

Report

Report subject: Amendment to Risk Management Policy and establishment of Risk Appetite

Report to: Audit Committee

Date: 13th June 2006

Author: David Crook, Acting Chief Executive

1 Background

- 1.1 The council adopted a risk management policy in 2003 and use of risk management has been developed since that time. It is now felt appropriate to amend the policy to reflect new developments, principally the Statement on Internal Control and the Audit Committee. In addition the risk management group has decided that the risk assessment methodology should be made more sophisticated and that the council's risk appetite for risk should be clearly expressed in the policy.

2 Summary of Key Changes

- 2.1 One key change is to introduce a five-point scale for both impact and likelihood instead of the three-point scale (high, medium, low) used previously. The risk management group consider this will allow more sophisticated judgements to be made. This will also support expression of the council's risk appetite. This is the level of risk that is acceptable to the council and helps to guide managers in managing risks to avoid both over and under control. A recommended risk appetite for the council is set out in the policy but it is important to recognize that this can be amended for individual projects or groups of risks.
- 2.2 The second area of change is to include within the policy the role of the Audit Committee in reviewing the overall effectiveness of the risk management process. This is a requirement for the preparation of the annual Statement on Internal Control.
- 2.3 The policy will be presented to the Cabinet at its meeting on 7th July for approval.

3 Recommendations

- 3.1 It is recommended that the amended risk management policy be endorsed by the Audit Committee prior to consideration by the Cabinet.



Awarded in:
Housing Services
Waste and Recycling Services



Implications:

- **Financial: None**
- **Legal:**
- **Human Rights: None**
- **Personnel: None**
- **Community Safety: None**
- **Environmental Impact: None**
- **Council's Core Values:** Providing excellent service, an open, learning council and a willing partner.

Risk Management Policy

1 Risk Management

1.1 Risk Management is 'the process whereby organisations methodically address the risks attaching to their activities with the goal of achieving sustained benefit within each activity and across the portfolio of all activities.'

(Risk Management Standard, AIRMIC, ALARM, IRM 2002)

1.2 Salisbury District Council has developed this framework of risk management to identify those risks, which if left unattended, will hinder the achievement of the council's strategic and operational objectives.

2 Objectives of the Risk Management Policy

2.1 Risk management should be established and integrated within existing management processes, including corporate planning, performance management and project management.

2.2 Principles of best practice in risk management will be used to develop the council's processes of risk management. However these will be developed to take account of the council's needs rather than applying a template.

2.3 Risk management will be used as a tool to ensure that the council can respond to the best of its abilities to changing demands, improve its performance and make most effective use of its resources. Salisbury District Council wishes to be an innovative organisation taking calculated risks, which have been identified and evaluated.

2.4 Risk management will be used to support the council's annual review of the internal control system and the Statement on Internal Control.

3 Role of Risk Management in planning

3.1 Risk Management will become an integral part of the council's corporate planning and decision-making processes. Strategic and major operational risks will be identified as part of the Portfolio Plans. For new initiatives and projects risk management will be used to inform the decision-making process and also to ensure that approved projects are delivered successfully.

3.2 The identification of risks should be considered at the planning stage so that decisions on future priorities and projects are made with knowledge of the potential risks.

3.3 For approved projects etc, risk management should again be included in the implementation plan. The use of risk management at this stage should help to ensure effective delivery of the project or service.

4 Scope of Risk Management

4.1 Risks that could affect the medium to long-term goals of the council should be considered as strategic risks. Risks that will be encountered in the day-to-day delivery of services should be considered to be operational risks.

4.2 Ultimately the process of risk management should apply to:

- Strategic risks;
- All proposed and approved projects, plans and strategies that fall within the integrated change programme.
- Operational risks

However the process of implementation will need to be targeted to achieve maximum benefit without bureaucracy. Risk management at the operational level should not be overwhelmed by relatively minor operational risks.

5 Practical Application of Risk Management

5.1 The council has developed a standard format and guidance for use in the identification of risks, their classification and evaluation. Details are in Appendix A. Any Risks will be classified according to the following categories:

- Political
- Reputation
- Economic/Financial
- Environmental & Sustainability
- Impact on People
- Organisational capability

5.2 The risk will be assessed as to its likelihood and impact using a five-point scale. The definitions are shown in the following table and in Appendices A and B:

Rank	Impact	Likelihood
5	Critical	Almost certain
4	Major	Highly likely
3	Significant	Likely
2	Moderate	Possible
1	Minor	Rare

5.3 Risk identification will be carried out by managers as part of the council's planning and management processes. Over time risk management will become embedded within the management processes of the council.

5.4 The risk registers will be established on the performance management system to record all risks that exceed the council's risk threshold. As part of the register the

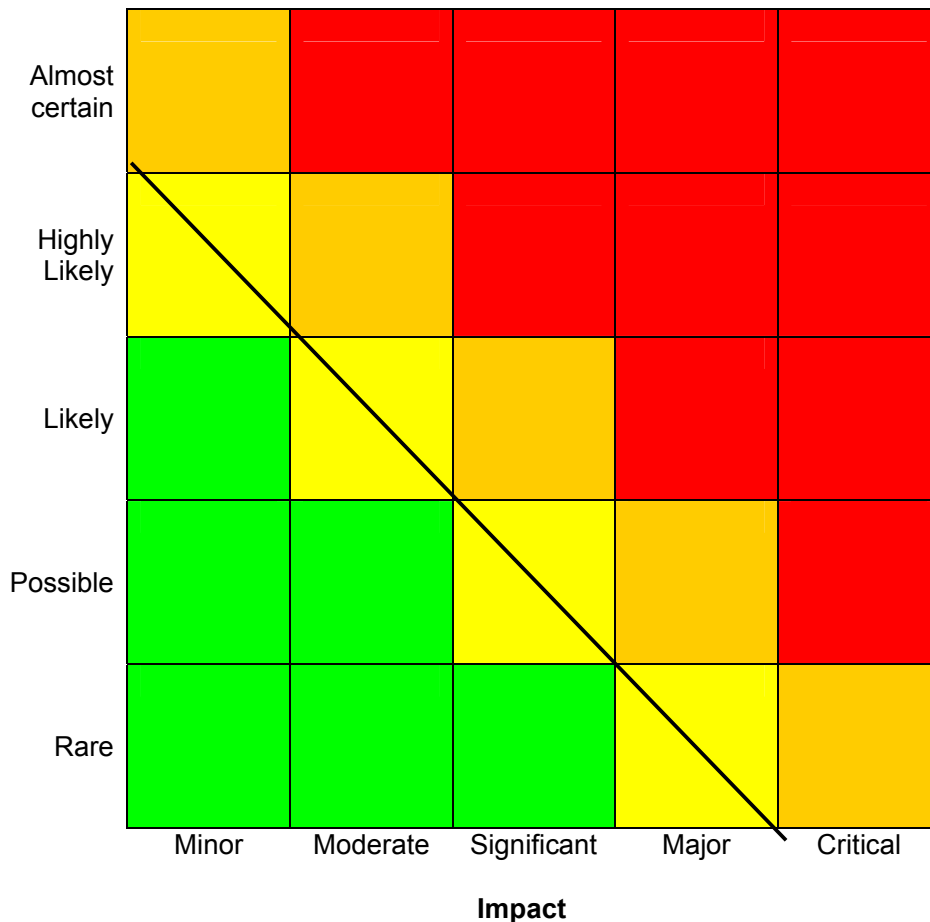
classification and evaluation of the risk will be recorded, together with the risk management actions proposed and taken. The residual risk to the council should then be identified. The risk register should be updated by the appropriate manager or nominated person to ensure that the information is up to date. The register will be the source of reporting on the level of risk to which the council is exposed and of the risk management actions to manage the risks.

5.5 The council has established a Risk Management Group with primary responsibility for developing and embedding the risk management policy within the council. It is supported by the Operational Risk Management Group and the Business Continuity Group.

6 Risk Appetite

6.1 Risk Appetite is just another tool for helping the council to assess risks. There is no hard and fast definition of the level of risk the council should accept. For example, some projects may incur high levels of risk but be judged as tolerable because the benefits are of high importance. Higher levels of risk will require higher levels of care and management. Risks above the line may be acceptable but should be approved by Management Team or Cabinet. Set out below is a rule of thumb setting a line above which alarm bells should ring. By establishing clear guidance on the council's risk appetite consistency in risk assessment is encouraged. The response to risks should be consistent with risk appetite so that both over-control and under-control can be avoided.

Likelihood



This groups risks into four broad areas:

- Risks within the risk appetite that should be managed and monitored using existing management processes.
- Risks at the risk appetite which should be managed to bring them below the risk appetite and monitored more regularly.
- Risks just above the risk appetite which should be managed to ensure that the residual risk falls below the risk appetite where possible. Regular monitoring should be undertaken.
- Risks significantly above the risk appetite that should be considered seriously before adoption. Risk management strategies should be put in place to avoid or reduce the risk within a short timescale. Frequent monitoring would be appropriate.

7 Roles and Responsibilities

7.1 Detailed roles and responsibilities for the implementation of risk management, the decision-making, review and reporting are set out in the following table.

Task	Responsibility
Identifying risks, classification and evaluation	<p>Risk identification will be undertaken at several levels to ensure comprehensive coverage:</p> <ul style="list-style-type: none"> • Members will be asked to identify the key strategic risks to the council. • Management Team will identify strategic and major operational risks to the council. • Service Managers and team leaders will identify operational and project risks. Consultation or a team approach is encouraged to ensure a broad and representative view. Risk owners should be identified in Project Initiation Documents. <p>Risk identification is expected to fall within the normal planning and co-ordination that would be expected for new and existing services.</p>
Recording risks on the risk register	The responsible manager will be required to record the outcome of the risk assessment on the risk registers held on the performance management system.
Risk management response	Where a risk management response is required, a named individual will be required to implement the appropriate task, and to report the outcome via the risk register.
Reporting of risks	<p>Risk reporting for new projects etc will happen at the appropriate level. For example at the approval of new projects or the portfolio plans. This will involve the senior managers involved in the approval process and Members where appropriate.</p> <p>Members should receive periodic updates from the risk management process.</p>
Review of the risks and the risk management	<p>Service Unit Heads will review all risks reported on the risk register, which fall within their operational areas.</p> <p>Management Team will review the risk register for strategic risks and</p>

actions	major operational risks to ensure appropriate actions are taking place.
Monitoring the effectiveness of the risk management strategy	<p>The Risk Management Group will monitor the operation of the Risk Management Policy with the following objectives:</p> <ul style="list-style-type: none"> • To ensure the policy is applied consistently across the organisation. • To be a source of advice on the interpretation of the Policy. • To identify areas where the Policy can be improved and developed. <p>Regular reports will be made to Audit Committee on the effectiveness of risk management in the council. The assessment of risk management will form a key part of the Statement on Internal Control.</p>
Audit of risk management process	Internal Audit will audit the application of risk management in the council and will report its findings to the Risk Management Group and to the Audit Committee.

**Risk Management Group
May 2006**

Appendix A – Categories of Risk

All risks, whether strategic or operational can be categorised in terms of its primary impact. It is possible for risks to cut across the categories but most should have a primary category. The purpose of the categories is to help understand the nature of the risk and to evaluate whether the proposed mitigation strategies are appropriate.

The Categories are set out in the following table, together with definitions that should help to define whether the risk of impact is Critical, Major, Significant, Moderate or Minor. This table, while not comprehensive, should help to ensure consistency in application.

Category	Critical Impact	Major Impact	Significant Impact	Moderate Impact	Minor Impact
Political Implementation of policies or decisions which would jeopardise the political stability of the authority	Major decision or policy for which the Administration have committed themselves not implemented. Major policy or decision implemented which is contrary to previous commitments.	Decision or policy for which the Administration have committed themselves not implemented. Policy or decision implemented which is contrary to previous commitments.	Decision or policy for which some Members of the Administration have committed themselves not implemented or is contrary to previous commitments. Decisions or policies that attract significant opposition from Members.	Decisions or policies that do not have wide ranging Member support.	Decisions or policies that are not supported by all Members.

<p>Reputation Actions or decisions which will affect the standing of the council in the local or national community</p>	<p>Loss of trust in the council amongst widespread groups. Sustained adverse media attention. Would result in downgrade of CPA or other accreditation.</p>	<p>Significant impact on levels of satisfaction with the council from widespread groups. Adverse national media attention or sustained local media attention. Impacts on the council's CPA or other accreditation.</p>	<p>Impact on satisfaction with the council, may be significant but limited to one group / area. Moderate local media attention.</p>	<p>Reduced levels of satisfaction but not long term. Some local media attention.</p>	<p>Impacts on satisfaction levels limited to individuals. One-off local media attention.</p>
<p>Financial Actions or decisions that will affect the finances of the council, in terms of either income or expenditure levels.</p>	<p>Major loss that will have a long-term impact on the financial standing of the council.</p>	<p>Major loss of income or unbudgeted expenditure in excess of £X</p>	<p>Major loss of income or unbudgeted expenditure in excess of £X</p>	<p>Loss of income or unbudgeted expenditure that does not exceed £Y.</p>	<p>Loss of income or unbudgeted expenditure that can be compensated for elsewhere.</p>
<p>Environment & Sustainability An impact on the local economy or on the local environment.</p>	<p>Long term or irrecoverable impact on environment.</p>	<p>Widespread impact on the local economy or major impact on individual sector.</p>	<p>Significant but localised impact on the local economy. Significant but temporary impact on the environment</p>	<p>Impact on economy or environment is moderate but short term.</p>	<p>Impact is minor and short term.</p>

<p>Impact on People Actions, decisions or policies that could affect individuals or communities. This includes: customers, tenants, residents and staff. This includes health & safety matters.</p>	<p>Irretrievable or long-term damage to stakeholders.</p>	<p>Major detriment to one or more of the council's stakeholders.</p> <p>Actions or non-actions that would breach the council's responsibilities for health and safety.</p>	<p>Sustained impact on one or more stakeholders.</p> <p>Actions that do not meet recommended Health & Safety practice, but still meet legal requirements.</p>	<p>Moderate or temporary impact on one or more stakeholders.</p>	<p>Minor impact on stakeholders.</p>
<p>Organisational Capability Actions or decisions that will impact on the council's ability to deliver its services to the required standards. This could include matters relating to assets, technology, changes to legislation etc.</p>	<p>Failure of or significant interruption to more than one major Council service for longer than x days.</p> <p>Sustained deterioration of service. Maladministration</p>	<p>Failure of or significant interruption to a major Council service for longer than x days.</p> <p>Ongoing deterioration of service.</p> <p>Council fails to fulfil statutory obligations.</p>	<p>Temporary interruption to a major service of no more than X days.</p> <p>Short-term reduction in service.</p> <p>Council fails to meet recommended practices as set by regulatory bodies, professional institutes etc.</p>	<p>Temporary interruption of more than one minor service of up to Y days.</p> <p>Temporary reduction in service.</p>	<p>Temporary interruption to a minor service of up to Y days.</p>

Appendix B – Likelihood of Risks

For each risk the likelihood needs to be identified. Together with impact the likelihood measures the risk against the council's risk appetite and influences the risk management response. The following definitions should be applied. Note that an appropriate timescale needs to be considered, depending on the function to which the risk relates.

For example, for annual plans & strategies it is likely to be most appropriate to consider the likelihood of risks occurring in the year. For projects extending over different time periods it is appropriate to consider likelihood over the lifetime of the project. For very long-term projects it is probably best consider likelihood over the different phases of the project.

Where there is base data to identify the likelihood of risk then this should be used.

Likelihood Rating	Definition
Almost certain	The event will occur in most circumstances
Highly likely	The event will probably occur at least once
Likely	The event is expected to occur at some time
Possible	The event might occur at some time
Rare	The event may occur only in exceptional circumstances

APPENDIX C

Salisbury District Council – Risk Register Format

Ambition / Theme	Project (No.)	Potential Risk	Impact / Likelihood	Risk Owner	Action	Residual Risk	Updated