LANCASTER CITY COUNCIL
Promoting City, Coast & Countryside

Lancaster City Council
Risk Management

A Sense of Proportion

CODE OF PRACTICE FOR MANAGING RISK AND OPPORTUNITY

Version Control

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Document History

Document Title	Version	Reference/ Date	Comments
Risk Management Strategy	3.00	25/6/08	The previous version of the Strategy was accepted by Audit Committee.
‘A Sense of Proportion’ – Code of Practice for Managing Risk and Opportunity.	0.01	12/1/09	First draft of Code of Practice to completely replace the previous Risk Management Strategy, version 3.00. To be considered by RM Steering Group on 6 March 09.
‘A Sense of Proportion’ – Code of Practice for Managing Risk and Opportunity.	0.02	19/3/09	Second draft of Code of Practice. Reviewed following comments of RM Steering Group. The Table of Contents have been re-organised so that there are two separate sections; namely, ‘Strategy’ and ‘Guidance’. This will be considered by PMG on 27 March 09 and then Audit Committee on 22 April 2009.
‘A Sense of Proportion’ – Code of Practice for Managing Risk and Opportunity.	0.03	7/4/09	Roles and Responsibilities (PMG supporting individuals) reviewed by Management Team on 3 April 2009, together with minor amendments by s151 Officer.

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Section A – Risk Management Policy and Strategy

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1. Foreword

1.01 Welcome to the Council's Code of Practice for Managing Risk and Opportunity. This Code of Practice aims to improve the effectiveness of risk management across the Council. Effective risk management allows us to:

- Have increased confidence in achieving our priorities and outcomes
- Constrain threats to acceptable levels
- Take informed decisions about exploiting opportunities
- Ensure that we get the right balance between rewards and risks
- Improve partnership working arrangements and corporate governance

1.02 Ultimately, effective risk management will help to ensure that the Council maximises its opportunities and minimises the impacts of the risks it faces, thereby improving its ability to deliver priorities and improve outcomes for residents.

1.03 This Code of Practice explains Lancaster City Council's approach to risk management, and the framework that will operate to ensure that risks are effectively managed.

2. Introduction

2.01 Risk management is both a statutory requirement and an indispensable element of good management. As such, its implementation is crucial to the Council and essential to its ability to discharge its various functions as a partner within the Local Strategic Partnership, a deliverer of public services, a custodian of public funds and a significant employer.

2.02 This current version of the Council's Risk Management Code of Practice builds on previous versions of the Strategy and has been revised:

- In accordance with the statement that regular reviews would be undertaken
- To further embed good practice in relation to risk management across the Council
- In line with recognised best practice and auditors' expectations

2.03 This Risk Management Code of Practice provides a comprehensive framework and process designed to support members and officers in ensuring that the Council is able to discharge its risk management responsibilities fully. The Code of Practice outlines the objectives and benefits of managing risk, describes the responsibilities for risk management, and provides an overview of the process that we will implement to manage risk successfully.

2.04 Risk Management in Lancaster City Council is about improving the ability to deliver strategic objectives by managing threats, enhancing opportunities and creating an environment that adds value to ongoing operational activities.

2.05 Risk Management is a key part of corporate governance, which is essentially the way an organisation manages its business, determines strategy and objectives, and goes about achieving these objectives. Risk Management will help identify and deal with the key risks facing the Council in the pursuit of its goals. It is a key part of good management and not simply a compliance exercise.

2.06 The benefits of successful risk management include:

- **Improved service delivery**
  Enhanced corporate policies, fewer disasters and surprises, added value across service areas, more targets achieved, improved internal controls, consistent management of risk and opportunities resulting in improved service delivery.

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- **Improved financial performance**
  Higher percentage of objectives achieved, lower level of fraud, increased capacity through reduction in the number of decisions that need reviewing or revising, decreased number and impact of critical risks, better income generation and fewer alterations and losses.

- **Improved human resources management**
  Potentially reduced staff turnover and absenteeism.

- **Improved corporate governance and compliance systems**
  Fewer regulatory visits, fewer legal challenges, and an improved corporate governance statement that is better substantiated and evidenced.

- **Improved insurance management**
  Reduced insurance premiums together with reduced number and level of claims. Reduction in uninsured losses.

2.07 Further advice and assistance on risk management is available from the Risk and Insurance Manager, Financial Services, Lancaster City Council, tel. 01524 582141.

3. Aim and Objectives

3.01 **AIM**

The aim of this Code of Practice is to improve the ability to deliver strategic priorities by managing threats, enhancing opportunities and creating an environment that adds value to ongoing operational activities.

3.02 **OBJECTIVES**

The objectives of this Code of Practice are to:

- Fully integrate risk management into the culture of the Council and into the Council's strategic planning processes.
- Ensure that the framework for identifying, evaluating, controlling, reviewing, reporting and communicating risks across the Council is implemented and understood by all relevant staff.
- Communicate to stakeholders the Council's approach to risk management.
- Improve co-ordination of risk management activity across the Council.
- Ensure that Members, Management Team and external regulators are provided with the necessary assurance that the Council is mitigating the risks of not achieving its objectives, and thus complying with good corporate governance practice.
- Ensure consistency throughout the Council in the management of risk.
- Encourage innovation and improvement through decision-making that is based on a sound awareness of opportunities and risks.

3.03 These objectives will be achieved by:

- Employing a corporate approach to pro-active risk management in accordance with shared best practice;
- Ensuring that officers and elected members have clear accountability for the ownership, control and cost of risk, and the tools to manage them effectively;

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- Adopting a systematic approach to risk management as an integral element of:
  - Strategic planning
  - Business planning
  - Financial planning
  - Performance management
  - Policy making/ review
  - Decision making
  - Project/ programme management
  - Partnerships' governance
  - Operational activities (including Business Continuity Planning)

- Providing effective training and guidance in risk management practices to enable staff to take responsibility for risk within their own working environment;
- Ensuring that reports to support strategic policy decisions and other member decision related documents include a risk assessment that evaluates both threats and opportunities;
- Ensuring that all project initiation documents include a risk assessment that evaluates both threats and opportunities;
- Ensuring that the risk management process specifically identifies risks in relation to partnerships and provides for assurances to be obtained about the management of those risks.

4. Definitions

4.01 This section provides brief definitions of the terms used within this Strategy and the definitions that Lancaster City Council is working to.

4.02 **RISK**

Lancaster City Council's definition of risk is:

"Risk is the probability of an event occurring and its consequences."

4.03 A brief explanation of the key words used in this definition is given below:

- **Probability** - the likelihood of an event occurring,
- **Event** - the occurrence of a particular set of circumstances,
- **Consequences** – outcomes arising from the event. There may be more than one consequence from the same event, and consequences can be both positive and negative.

4.04 **RISK MANAGEMENT**

There are many slightly different definitions of risk management that cover essentially the same points. Lancaster City Council's approach to risk management is based upon best practise and is defined as:

"The process, by which Lancaster City Council manages threats, enhances opportunities and creates an environment that adds value to all its activities."

4.05 The focus of good risk management is the identification and treatment of such risks. It aids the understanding of the potential upside and downside of all the factors that can affect the organisation's ability to deliver its objectives. It increases the probability of success, and reduces both the probability of failure and the uncertainty that the organisation will achieve its overall objectives.

4.06 Risk management should support improved decision making through a good understanding of the risks associated with decisions and their likely impact.

4.07 Risk management should be a continuous and developing process that runs throughout the organisation's strategy and the implementation of the strategy, methodically addressing all risks surrounding the organisation's activities; past, present and future.

5. Scope

5.01 Risk Management is something that everyone within the Council undertakes almost daily, in varying degrees. Although it is difficult to draw clear boundaries around risk management areas because of the cross-cutting nature of risk, risk management within Lancaster City Council falls into five main areas:

- **Business risks**: i.e. risks identified that could prevent the Council achieving its priorities and associated objectives – either top level or operational level.
- **Project/ programme risks**: both physical and strategy related. This area is closely aligned to and may overlap with business risk.
- **Partnership risks**: These too are closely aligned to and may overlap with business risk.
- **Business continuity management**
- **Health & Safety risks**

5.02 The risk management process outlined within this Code of Practice applies primarily to the business, project, and partnership risk management areas but can, where appropriate, be used for any area. All risk areas identified above include high-level/ long-term risks (strategic risks) through to low-level/ day-to-day risks (operational risks).

5.03 All Services are responsible for managing their own risks; however, responsibility for developing and providing support/ advice in the five areas of risk management tends to fall within specific service areas. (See Table 1).

5.04 **Table 1 – Risk Areas**

Risk Area	Service Area
Business Risks	Finance (Risk & Insurance Manager)
Project/ Programme Risks	Planning (Programmes Section)
Partnership Risks	Finance and Corporate Strategy (under development)
Business Continuity Management	Health & Strategic Housing (Civil Contingencies Officer)
Health & Safety Risks	Health & Strategic Housing (Safety Officer function)

BUSINESS RISKS

5.05 The risk management process outlined within this Code of Practice should be used to identify and manage all risks that threaten the Council's ability to deliver its priorities. This should cover both strategic and operational activities. The term 'business' risks relates to any risks that might prevent objectives being achieved at all levels, including:

- Strategic priorities identified in the Corporate Plan and Sustainable Community Strategy.
- Service priorities identified in Services' Business Plans.
- Priorities set out in individual 'team' plans.
- Individual objectives identified in EDPAs (Employee Development and Performance Appraisals).

PROJECT/ PROGRAMME RISKS

5.06 The Lancaster City Council Approach to Managing Projects (LAMP) was approved by Performance Management Group in 2006. Training was then subsequently rolled out to all relevant staff and they were issued with the LAMP Handbook. This handbook provides a corporate project management standard, based on PRINCE2, and includes basic working practices (including risk management) for all stages in a project.

5.07 The LAMP Handbook is for individuals and groups who have any form of involvement with projects, whether as Project Executive, End-Users, Project Managers, Team Members, Suppliers, Stakeholders or other interested parties. It aims to standardise the basic process for project management and achieve a consistency of approach and best practice across all Council services. It also aims to provide new Project Managers with an understanding of the main components required to successfully manage a project throughout the project lifecycle. An ongoing initiative of awareness and training is in place in order to support this method.

5.08 This Code of Practice can be used to enhance the principles risk management introduced in the LAMP Handbook, although it is not intended to supersede it.

5.09 As a separate issue, the Programmes section of Planning Services has developed detailed risk management procedures at both project and programme level. Their systems are being constantly reviewed in order to comply with the requirements of external funders and, where appropriate, to reflect this Code of Practice.

PARTNERSHIP RISKS

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5.10 Lancaster City Council's Code of Practice for Working in Partnerships was issued in January 2009. It sets out procedures for managing risks, both within the partnership, and risks to the Council as a result of the partnership arrangements.

5.11 Risk assessments of partnerships are defined as a thorough exploration or analysis of the potential threats faced by the partnership. Risk is not measured purely in financial terms, as consideration must be given to legal and statutory requirements. The impact on the partnership's reputation and service continuity are also important elements of risk analysis.

5.12 As part of the risk management process, each partnership is required to set their own risk tolerances. This is the level of risk that the partnership regards as 'acceptable'. Risks that are within the tolerance boundaries are deemed to be acceptable risks, where little or no action is required to reduce their score. For completeness, however, all key risks should be considered to ensure that the Partnership Board remain aware of them and how they were assessed (i.e. how the score was determined). Regular reviews will ensure that this scoring is revisited to confirm that the risk remains acceptable or to show that the likelihood and/or impact has increased to an extent that further mitigating actions need to be planned.

BUSINESS CONTINUITY MANAGEMENT

5.13 Business continuity management and risk management have clear inter-dependencies and are closely aligned. However, business continuity management is concerned with events that typically have a very low probability of occurring but would have a catastrophic impact on the Council's ability to deliver services, and business continuity planning is based around time-critical activities. Consequently, any risk identified through the risk assessment process as being likely to have a catastrophic impact upon the Council's ability to deliver its services will probably be mitigated through the Council's Business Continuity Management Process. The Council's Civil Contingencies Officer within Health & Strategic Housing, holds responsibility for managing the external impacts of risks of this nature.

5.14 The Council's approach to business continuity management is outlined in the Business Continuity Policy. In summary, a Council-wide business impact analysis has been undertaken and Business Continuity Plans are now in place for each Service.

5.15 The Council's approach to business continuity management has been to ensure that a generic response is in place to deal with the likely impact of an incident, regardless of the cause of the incident. This means that the Council is able to produce one generic plan rather than a series of plans to deal with different scenarios. However, the impacts arising from one particular scenario – pandemic flu – were sufficiently different to warrant a specific plan, and therefore the Council put in place a Flu Pandemic Plan.

5.16 The next version of Business Continuity Plans will further develop the previous generic approach and look in more detail at specific risks that threaten delivery of individual services.

HEALTH & SAFETY RISKS

5.16 The Council has in place long-established and effective processes for the management of Health and Safety risks. The established processes already in place in these risk areas should be followed; they are not superseded by this Code of Practice.

6. Roles and Responsibilities

6.01 Everyone in the Council is involved in risk management and should be aware of their responsibilities in identifying and managing risk. In order to ensure successful implementation of the Code of Practice, responsibilities for risk management are detailed in Table 2.

6.02 **Table 2 – Roles and Responsibilities**

Role	Responsibilities
Cabinet	• Through Performance Review Team (PRT) activity reports, to analyse and review high level strategic risks relating to portfolio holders' individual areas of responsibility and for the Leader to review the Council's overall Risk Management position. • To demonstrate and promote a risk management culture through Cabinet's activities and decision making. • To develop/ propose priorities based on a robust risk analysis in accordance with the Budget and Policy Framework timetable including receiving the full Strategic Risk Register annually, as well as risk analysis on individual budget proposals.
Audit Committee	The Audit Committee's Terms of Reference include 'To monitor the effective development and operation of risk management and corporate governance in the Council', per minutes of Council 18 April 2007. This will entail: • To agree the strategy, policy and processes for risk management and to review their effectiveness as a contribution towards providing assurance on the Council's standards of Corporate Governance. • To monitor and review the effective management of risk by officers. • To receive reports on the effectiveness of the Risk Management Strategy and to review assurances that

	corporate business risks are being actively managed. • To report to full Council annually on the Committee's work and performance during the year, including the results of its consideration of Risk Management arrangements. • To appoint the Chairman of the Audit Committee as the Council's Member Champion for Risk Management.
Overview and Scrutiny	• To consider risk management issues in the development of policy and analysis of possible options.
Budget and Performance Panel	• Through Performance Review Team (PRT) reports and Corporate Financial Monitoring, to consider risk management issues in reviewing and scrutinising performance.
The Chief Executive	• To ensure that risk is managed effectively through the development and implementation of an all encompassing corporate strategy. • To ensure that elected Members are appropriately advised on risk management matters.
Corporate Director (Finance and Performance)	• To act as the Council's Officer Risk Management Champion with responsibility for liaising between Corporate Management Team and the Risk Management Steering Group. • To ensure the Code of Practice for Managing Opportunity and Risk, 'A sense of proportion', is effective in supporting high standards of corporate governance. • To ensure the Strategic Risk Register is reported to Cabinet for consideration as part of the Budget and Policy Framework.
Corporate Management Team	• To maintain a Strategic Risk Register. • To liaise with Service Heads during their 1:2:1s in order to monitor their Services' Business Risks.
Performance Management Group	• To provide support in promoting and co-ordinating risk management activity across Service Areas. • To receive quarterly exception reports on strategic and other high impact risks and on risk treatment action progress (via

	Corporate Financial Monitoring), and to report these to Cabinet, as appropriate.
The Head of Financial Services	• To Chair the Risk Management Steering Group. • To advise on the development and implementation of the Code of Practice for Managing Opportunity and Risk, 'A Sense of Proportion', both through the Risk Management Steering Group and in the wider corporate context, and to provide supporting guidance. • To ensure that an effective system of internal audit is carried out for the authority. • To report financial risks to Cabinet / Council when setting the budget. • To oversee the monitoring and control of the risk management reserve.
Risk Management Steering Group	To provide support for and contribute to the following: • The development, implementation and review of the Code of Practice for Managing Opportunity and Risk. • Co-ordination of loss control activities and, in the process, identification of trends and priorities. • The use of the risk management reserve to support funding necessary for projects, activities and initiatives. • The evaluation of new approaches on risk management and the extent to which they would be helpful to the authority and its services. • The development of loss prevention practices as a normal part of management. • The provision of staff training in risk management. • The provision of information sharing and mutual support links with other groups at regional and national level. • The promotion of good risk management practice throughout the authority by co-operation and liaison with managers,

	other employees and relevant external agencies. • To report to Performance Management Group on an exception basis, should the need arise.
Risk and Insurance Manager	• To consult regularly with service managers concerning risk issues, providing advice as appropriate. • To assist in the promotion of good risk management practice throughout the authority, through co-operation and liaison with managers, other employees and relevant external agencies. • To undertake, where necessary, incident investigations. • To support the provision of staff training in, and raise the level of, risk management throughout the authority. • To act as lead support officer for the Risk Management Steering Group. • To ensure that appropriate insurance cover is in place and that a register of claims is maintained. • To prepare reports, on an exception basis, to Performance Management Group and the Audit Committee on behalf of the Risk Management Steering Group/ Head of Financial Services. • To produce the Strategic Risk Register for Cabinet as part of the Budget and Policy Framework. • To liaise with the Projects and Performance Officer in monitoring and recording project/ programme risks. • To liaise with the Civil Contingencies Officer in order to identify low likelihood/ high impact risks.
Heads of Service	• To identify and evaluate risks and opportunities facing their service areas and to take appropriate management action. • To ensure that all risks (strategic, business, partnerships, project and operational) are appropriately considered and recorded when developing Service Business Plans. • To ensure that risk is managed effectively in each service

	area within the agreed corporate strategy, and that risk treatment actions are implemented. • To highlight significant ongoing or emerging risks (including strategic, business, partnership, project and operational), on an exception basis, through quarterly Performance Review Team reports, and in 1:2:1s with their Directors. • To ensure that the control environment relating to systems operated within service areas are secure and that agreed actions resulting from Internal Audit reviews are implemented. • To report emerging or altered Strategic risks to the Risk and Insurance Manager as and when they arise. • To ensure effective communication within their service area of the Code of Practice for Managing Opportunity and Risk.
Internal Audit	• To develop and deliver a risk based audit plan designed to provide assurance to management and the Audit Committee on the effectiveness of risk management arrangements within the Council. • Based on the above, to provide an annual opinion and assurance statement on the effectiveness of the Council's risk management, internal control and corporate governance arrangements. • To promote and support the development of the Council's risk management arrangements.
Report writers	• To ensure that all committee reports contain an options analysis and risk assessment. Where appropriate, this must be in table format.
Project Managers	• To report all risks and their management throughout the lifetime of the project, to their Project Board and to the Project and Performance Officer (and to their Service Head).
Project and	• To monitor all project risks as they appear on Risk Logs and

Performance Officer	liaise with the Risk and Insurance Manager to ensure that significant risks are reported and included within the Key Business Risk Register.
Civil Contingencies Officer	• To liaise with the Risk and Insurance Manager in order to identify low likelihood/ high impact risks, and to ensure that Business Continuity Plans are developed in order to mitigate against service disruption.
All staff	• To manage risk effectively in their job and report opportunities/ risks to their Service managers. • To undertake their job within risk management guidelines.

7. Funding

7.01 Through the Business Planning process, there is an opportunity for Service managers to make funding requests based on risk and opportunities. Integration of risk management in the corporate planning and budgeting process helps to ensure that scarce resources are directed to areas of highest priority in a systematic and transparent manner.

7.02 Funding requests that arise at short notice, such as for managing new/ emerging risks, can be referred to the Risk Management Steering Group for consideration of funds being provided from the Risk Management Reserve. This reserve provides the opportunity to apply for financial support and creates an incentive for loss control, without adversely affecting Service area budgets.

7.03 In addition to these funding sources, the Financial Regulations and Procedures allow for emergency requests for funding (see Financial Procedures (section A, 1.11 (f)).

8. Alignment of Risk Management and Business Planning Frameworks

SIMILARITIES BETWEEN PERFORMANCE MANAGEMENT AND RISK MANAGEMENT

8.01 Performance management and risk management systems are very similar both in what they are designed to achieve and in how they ensure this happens. This suggests that the development of two separate systems could result in duplication and inefficiency.

8.02 Performance management and risk management can be viewed as two sides of the same coin. Whereas performance management identifies and monitors what is needed to achieve our priorities, risk management focuses on the things which may happen that might prevent the Council achieving its priorities. The upside of risk management (identifying actions that will help achieve priorities) is, in effect, performance management.

8.03 The ultimate outcome that both systems support is the achievement of the Council's priorities. The interim steps in both systems include:

- For performance management, a list of actions required to achieve the priority; For risk management, a list of actions to mitigate risks that could prevent the priority being achieved
- SMARTER targets (specific, measurable, achievable, relative, timely, effective, resourced)
- Regular review of the actions and targets
- Annual review

8.04 The starting point for identifying both the actions required under the performance management framework and the mitigating actions required by the risk management framework is the same: the Council's priorities. Therefore, the resulting actions and SMARTER targets from both the performance management framework and the risk management framework should be broadly similar and, in some cases, identical, albeit arrived via different routes.

BACKGROUND TO THE DEVELOPMENT OF TWO SEPARATE PROCESSES

8.05 Historically, performance management and risk management have developed separately, with risk management, by and large, being based within Financial Services.

8.06 Risk management forms part of the system of corporate governance. During the 1990s, there were a series of reports on corporate governance and financial reporting, culminating in the Turnbull Report in 1999. Entitled '*Internal Control: Guidance for Directors on the Combined Code',* it drew together many of the recommendations of the previous reports and was adopted by the London Stock Exchange. The report emphasises the need for the governing body to ensure that a high-level, risk-based approach to establishing a reliable system for internal control is implemented and then reviewed regularly. Although the report was written for companies listed on the Stock Exchange, its principles have been adopted by the public sector.

8.07 However, in adopting risk management techniques within the public sector, a key consideration is the way in which risk management links into performance management arrangements, and the overlap between the two areas. Risk management in many local authorities is managed within the Financial Services remit and is often closely affiliated to the Insurance function. This has potential to lead to risk management processes being developed in isolation from existing business and performance management processes.

INTEGRATION OF PROCESSES

8.08 The Council has a well-established and effective business planning cycle that includes setting priorities and helps to ensure that the Council's budget is aligned to the Council's priorities. The Council's performance management framework monitors the delivery of these priorities and ensures that they are achieved within budget. The performance management framework includes regular reporting to Cabinet, Budget and Performance Panel, and Management Team.

8.09 The Council's priorities are also the starting point within the risk management process. The first step in risk management is 'understanding the Council's priorities'; the second is 'identifying risk which might prevent the Council achieving its priorities'. It is essential that the risks identified and actions taken to mitigate them are regularly monitored and reported to the appropriate audience. A well established and effective performance management framework is already in place, and so has been expanded to integrate the risk management requirements.

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8.10 The integrated performance management and risk management process is, therefore, implemented in the following way;

- Through the normal Corporate / Service planning processes, Services identify their priorities and the actions required to achieve them.
- While identifying priorities and actions, Services also identify the risks that might prevent the priorities being achieved. In this way, opportunities and risks are considered at the same time.
- Services then compare the actions identified from their business planning processes and risk management processes to ensure that all actions required are included as appropriate (with no gaps, or duplication).
- Quarterly performance monitoring systems in place to check delivery of all planned actions.

BENEFITS ARISING FROM INTEGRATING THE TWO PROCESSES

8.11 There are many benefits to be realised by integrating the performance management and risk management frameworks. These include:

- Strengthened actions (actions are identified through two different processes, which look at the Council's priorities from two different angles – a positive and a negative view; consequently, the resulting actions are likely to be more comprehensive and robust).
- Reduced duplication;
    - Performance and risk can be monitored together using existing processes.
    - Performance and risk can be reported just the once using existing processes.
- Clear links established between performance and risk.
- Non-cashable efficiency savings.

9. Links to Corporate Governance

9.01 Governance is the system by which councils direct and control their functions and relate to their communities. In other words, it is the way in which they manage their business, determine strategy and objectives, and go about achieving those objectives. The fundamental principles are openness, integrity and accountability.

9.02 This Code of Practice for Managing Opportunity and Risk forms part of Lancaster City Council's corporate governance arrangements.

INTERNAL CONTROL

9.03 Internal controls are those elements of an organisation (including resources, systems, processes, culture, structure and tasks) which taken together, support people in achievement of objectives. Internal financial control systems form part of the wider system of internal controls.

9.04 A council's system of internal controls is part of its risk management process and has a key role to play in the management of significant risks to the fulfilment of its business objectives. For example, the Council's policy and decision-making process require all Committee Reports to include an option appraisal/ risk assessment.

HEALTH & SAFETY

9.05 The Council's Health & Safety Policy also is a key component to the Council's structure of controls contributing to the management and effective control of risk affecting staff, contractors, volunteers, service users and the general public.

INTERNAL AUDIT

9.06 The Internal Audit function is a component, and custodian, of the Council's system of controls protecting its financial and other physical assets. The Risk Management Process, in turn, serves the Internal Audit function by enabling it to identify areas of higher risk and so target its resources more effectively.

10. Monitoring, Reporting and Indicators of Success

10.01 Lancaster City Council's Strategic Risk Register will be reviewed annually by Cabinet as part of the Policy and Performance Framework.

10.02 Service Heads are responsible for monitoring their own business risks and for reporting progress against the actions identified to mitigate risks via quarterly performance monitoring systems (PRTs, PMG etc.)

10.03 The structure for such reporting of risks and their management is set out in Table 3 below.

Table 3 - Structure for Reporting Risks

Area of Management	Officer with Responsibility	Method of Reporting
Strategic Planning	Risk and Insurance Manager	- Via Strategic Risk Register to Cabinet as part of Budget & Policy Framework. - Via Strategic Risk Register to Performance Management Group (PMG) as part of Finance's Quarterly Financial Monitoring. Then from PMG to Cabinet, as appropriate.
	Service Heads	- To include Strategic Risks within Service Business Plans. - To report emerging or altered Strategic risks to the Risk and Insurance Manager as and when they arise.
Business Planning	Service Heads	- To record all business risks on Service Business Plans and report significant ongoing or emerging risks, on an exception basis, through quarterly Performance Review Team reports to PMG, and in 1:2:1s with their Directors.
Financial Planning	Head of Financial Services	- To report financial risks to Cabinet for each priority when setting budget.

Performance Management	Service Heads	- As with Business Planning, all significant ongoing or emerging risks must be highlighted on Service Business Plans and reported, on an exception basis, through quarterly Performance Review Team reports to PMG, and in 1:2:1s with their Directors.
Policy Making/ Review	All report writers	- All committee reports relating to policy making and review must include an options analysis and risk assessment.
Decision making	All report writers	- All committee reports that require a decision making must include an options analysis and risk assessment.
Project Management	All project managers Service Heads	-To report all risks, throughout the lifetime of the project, to the Project Board (inc Service Head). -To ensure that all significant project risks are included within Service Business Plans and reported, on an exception basis, through quarterly Performance Review Team reports to PMG, and in 1:2:1s with their Directors.
Partnerships' Governance	Service Heads	-To ensure that all significant partnership risks are included within Service Business Plans and reported, on an exception basis, through quarterly Performance Review Team reports to PMG, and in 1:2:1s with their Directors.
Operational Activities	Service Heads	-To record all operational risks and report them to team leaders, as appropriate. -Significant operational risks must be included within Service Business Plans and reported, on an exception basis, through quarterly Performance Review Team reports to PMG, and in 1:2:1s with their Directors.
Business Continuity Planning	Civil Contingencies Officer Risk and Insurance	-To report all low likelihood, high impact risks to Civil Contingencies Group and arrange for Business Continuity Plans to be developed, as appropriate. -Liaise with Civil Contingencies Officer to identify low likelihood/ high impact risks and report to PMG and

	Manager Service Heads	Audit Committee, on an exception basis. -To maintain Service Business Continuity Plans and report significant risks on Service Business plans, PRTs and 1:2:1s.

10.04 The ultimate measure of effective risk management is that the Council has the resilience to deliver its services and core objectives and is able to identify, and take maximum advantage of, the occurrence of opportunities (positive risk).

10.05 Lancaster City Council will use the following indicators to monitor the success of its Risk Management processes:

- The Council achieves at least 85% of the Planned Actions set out in the annual update of the Corporate Plan (as these actions mitigate against strategic risks).

- Achieve at least level 2 rating (i.e. meets only minimum requirements – performs adequately) for the Council's Use of Resources assessment (Internal Control element, if scored separately).

11. Risk Management Process

11.01 The approach to risk management in Lancaster City Council is based on the best practice outlined in '*A Risk Management Standard* (IRM/ AIRMIC/ ALARM: 2002)'.

11.02 Lancaster City Council's Risk Management Process consists of five steps:

- Knowing the strategic and operational priorities
- Categorising risks
- Scoring risks
- Treating risks
- Monitoring, reporting and reviewing risks

11.03 Paragraphs 11.04 to 11.32 of this Code of Practice provide an overview of each of these steps. Further detailed guidance on how to carry out each step is set out within Risk Management guidance on the Council's intranet. This risk management process should be undertaken in conjunction with the normal annual business planning process.

KNOWING THE STRATEGIC AND OPERATIONAL PRIORITIES

11.04 The starting point for risk management is a clear understanding of what the organisation is trying to achieve. Risk management is managing the threats that may hinder delivery of our priorities and maximising the opportunities that will help deliver them. Therefore, effective risk management should be clearly aligned to the business planning process.

11.05 This identification stage sets out to identify exposure to uncertainty and requires an intimate knowledge of the service, the market in which it operates, the legal, social, political and cultural environment in which it exists. It also requires the development of a sound understanding of its strategic and operational activities, including factors critical to success and the achievement of objectives.

11.06 These elements cross reference with the performance management framework, as both have risk and opportunity management incorporated in the process.

11.07 It is logical to combine these management practices as they have the same ultimate goal; the achievement of objectives. Planning, performance management and opportunity management focus on driving the actions required to maximise the probability that ‘good things’ occur, whilst risk management focuses on driving actions to minimise the probability that ‘bad things’ occur.

11.08 The similarities between risk management and performance management will be explained further in Section 8, *Alignment of Risk Management and Business Planning Frameworks.*

CATEGORISING RISKS

11.09 It is clear that only those risks and opportunities that have been identified can be managed, therefore the more comprehensive the approach to identification, the better placed the service will be to manage risk and opportunity.

Some useful examples of risk categories are:

- Political
- Economic
- Social
- Technological
- Legislative/ Regulatory
- Environmental

- Customer/ Citizen
- Managerial/ Professional
- Financial
- Legal
- Partnership/ Contractual
- Physical

11.10 These categories of risk and opportunity provide a prompt for identifying and categorising a broad range of risks and opportunities facing the Council and draw on identification techniques such as PESTLE (Political, Economic, Social, Technical, Legal, Environmental) and SWOT (Strengths, Weaknesses, Opportunities, Threats) analyses.

11.11 Table 4 provides further information and examples of issues that may arise for each of the categories.

Table 4 – Prompt for Identifying and Categorising Risks/ Opportunities

These categories are neither prescriptive nor exhaustive but provide a prompt for identifying and categorising a broad range of risks facing the Council. Each category cannot be considered in isolation. Managers must consider the risks/ opportunities associated with each of the sub-categories and their inter-relationships, if a full assessment is to be carried out.	
Political ***Arising from the political situation*** - Change of Government Policy - Delivery of local policy and strategic priorities - Change of local policy or priorities - Unfulfilled promises to electorate - Political make-up - Stability of political situation - Election cycles - Decision-making structure - Meddling/abuse (fraud, corruption, lack of strategic focus) - Leadership issues - Reputation Management - Response to innovation/ modernisation	**Economic** ***Arising from the national, local and organisation specific economic situation*** - Treasury – Investments, Reforms - Borrowing, lending situations, investments and interest rates - Budgetary position - Poverty indicators - Demand predictions (e.g. on demand led services such as benefits, homelessness) - Competition between suppliers and the effect on service/ pricing - General/ regional economic situation - Unrecorded liabilities - Value/ cost of capital or assets - Impact of civil emergency (e.g. flood) - Council Tax levels

<u>Social</u> ***Arising from the national and local demographics and social trends*** - Social changes – needs expectations and attitudes - Demographic profile (age, race etc.) - Residential patterns and profile (e.g. temporal, commuter belt, state of housing stock, public/private mix) - Health statistics/ trends - Leisure and cultural provision - Crime statistics/ trends - Children at risk - Older people - Employment - Life-long learning - Regeneration - Disadvantaged groups or communities	**<u>Technological</u>** ***Arising from technological change and the organisational technological situation*** - Technological strategy - Technological change/ advance – capacity to deal with change/ advance - Current use of / reliance on technology - Current or proposed technology partners - State of architecture - Obsolescence of technology - Current performance and reliability - Security and standards e.g. back up, recovery, confidentiality - Technological demand – customer needs and expectations - Failure of key system or key technological project - Technological support for innovation - Procurement of best technology and sustainability of system
<u>Legislative/ Regulatory</u> ***Arising from current and potential legal changes and the organisation's regulatory information*** - New legislation – National and European Law - New regulations - Exposure to regulators – e.g. auditors/ inspectors, intervention - Responsiveness to criticism - CAA – Annual Risk Assessment, Use of Resources (UoR), Direction of Travel (DoT) - LAA – statutory duty to co-operate, targets, performance and annual report - Children's Trust - European Directive – Procurement - CCA – Emergency Preparedness, Business Continuity - Section 17 – Crime & Disorder Act 1998 - Equality – RRA, RED, DSA, EER, GRA	**<u>Environmental</u>** ***Arising from inherent issues concerned with the physical environment*** - Nature of environment (urban, rural, mixed) - Land use – green belt, brown field sites - Waste disposal and recycling issues - Exposure to drainage problems/ flooding/ erosion/ subsidence/ landslip - Impact of civil emergency (e.g. flood) - Traffic problems/ congestion - Planning, transportation - Pollution, emissions, noise - Climate change - Energy efficiency

A SENSE OF PROPORTION

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<u>Customer/ Citizen</u>

Arising from the need to meet current and changing needs or expectations of customers and citizens

- Customer Care
- Extent and nature of consultation with/ involvement of community (e.g. community groups, local businesses, focus groups, citizens' panels etc.)
- Demographics – analysis, understanding
- Relationships with community leaders, tenant groups and 'opposition' groups
- Visibility of services (e.g. refuse collection, street cleaning etc.)
- Service delivery – response, feedback, complaints, compliments
- Reputation Management – Public and media communication
- Outcomes for area – LAA (outcomes, targets etc.)
- Community cohesion

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<u>Professional/ Managerial</u>

Arising from the need to be managerially and professionally competent

-Views arising from peer reviews – e.g. IdeA, consultancy reviews, internal audit etc.
- Professional/ managerial standing of key officers
- Stability of officer structure/ management teams
- Competency and capacity – Organisational and individual
- Key staff changes and personalities
- Turnover, recruitment and retention, talent management and succession planning
- Change – implementation and management
- Training and development
- Partnership working
- Management frameworks and processes – efficient, effective
- Profession specific issues
Mission, Vision and Values

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<u>Financial</u>

Arising from the financial planning and control framework

- Financial situation of authority
- Level of reserves
- Budgetary policy and control
- Delegation of budget and financial disciplines
- Monitoring and reporting systems
- Control weaknesses – anti fraud & corruption
- Income and revenue
- Grants and external funding
- Insurance – adequacy of covers, level of self-funding, deductibles, etc.
- Capital
- Interest rates, inflation, income tax, etc.
- Efficiency, invest in priorities, disinvestments non-priority areas

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<u>Legal</u>

Arising from changes to legislation and/ or possible breaches of legislation

- Legal challenges, judicial review
- Adequacy of legal support
- Boundaries of corporate and personal liabilities
- Sufficient reserves to defend legal challenge or unrecorded liabilities
- Reputation management
- Partnerships – Legal liabilities, contractual liabilities

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Physical	**Partnership/ Contractual**
Arising from physical hazards or possible gains associated with people, land, buildings, vehicles, plant and equipment - Assets – Nature and state of asset base including record keeping - Commitment to health, safety and well being of staff, partners and the community - Risk assessments - Accident and incident record keeping - Maintenance practices - Business Continuity - Security – staff, assets, buildings, equipment, plant, machinery, vehicles - Assets – purchase, leasing, sales, rent, revenue, income, maintenance - HR Strategy – training, development, health etc.	***Arising from partnerships and contracts*** - Key partners – from public, private and voluntary sectors - Accountability frameworks and partnership boundaries - Large scale projects involving joint ventures - Outsourced services - Relationship management - Procurement arrangements/ contract renewal policy - Performance of partnerships/ contractors - Business Continuity – Partner/ contractor arrangements - Change – Change control, exit strategies - Capacity and capability – increase to deliver priorities - Reputation management - Legal liabilities, contractual liabilities

SCORING RISKS

11.12 In order to score risks, a thorough risk assessment needs to be undertaken. That is, a detailed analysis of the potential threats faced by the Authority 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.

11.13 Having identified the potential risks *(*see previous section; *Categorising Risks)* there is a need to evaluate them, avoiding subjective bias wherever possible, through making use of the best information available. This may be from past records, relevant experience, experiences of others, published literature etc.

11.14 Risks comprise of the following elements:

- **Inherent risk** is the ‘gross risk’, before controls or mitigation.
- **Residual risks** are those risks which still remain after taking into account any existing controls.

- **Target risk** is the level of risk that the Authority/Service is prepared to accept. In theory, risk assessment and risk treatment should be an ongoing process until the target risk level is achieved. Once the target has been achieved, such risks should not be ignored, but periodically reviewed to ensure that they do not move above the tolerance level.

11.15 Risks are then assessed for **likelihood** (the chance of it occurring) and **impact** (consequences if it were to happen). Both likelihood and impact are scored on a scale of low, medium or high as follows:

11.16 **Assessing likelihood**

Low

- Unlikely to occur; or
- Happens on average once every two years or more; or
- Will only occur in exceptional circumstances.

Medium

- Likely to occur within the next 5 years; or
- Happens on average every 1 to 5 years; or
- May occur in certain circumstances.

High

- Certain to occur; or
- Happens frequently (more than once every 12 months); or
- Will happen in most circumstances.

11.17 **Assessing impact**

Low

Where the consequences are not severe and any associated losses will be relatively small. As individual occurrences, they will have little or no effect on continuity of service provision. However, if action is not taken, then such risks may have a more significant cumulative effect.

Medium

These risks have a noticeable effect on the services provided. Each one will cause a degree of disruption to service provision. They are more likely to happen infrequently and are generally difficult to predict. More than one medium loss a year can have substantial consequences for service provision.

High

These risks have a catastrophic effect on the operation of the organisation/ service. This may result in significant financial loss, major service disruption and/ or significant impact on the public. They usually occur infrequently and can be extremely difficult to predict.

11.18 In order to assess impact consistently, there needs to be consensus on what constitutes 'not severe', 'noticeable' and 'catastrophic'. This consensus is a major component of determining what is sometimes referred to as the organisation's "risk appetite", and provides a way in which reasoned decisions can be taken as to the levels of risk deemed to be acceptable. Table 5 shows the set of criteria used by the Council to assess risk impact.

Table 5 – Criteria for Assessing Risk Impact

	Criteria		
Impact Area	**Low**	**Medium**	**High**
Strategic	• Minor delays in implementing strategy • Occasional missed / failing PI	• Noticeable delays in implementing strategy • Regularly missed / failing PI	• Major delays to / failure of strategy • Consistently missed / seriously failing PI
Financial	• Less than £100k	• £100k to £500k	• Greater than £500k
Operational	• Minor / temporary interruptions to service to the public	• Noticeable / medium term disruption to public services	• Major / long term disruption to public services
Regulatory	• Minor breach with no action	• Major regulatory breach resulting in sanction • Regular minor breaches	• Section 151 breach • High Court action
Information	• Delayed decisions • Lack of forward planning	• Decisions / community affected by poor / insufficient information	• Inappropriate / illegal decisions • Community significantly affected
People	• Small number of people affected. • Greater numbers affected but not significantly	• Significant number of people affected. • Smaller numbers seriously affected	• Majority of people affected • Significant number of people seriously affected
Reputational	• Several or regular complaints	• Large number of complaints • sustained local press coverage • one-off national press coverage	• Sustained national press coverage • Remembered for many years

11.19 Once the likelihood and impact have been assessed, the risk score can then be determined by plotting it on the matrix in Table 6, should circumstances warrant this approach. It is stressed, however, that if such matrix scoring is used, this is only a further stage in the tools for measuring risk; it is not an end in itself. The next stage of deciding how to treat recognised risks is much more important.

Table 6 – Risk Assessment Matrix

Likelihood		Impact: Low	Impact: Medium	Impact: High
	High	4	7	9
	Medium	2	5	8
	Low	1	3	6
		Low	Medium	High
			Impact	

TREATING RISKS

11.20 It is acknowledged that risk cannot be eliminated completely. Risk treatment is the process of taking economic action to minimise the likelihood of the risk event occurring and/ or reduce the severity of the impact should it occur. The agreed controls designed to mitigate the identified risk will be recorded in the appropriate risk records (either the Risk Register, Service Business Plans, PRT reports, project risk logs or within Business Continuity Plans).

11.21 There are six options or combinations of options for treating risk (**CARPET**):

<u>**C**ontingency</u>

11.22 Where a risk cannot be entirely avoided, contingency arrangements should be in place to ensure that any impact, for example to service delivery or reputation, is kept to a minimum.

Accept

11.23 Having identified and evaluated a risk, a decision may be made to accept risk without taking any mitigating action. This would usually be in instances where the likelihood and/ or impact are so small that implementing risk treatment actions would not be cost-effective, or where the risk relates to a course of action that is a key priority for the Council.

Reduce

11.24 Risk reduction relates to the implementation of cost-effective measures that will help minimise the likelihood of an event occurring or the impact of the risk should it occur.

Prevent

11.25 In certain circumstances, it may be possible and cost-effective to implement risk treatment actions that will prevent an event occurring in the first place. An extreme form of prevention could be ceasing to carry out an activity that involves the risk in question. For example, the temporary laying down of unsafe cemetery headstones, whilst controversial in some areas, effectively removed the potential risk of injury to members of the public.

Exploit

11.26 Opportunity is often regarded as the ‘flip-side’ to risk. Where opportunities arise, the likelihood of them being realised and their potential contribution to the Council need to be evaluated. If a case can be made that pursuing an opportunity will be cost-effective and benefit the Council’s objectives, it should normally be exploited. The failure to fully exploit realistic opportunities presents a particular type of strategic risk.

Transfer

11.27 Risk transfer involves transferring liability for the consequences of an event to another body. This can occur in a number of forms. Firstly, legal liability may be transferred to an alternative provider under contractual arrangements for service delivery. Secondly, liability may be transferred to a partner under agreed partnership terms. Finally, transferring some or all of the financial risk to external insurance companies may reduce the costs associated with a damaging event.

MONITORING, REPORTING AND REVIEW

11.28 The risk management process does not finish when the risk treatment actions have been identified. There must be monitoring and review of;

- The implementation of the agreed risk treatment/ mitigating actions.
- The effectiveness of the actions in controlling risks.
- How risks have changed over time and the emergence of new risks and opportunities.

11.29 Risks, even those at a strategic level, do not remain static. Progress in managing risk need to be regularly monitored, reported and reviewed, so that losses are minimised and the intended risk treatment/ mitigation is checked for success.

11.30 The frequency with which risks are reviewed will depend on a number of factors. If risks have been identified to support the management of a specific project, for example, it may be necessary to review risks very frequently, say every six months, to ensure the success of the project.

11.31 For risks associated with ongoing day-to-day operations or longer term strategies, less frequent review may be appropriate. In these circumstances, risks should be reviewed at least annually, and preferably quarterly or half-yearly.

11.32 The potential severity of a risk will also have an influence on how often it is reviewed. Risks which are assessed as having low likelihood and impact still need to be reviewed, but not as regularly as those risks which could pose a severe threat to the Council.

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