North East Derbyshire District Council

Cabinet

13 January 2016

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Risk Management Strategy (Including Partnership Working Strategy)

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Report No PRK/22/15-16/BM of Councillor P R Kerry, Portfolio Holder with Responsibility for Economy, Finance and Regeneration

This report is public

Purpose of the Report

- To recommend for approval the joint Risk Management and Partnership Working Strategy.

1   Report Details

1.1   One key element of effective financial governance is that the Council has appropriate arrangements in place in respect of Risk Management and Partnership working including:

- A clear policy statement setting out the Council's approach to Risk Management and Partnership working. This policy statement needs to be reflected in the wider culture of the Council.
- Take steps to promote effective management of both Risk and Partnership arrangements.
- Ensure that appropriate reporting arrangements are in place

1.2   The Council currently has in place a Risk Management and Partnership Working policy in place. This document seeks to update that policy to reflect changes in good practice and it is to be launched as a Joint Strategy across the two Councils within the Strategic Alliance. As part of the consultation route it was considered by Senior Management Team, and by the Strategic Alliance Joint Committee before being submitted for approval by Cabinet (NEDDC) and Executive (BDC). The launch will be supported by awareness sessions for both Officers and Elected Members, while the consultation process around the Strategy has served to improve awareness throughout both Councils. As part of this consultation process the Audit and Corporate Governance Committee considered the draft Risk Management and Partnership Working Strategy, attached at **Appendix 1** at its meeting on 22 October 2015, and recommended it to Cabinet for approval.

2   Conclusions and Reasons for Recommendation

2.1   Cabinet is recommended to approve the joint Risk Management and Partnership Working Strategy attached at Appendix 1, to meet the objectives as set out at paragraph 1.1 above.

3   Consultation and Equality Impact

3.1   There are no issues arising directly from this report.

4   Alternative Options and Reasons for Rejection

4.1   Given that the Council is committed to both effective management and to effective partnership working it is important that we maintain an up to date policy which helps ensure that this policy commitment is secured in practice. Given this policy commitment there is no realistic alternative other than to agree an appropriate Strategy designed to set out how the Council will ensure that the impact of fraud and related activities upon the Council is minimised.

5   Implications

5.1   **Finance and Risk Implications**

5.1.1 Financial and Risk issues are covered in the Strategy which is attached as Appendix 1 to this report.

5.2   **Legal Implications including Data Protection**

5.2.1 There are no legal or data protection issues arising directly out of this report.

5.3   **Human Resources Implications**

5.3.1 There are no issues arising directly from this report.

6   Recommendations

6.1   That Cabinet approves the joint Risk Management and Partnership Working Strategy attached at Appendix 1.

7   Decision Information

Is the decision a Key Decision? (A Key Decision is one which results in income or expenditure to the Council of £50,000 or more or which has a significant impact on two or more District wards)	No
District Wards Affected	None Directly
Links to Corporate Plan priorities or Policy Framework	All

8   Document Information

Appendix No	Title
1	Draft Risk Management Strategy (including Partnership Working Strategy).
Background Papers (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	

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AGIN 6(b) (CAB 0113) 2016/Risk Management Strategy/AJD

BOLSOVER AND NORTH EAST DERBYSHIRE DISTRICT COUNCILS

Risk Management Strategy 2015 (including Partnership Working Strategy)

Date October 2015

Scope

The Councils' Risk Management Strategy is an integral element of the Councils' Corporate Governance and Performance Management framework. As part of that framework it seeks to ensure that risks are appropriately managed through the culture of the organisation, systems and processes. In particular the Councils will:

- Maintain up to date Strategic and Operational Risk Register reported on a quarterly basis as part of our Performance Management Framework.
- All formal reports to decision making meetings will include a section covering Risk Management considerations.
- All projects with a value in excess of £50,000 will have a Project Risk Register in place.
- Both employees and elected members will have a good understanding of risk issues to ensure that risk is effectively managed.

This Strategy sets out the process for the maintenance and development of Risk Management. While the main focus of the arrangements set out within this Strategy will be in respect of the Councils' own activities it needs to be recognised that key elements of the Councils' service delivery is now secured by way of Partnership working. Accordingly the Councils' own Risk Management Frameworks need to ensure that the risks arising from partnership working are appropriately addressed as part of this Strategy.

While this is a Joint Strategy to be adopted by both Bolsover and North East Derbyshire District Councils it needs to be understood that this is only a shared Risk Management Framework and that accordingly both Councils will develop their own Risk Registers, etc. Accordingly references throughout the document are to the Council to recognise that each Council will be responsible for the development of its own risk assessment and risk registers.

Principles of Risk Management

The CIPFA / SOLACE Good Governance Framework defines Risk as follows:

> *Risk is the threat that an event or action will adversely affect an organisations ability to achieve its objectives and successfully execute its strategies. Risk management is the process by which risks are identified, evaluated and controlled and is a key element of the framework of governance.*

It is for the organisation itself to consider and establish an appropriate appetite for risk. An organisation should be risk aware rather than risk averse as the decision as to whether to accept risk should be taken in the light of the potential benefits of a proposed course of action. To the extent to which an organisation is risk averse – whilst it will protect its own position – it is likely to fail to progress available opportunities to secure benefits for local residents.

Risk management both in the identification of risks and the mitigation taken to address them needs to be flexible and to respond to change. National policies, service delivery arrangements, national and local circumstances, together with Council priorities

change and evolve over time. Risk Management focus and arrangements need to adjust in order to ensure that current issues are effectively addressed by the Councils' risk and wider managerial arrangements.

Objectives of Risk Management

Both Councils are committed to maintaining and actively monitoring the operation of a formal and systematic approach to Risk Management. The objectives of our risk management arrangements are to reduce both the number of risks which materialise and their impact should they occur. In addition the Councils need to:

- Ensure that we operate in line with best practice and update our approach to reflect evolving best practice and the experiences of other local authorities or organisations who have experienced issues that could have a local impact.

- To protect service delivery arrangements, the reputation and the financial position of the Council by managing risk effectively so as to reduce the likelihood of risk materialising and to mitigate its impact or magnitude in those cases where it does materialise.

- To maintain and strengthen robust managerial and governance arrangements within the Council. From a Governance perspective good practice views the effective operation of Risk Management as a key element of the managerial framework operating within an authority.

- Effective Risk Management is a key component in ensuring that organisations are able to achieve their objectives, and that key projects proceed in line with the agreed plan.

- The identification of the risks attached to existing service delivery, or to a project or new initiative is important both to allow a fully informed decision to be made, and to ensure that all appropriate measures to mitigate (or reduce) the risk are in place from the outset.

- Finally, an appreciation of the risk environment within which the Council operates assists in determining an appropriate level of financial reserves for sound financial management, and ensures that the organisation has a better awareness of its overall risk exposure.

Risk Management Process

Both Councils will work to ensure that they have an embedded culture of risk management in place, which is supported by appropriate procedures and policies. To ensure this we will provide regular training and awareness raising sessions for all staff and Members. This will be supported by processes of formal reporting that seek to ensure that risk is taken into consideration in all our decision making and management processes. In particular the following procedures and processes are in place to ensure effective Risk Management:

- Service Risk Registers are an integral part of the Service Plan which all teams are required to agree on an annual basis. As part of the Service Plan the service Risk Register will be discussed on a regular basis at team meetings. This provides all operational staff with the opportunity to influence the risk register in respect of their service. All Council employees need to understand, manage and accept responsibility for risk. This responsibility is recognised in Job Descriptions.

- The Councils hold quarterly Performance Management meetings involving executive Members and senior Officers which consider a range of issues around performance. These meetings drive the quarterly Performance arrangements which are formally reported to Cabinet / Executive and considered as appropriate by Audit / Scrutiny Committees. These reporting processes are intended to ensure that the Councils have in place a 'balanced scorecard' approach to its Performance Management arrangements.

- The quarterly performance meetings consider and agree the revised Strategic Risk Register in the light of the service risk registers and in the light of wider concerns / issues raised at these meetings. Training sessions and comparisons against the issues identified by other local authorities are also viewed as key opportunities to fundamentally review the risks identified within the Strategic Risk Register.

- As part of the quarterly Performance Management reporting framework appropriate consideration will be given to issues of managing risks arising from Partnerships.

- The standard format for Council Risk Registers includes a section setting out the responsible officer for the particular risk identified in order to ensure effective accountability within our risk management arrangements.

- Risk Management arrangements are subject to review by Internal Audit on a regular basis as part of their risk based approach to ensuring that effective managerial arrangements are in place across the Councils.

- All reports to Members are required to include a section on risk issues.

- The Audit Committee (Bolsover District Council) and the Audit and Corporate Governance Committee (North East Derbyshire District Council) are the bodies responsible for ensuring that effective risk managements are in place across each Council, receiving the Quarterly Strategic Risk Register and having responsibility for approving the Risk Strategy. The Executive Director Operations is the Officer charged with ensuring effective Risk Management arrangements are in place.

- All projects with a value in excess of £50,000 are required to maintain an up to date project risk register.

Risk Categorisation

In order to ensure effective risk management the Councils operate both a Strategic Risk Register and Service Risk Registers which are maintained in respect of all teams / services. The Strategic Risk Register is concerned with capturing those issues which have the potential to impact on the delivery of the Corporate Plan, or which affect more than one service. As a general guide a Strategic Risk should have a financial impact in excess of £1m. A service risk is a risk which has the potential to affect the delivery of services to the public in a specific service area.

Risk Management Processes

The processes of managing risks involves the following steps:

1. **Identification of Risk.**
   The identification of risk is the initial stage in the risk management process as the Councils can only address / mitigate those risks which have been identified. To facilitate robust risk management arrangements the Councils will seek to encourage the active participation of both elected Members and all Employees in the identification of the risks that face the Council. In considering the key risks which face the Council appropriate consideration will be given to the Council's Corporate and Service Plans, the wider national environment in which the Councils operate and as a 'reality check' to the risks identified by other similar organisations.

2. **Risk Assessment.**
   Once a Risk has been identified it will then be assessed for both the likelihood of it occurring and for the impact in a situation where it did arise. Each Council will assess the risk using its Risk Management Matrix which is set out in Appendix 1 to this Strategy.

3. **Risk Mitigation**.
   Having undertaken an analysis of the potential gross impact of the risk Officers will then consider what mitigation can be applied in order to reduce the risk. This net risk is the reassessed level of the Risk once appropriate mitigation is in place.

   The Council recognises that risk can only be managed or mitigated. It cannot be eliminated. Once all cost effective mitigation has been put in place then the Councils need to consider whether it should accept a risk, or if it should address the risk by reviewing / ceasing certain elements of its service delivery or activity. In deciding whether or not to accept a risk a key consideration is that the benefits of accepting the risk need to exceed the potential costs of accepting the risk as part of our service delivery arrangements. This decision is also informed by the Councils' Risk Tolerance. The Matrix provided in Appendix 1 categorises risks into high, medium and low priority.

   Broadly, there are four potential approaches, with numerous variations to risk management. Managers may choose to:

   - Accept risk; simply take the chance that the negative impact will be incurred.
   - Avoid risk; changing plans in order to prevent the problem from arising.
   - Mitigate risk; lessening its impact through intermediate steps.
   - Transfer risk; outsource risk to a capable third party that can manage the outcome i.e. mitigation through insurance.

Where a risk is accepted then all cost effective measures which can reduce the likelihood or the impact of the risk should be put in place. Responsibility for managing each risk must be assigned to an identified officer.

4. **Risk Review and Monitoring.**

The implementation and outcome of the agreed mitigating measure will continue to be assessed by way of an ongoing review of all Risk Registers. Monitoring should include:

- Continuing to evaluate the risk as it changes / develops / increases / diminishes over time.
- Review that agreed mitigating actions are in place, evaluate their effectiveness in managing the risk.
- Where a risk materialises consider the impact of this on the Council's management / risk mitigation arrangements to ensure that any control failures do not have implications for other aspects of the Council's operations.

PARTNERSHIP STRATEGY

As part of the management of risk the Councils need to give consideration to how they work with and manage their partnership arrangements.

The key issues are set out below:

1. Partnership working is now an accepted part of good working practice in both local authorities and in the wider public sector. It has a good record of delivering better outcomes for local residents as against an approach where each public body works in relative isolation to achieve its own objectives. Given both its proven record of success and the increasingly constrained level of resource in the public sector Partnership working is set to continue to grow in both its scale and influence.

2. Whilst partnership working brings with it many advantages those advantages will only be secured on the basis that robust governance arrangements are in place. To secure these robust arrangements the Council needs to give careful consideration as to how it manages its relationships with partner organisations, whilst the Council needs to satisfy itself that governance arrangements within the partnership organisations themselves are fit for purpose.

3. A key starting point for the Councils in deciding upon what governance arrangements are necessary is to consider the risks involved. This consideration should include the following :

    - What would be the impact on the Council and its services if a partner organisation were to fail. Clearly in those situations where the failure of a partner left the Council unable to operate a key service then there would be a major risk, and the level of assurance necessary in this instance would be far greater than for a smaller organisation delivering a discretionary (non statutory) service to a small part of the District.

    - The level of financial commitment which the Council has made to the Partnership.

    - Would the Council have options to secure a replacement partner in a relatively simple fashion should that partnership fail.

    - Partnerships which are key to achieving corporate ambitions.

    - It should be noted that we will seek to exclude purely commercial relationships from the partnership definition.

4. Where working with a partner organisation involves a significant financial commitment, is key to service delivery, would be difficult to replace, is crucial to securing corporate objectives then it is likely to be designated as a key partner, with all key partnerships being reported to Members on a quarterly basis as part of the Strategic Risk Register and Partnership report.

5. In addition to the Key Partners both Councils have well established partnership working with a number of smaller community based organisations. While collectively these play a crucial role in securing corporate objectives, individually they are often relatively small and the Council often has other partners who provide similar / related types of activity. In these cases the Council is obviously considerably better placed to secure a continued service to local residents should one of our partners fail to deliver in line with agreed standards. Given the more limited risks involved the performance management of these partnerships will be undertaken outside of the quarterly reporting process to Cabinet / Executive used to cover Strategic Risks and Key Partners. Progress updates will instead be provided by way of the reporting arrangements developed by the Partnership Team in operation at each particular Council. Given the large number and more limited scale of these partnerships the Council will continue to adopt a 'lighter touch' approach to these partners.Such a 'lighter touch' is appropriate in the light of the more limited nature of the risks involved.

6. When entering into a partnership or when reviewing its effectiveness for the Council key considerations will include:

   - What contribution does the partnership organisation make towards securing the objectives set out in the Council Corporate Plan
   - Does it provide Value for Money
   - Are there alternative delivery mechanisms available which could secure better outcomes.
   - Are the governance arrangements of the Partnership robust and does it work to similar values of openness and honesty that are crucial to the Council.
   - Do we have a legal duty to enter into the partnership with the organisation concerned ie the partnership is not an optional one.

How to carry out a Risk Assessment

All decisions that impact on business and service delivery will inevitably have an element of Risk. This Appendix sets out how to assess and manage these risks in order to help ensure that the Council is adopting a consistent approach to Risk Management.

Step 1: Identify Risks *

In the identification of risks the key issues will arise in respect of a consideration of the Council's existing activities, of its range of Plans, of anticipated Government policy or legislative changes, or changes in our local communities as a result of either particular local circumstances, or the impact of wider regional or national changes.

The risks that have been identified should be listed and then evaluated individually as follows:

Step 2: Assess Risks

It is important that the same basic process is used for assessing risks across all Council activities so that risks can be compared across services and departments in a consistent manner.

Use a separate copy of the attached Risk Assessment Form for each identified risk.

For each risk include separate assessments of:

- the **LIKELIHOOD** of the risk materialising; and
- **the** severity of the **IMPACT / potential consequences** if it does occur

This assessment is your own expert opinion, as a manager. It is inevitably subjective, although the process of agreeing and reviewing risk will subject the reasonableness of the assessment to challenge. There are no right or wrong answers, instead it is a tool to highlight

topics of potential concern. Assessment of the likelihood should, wherever possible, be decided upon known fact, experience and skill drawn from the team/service that is managing the hazard. see below

Each factor is evaluated on a sliding scale of 1-5; with 5 being the highest value i.e. highest likelihood / most severe impact / consequences. **Use the following guide** to assess these. This will also introduce a measure of consistency and comparability into the overall risk assessment process.

LIKELIHOOD

Score	Description	Indicative Guidelines
5	Common occurrence	• Is expected to occur in most circumstances • Will undoubtedly happen, possibly frequently e.g. annually or more frequently • Imminent / near miss
4	Likely	• Will probably occur in many circumstances • Will probably happen, but not a persistent issue e.g. once in 3 years • Has happened in the past
3	Foreseeable	• Could occur in certain circumstances • May happen occasionally, e.g. once in 10 years or more than 5 events in the last 5 years • Has happened elsewhere
2	Occasional incident	• May occur only in exceptional circumstances • Not expected to happen, but is possible e.g. once in 25 years or 1-3 events in the last 5 years • Not known in this activity
1	Freak event	• Is never likely to occur or no knowledge of this occurring at all. • Very unlikely this will ever happen e.g. once in 100 years • Force majeure

*You should utilise the experience and professionalism of your team/service in determining the 'actual' likelihood as opposed to the 'theoretical', wherever possible e.g. 1 = no known event, 2 = 1-3 no. events in the last 5 years, 3 = 5+ events in the last 5 years, etc.

IMPACT

Score	Description	Indicative Guidelines
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. E.g.s:- • Unable to function without aid of Government or other external Agency • Inability to fulfil obligations; • Medium - 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 • Death • Adverse national publicity - highly damaging, severe loss of public confidence • Litigation certain and difficult to defend Breaches of law punishable by imprisonment
4	Severe	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. E.g.s:- • Significant impact on service objectives • Short - Medium term impairment to service capability • Major financial loss - supplementary estimate needed which will have a major impact on the Council's financial plan • 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

Score	Description	Indicative Guidelines
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. E.g.s • 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 • Medical treatment required, semi-permanent harm up to 1 year • Some adverse publicity, needs careful public relations • High potential for complaint, litigation possible 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. E.g.s • Minor impact on service objectives • No significant disruption to service capability • Moderate financial loss – can be accommodated at service level • First aid treatment, non-permanent harm up to 1 month • Some public embarrassment, no damage to reputation • May result in complaints / litigation Breaches of regulations/standards
1	Negligible	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. E.g.s • Minimal impact, no service disruption • Negligible impact on service capability • Minimal loss - can be accommodated at service level • No obvious harm/injury • Unlikely to cause any adverse publicity, internal only

Score	Description	Indicative Guidelines
		Breaches of local procedures/standards

Having scored each risk for likelihood and impact, next plot the coordinates onto the following matrix and follow the guidance as appropriate. This enables risks to be categorised into Low, Medium and High Risk, which in turn can trigger different levels of response. A 5x5 matrix is used across the Council to measure risk.

- A Risk score of 8 or above must always be addressed and mitigated.
- The impact of a Risk always attracts the same score; only its likelihood can be reduced.

Green = Low Priority

No immediate action other than to set a review date to re-consider your assessment

Yellow = Medium Priority

Check current controls and consider if others are required

Red = High Priority

Take action to mitigate the risk.

IMPACT					
5	5	10	15	20	25
4	4	8	12	16	20
3	3	6	9	12	15
2	2	4	6	8	10
1	1	2	3	4	5
	1	2	3	4	5

LIKELIHOOD

Step 3: Manage and Control Risks

Next consider the following headings and record your findings: *

- **Current Controls / Mitigation** – existing measures that will (or can be used to) alleviate any possible problems. Ask yourself what contingency plans are in place already that can be brought into action.
- **Additional Controls / Mitigation required** – new measures that can be introduced to alleviate possible problems (e.g. Business Continuity planning helps to manage risk)

It may be helpful to consider the four T's:

Risks can be – *tolerated, transferred, terminated, or treated.*

Identify a person to take ownership of the risk and who will be responsible for managing the risk (the Responsible Officer). Also consider relevant timescale and line of reporting. Record all this information on the Risk Assessment form

* See Appendix 2: Risk Terminology

Business Risk Terminology

Control (risk) self-assessment: A class of techniques used to assess risk and control strength and weaknesses against a Control Framework. The "self" assessment refers to the involvement of management and staff in the assessment process. *

Financial risk: the risk that deficiencies in controls of expenditure, or funding problems, will adversely affect the entity's goals and objectives.

Inherent risk: the uncertainty or exposures that exist assuming no controls are in place.

Internal (risk) controls: the process designed to mitigate risks and provide reasonable assurance regarding the achievement of objectives.

Operational risk: the risk that the entity will not meet its operational goals and objectives i.e. departmental.

Physical or security risk: the risks associated with the safety and security of the organisation's personnel and facilities.

Reputational or image risk: the risk that an action or inaction by the entity will impair the organisation's ability to reach its goals and objectives.

Residual risk: the risk remaining after management takes action to reduce the impact and likelihood of an adverse event.

Risk: an expression of the probability that an event or action may adversely affect the organisation.

Risk assessment: the identification and analysis of relevant risks associated with achieving the objectives of the organisation.

Risk management: the systematic approach to assessing and acting on risk, to ensure that organisational objectives are achieved.

Risk Map: the visual representation of risks for a given entity, which have been identified through a risk assessment exercise, in a way that easily allows priority-ranking them.

Risk Profile: A description of the characteristics of a risks, mapping the change in the likelihood and impact of the risk to which an organisation has exposure.

Strategic risk: the risk that the entity will not meet its strategic goals and objectives i.e. corporate or 'cross service'.

* See References