continuity plans) <p>Further actions are recorded in the risk register and regularly monitored.</p>
Exploit	<p>Whilst taking action to mitigate risks, a decision is made to exploit a resulting opportunity.</p>