Risk Management Strategy

1. Introduction

The purpose of this document is to outline an overall approach to risk management that addresses the risks facing the Council in achieving its objectives, and which will facilitate the effective recognition and management of such risks.

Risk management will be embedded within the daily operations of the Council, from strategy and policy formulation through to business planning, general management and operational processes. It will also be applied where the Council works in partnership with other organisations to ensure that partnership risks are identified and managed appropriately.

Through understanding risks, decision-makers will be better able to evaluate the impact of a particular decision or action on the achievement of the Council's objectives.

Risk management will not focus upon risk avoidance, but on the identification and management of an acceptable level of risk. It is the Council's aim to proactively identify, understand and manage the risks inherent in our services and associated with our plans, policies and strategies, so as to support responsible, informed risk taking and as a consequence, aim to improve value for money. The Council will not support reckless risk taking.

Risk management is increasingly recognised as being concerned with both the positive and negative aspects of risk; that is to say opportunities as well as threats.

This strategy therefore applies to risk from both perspectives.

2. Objectives of the Strategy

- To maintain strategic and operational risk registers that identify and rank all significant risks facing the Council, which will assist the Council achieve its objectives through pro-active risk management,
- To rank all risks in terms of likelihood of occurrence and potential impact upon the Council,
- To allocate clear roles, responsibilities and accountability for risk management,
- To facilitate compliance with best practice in corporate governance, which will support the Annual Governance Statement which will be issued with the annual statement of accounts,
- To raise awareness of the principles and benefits involved in the risk management process, and to obtain staff and Member commitment to the principles of risk management and control.

3. Assessment and Review

This will involve consideration of all potential risks facing the Council, with risks broken down into strategic risks, which could impact on the achievement of the Council's objectives, and service risks which could impact upon the ability of service units to deliver their services or to achieve their service objectives.

All risks will be clearly defined together with the controls that currently exist to manage them. Consideration of the adequacy of the present control system will avoid duplication of resources as several of the identified risks may already prove to be effectively controlled.

It is important that the internal systems and procedures in place are adequate to manage the identified risk. Where control weaknesses are identified, these should be noted so that action can be taken to remedy such weaknesses.

The risk register will be reviewed and updated at least on a quarterly basis.

The Internal Audit section will focus audit work on significant risks, as identified by management, and will audit the risk management process across the whole Council to provide assurance on its effectiveness.

The Council will seek to learn from other organisations where appropriate and to keep up to date with best practice in risk management.

4. Risk Ranking

All risks will be rated for the likelihood that they may occur and their potential impact. This will allow for risks to be ranked and prioritized; as not all risks represent equal significance to the Council.

5. Action Plan

Once risks have been identified and ranked, the next step is to control and manage them. This will involve the consideration of cost-effective action, which will be judged against risk rankings. The proposed action to be taken will then be mapped against the specified risk together with an implementation date, and a named person will be designated as responsible for 'owning' the risk.

6. Risk Appetite

The Council will use risk management to add value. It will aim to achieve a balance between under-managing risks (i.e. being unaware of risks and therefore having little or no control over them), and over-managing them (i.e. an obsessive level of management and control which could stifle innovation and creativity).

Appropriately managed and controlled risk-taking and innovation will be encouraged where it is in furtherance of the Council's objectives.

7. Benefits of Risk Management

- Awareness of significant risks with priority ranking assisting in the efficient control of the risks,
- Recognition of responsibility and accountability for risks and associated existing controls and any actions required to improve controls,
- An aid to strategic and business planning,
- Identification of new opportunities,
- Action plan for the effective management of significant risks,
- An aid in effective partnership working.

8. Accountability

There will be clear accountability for risks. This will be achieved through an annual report to Cabinet on risk management, an Annual Governance Statement signed by the Chief Executive and the Leader of the Council, and by making the Council's risks and risk management process open to regular Internal Audit and external inspection (e.g. by the Audit Commission as the Council's external auditors). The Audit Committee will be responsible for monitoring the Council's risk management arrangements.

An annual review of this Strategy will be undertaken to ensure it remains current and up to date and reflects current best practice in risk management, and recommendations will be made to the Cabinet if it is considered that any improvements or amendments are required.

Members of the Cabinet will be briefed regularly to ensure they are aware of significant risks affecting their portfolios and any improvements in controls which are proposed.

A Risk Management Working Group will meet regularly to ensure that risk management processes are being applied consistently, to promote risk management throughout all departments and to ensure continuous improvement in risk and opportunity management.

Risk Management Policy

1. Charnwood's Approach

The Council's approach to risk and opportunity management has been developed to support the key requirements of good corporate governance:

Open and Transparent: The approach to managing risks will be open and transparent and blame will not be attributed if decisions made in good faith turn out to be the wrong decision. Staff, Councillors, members of the public, partners and outside organisations should have access to information on our current risks and opportunities and how the Council is managing them. Risk management supports and enhances this decision making process and Cabinet reports include information on the risks and opportunities in taking, or not taking, a recommended course of action.

Consistent: There will be consistency of approach to identifying, assessing and managing risks across the organisation. The framework will ensure that the risks are reviewed regularly and that any changes in circumstances are recorded and acted upon.

When managing and controlling risks, actions will be proportionate - the cost and time of our efforts should be in balance with the potential impact of the risk.

Accountable: There will be clear accountability for risks. This will include an annual governance statement signed by the Chief Executive and Leader of the Council, approved by the Audit Committee and included in the Council's Annual Statement of Accounts; and recorded risks will be open to regular internal audit and audit inspection by external agencies (e.g. external auditors, Audit Commission).

Appropriate risk-taking and innovation will be encouraged and promoted through a 'no blame' culture.

The Council will manage its risks to add value, i.e. it will aim to achieve the balance between under-managing risks i.e. unaware and therefore no control, which could damage the Council's performance, and over-managing them i.e. an obsessive level of involvement in the fine details, which could become overwhelming and stifle innovation and creativity.

2. Risk Management Framework

2:1 Key elements of the framework

The purpose of the risk management framework is to define how risks and opportunities will be handled within Charnwood District Council. The framework provides information on roles and responsibilities, processes and procedures. It sets the context for the management of risks and defines how they will be identified, assessed, managed and reviewed.

The Council has a clear framework and process for identifying, assessing, managing / controlling, reviewing and reporting of its risks. The leadership, roles and responsibilities are defined for managing those risks.

The Council expects all of its employees, officers and Councillors to have a level of understanding of how risks and opportunities could affect the performance of the Council and to regard the management of those risks / opportunities as part of their everyday activities. This could be the management of strategic risks (those risks that need to be taken into account when making judgements about medium and long-term goals), or operational risks that managers and staff will encounter in the daily course of their work. Some groups or individuals will have a specific leadership role or responsibility for risk management and this detail is set out in Section 2:2.

The Council has a four-step process for identifying, assessing, managing and controlling and reviewing risk (See Figure 1, page 8). This is a continuous process and integrates with performance management. The Council has agreed criteria by which to judge the likelihood and impact of risks, effectiveness of control measures and required levels of management of residual risks.

2:2 Leadership, roles & responsibilities

The Cabinet

- Approve the Council's Risk Management Strategy and subsequent annual revisions
- Consider risk management implications when making decisions
- Agree an appropriate response to the Council's highest risks
- Receive an annual report on risk management
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Audit Committee

- To maintain an independent oversight of risk management issues
- To undertake reviews of specific areas of risk management activity or initiatives where required
- To consider the effectiveness of the implementation of the risk management strategy
- To review the Council's Annual Governance Statement

The Officer Risk Champion (Head of Performance & Audit)

- To be responsible for the oversight of the risk management activities of the Council
- To provide the Cabinet and Audit Committee with assurance that the Council's corporate business risks are being actively and appropriately managed

Senior Management Team

- To oversee the corporate approach to risk management
- To identify, assess and capture improved performance and value for money through risk and opportunity management
- To ensure that a robust framework is in place to identify, monitor and manage the Council's strategic risks and opportunities
- To overview and review the strategic risk register
- To receive regular reporting on strategic risks and identify necessary actions

- To determine the Council’s tolerance for each of its high risks
- To demonstrate commitment to the embedding of risk management across the organisation

Risk Management Working Group

- To raise the awareness of risk management issues and promote a risk management culture across the organisation
- To create a forum for discussion and a focal point for risk management
- To assess corporate risks and opportunities identified by the Authority
- To ensure that the most appropriate and cost effective measures are adopted to avoid, minimise and control those risks in accordance with ‘Best Value’ principles
- To develop good risk management practices within the Council
- To encourage the development of contingency plans

Heads of Service

- To identify and assess new risks and opportunities
- To include Risk Management as an Agenda item at team meetings
- To maintain the Council’s operational risk register in relation to their areas of responsibility, identifying and reporting upwards any significant risk management issues affecting their service area
- To ensure compliance with corporate and service risk management standards
- To ensure that all service deliverers (employees, volunteers, contractors and partners) are made aware of their responsibility for risk management and the mechanisms for feeding concerns into the Council’s risk management process
- To ensure that an effective framework is in place to manage risks faced by the service
- To identify and analyse risks for impact and likelihood and introduce risk control measures
- To identify initiatives that could reduce the impact and/or likelihood of risks occurring
- To identify initiatives that could increase the likelihood of an opportunity being realised
- To ensure that risk register entries and controls are accurate and up to date
- To monitor the progress of planned actions on a quarterly basis to ensure that aims are achieved
- To report quarterly to their Director on the progress of risk management action plans and any new risks identified
- To communicate the risk process to all staff and ensure they are aware of their responsibilities

Team Risk Owners (if other than Head of Service)

- To have responsibility for the management of risk within their area, including the implementation of action plans
- To include Risk Management as an Agenda item at team meetings
- To review each risk at least quarterly and report to the Head of Service and/or Director, identifying any changes in circumstances or factors around the risk
- To communicate the risk process to staff in their section and to ensure that they are aware of their responsibilities

Improvement Manager (Audit & Risk) & Insurance Officer

- To provide facilitation, training and support to promote an embedded proactive risk management culture throughout the Council
- To provide facilitation, training and support to Members
- To assist services in identifying, analysing and controlling the risks that they encounter
- To ensure that risk management records and procedures are properly maintained and that clear audit trails exist in order to ensure openness and accountability
- To provide risk management advice & support to Directors, Heads of Service, risk owners and service teams
- To develop means of best practice in risk management by reference to risk management standards and comparisons with peer authorities
- To address internal audit recommendations
- To keep SMT and the Head of Performance & Audit fully briefed on the Council's top risks and any other risk issues as appropriate
- To liaise with internal and external audit / Insurers / Health & Safety / Emergency Planning
- To liaise with external consultants and risk management organisations to promote and maintain best practice within the Council
- To ensure the timely purchase of adequate insurance for the transfer of risk

All Employees

- Within their given area of responsibility and work, to have an understanding of risks and regard their management as part of their everyday activities, including the identification and reporting of risks and opportunities which could affect the Council
- To carry out or assist with risk assessments for their areas of work
- To maintain an awareness of risk and feed this into the formal management and reporting processes
- To support and participate in risk management activities

Internal Audit

- To independently assess the Council's risk management arrangements
- To review the content and scope of the risk register
- To review the adequacy of procedures by departments to assess, review and respond to risks
- To review the effectiveness of the Council's system of internal

control

- To consider the content of the risk register when preparing the Annual Audit Plan

2.3 Four Steps of Risk Management.

We will take a very simple approach to the risk management framework which will reflect the performance management framework and which can be linked to it.

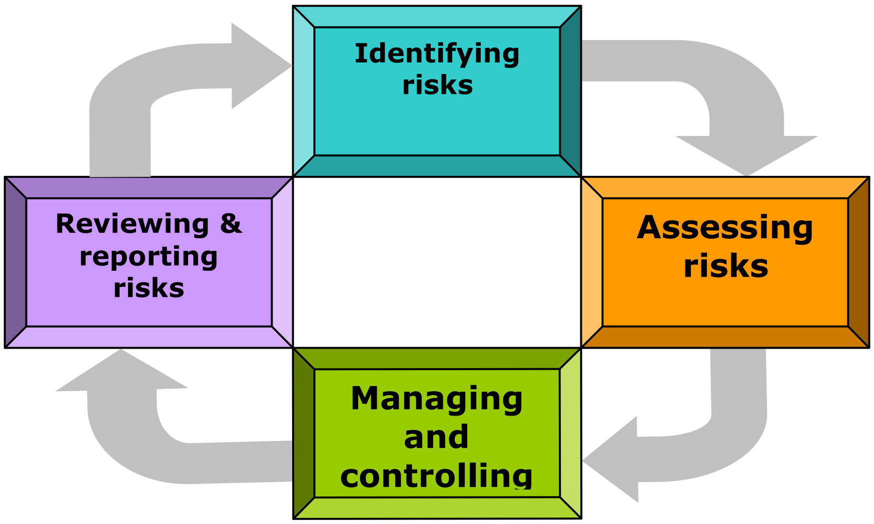

Figure 1: The four steps of the risk management cycle

Step 1 Identifying risks: the means by which threats and opportunities are identified and turned into manageable statements.
Step 2 Assessing risks: estimating the levels of likelihood and impact of the risks and opportunities, and assessing which of the risks pose the greatest threat and what would be the benefits of exploiting or taking up an opportunity.

Step 3 Managing and controlling risks: developing and putting in place actions and control measures to treat or manage the risk, or maximising opportunities.

Step 4 Reviewing & reporting any changes in risks and ensuring that the actions and control measures are appropriate, effective and still relevant

Step 1: Identifying Risks

Our working definition of risk is:

"Risk is something that may have an impact on the achievement of our objectives. This could be an opportunity as well as a threat"

Drivers of risk

The Council faces risks from both internal and external factors. Understanding this helps us to assess the level of influence we may have over the risk.

There are three parts to a risk – an **event** that has a **consequence** that leads to an **impact** on our objectives - and it can be measured by estimating the ***likelihood*** of the event happening and the ***impact*** it may have on our objectives if it does.

It also helps to think of risk being driven by two basic categories, **Strategic** and **Operational.** At strategic levels, the focus is on identifying the key risks to successful achievements of the Council's overall objectives. Operational risks are the risks (or opportunities) that are most likely to affect the performance and delivery of business services.

Strategic and operational risks are not mutually exclusive and a risk may escalate from one to another. They can all be driven by either external or internal factors, or a combination of both.

Identifying risk

- We need to be clear what the business objectives are;

- In the risk identification stage we are concerned with identifying events that can impact on the business objectives – **'what could happen?'** We need to look at both the positive and the negative effect and so should also ask ourselves **'what could happen if we don't?'** This will help us become more confident with risk taking and exploiting opportunities. Insignificant risks can be ignored, significant risks can be planned for and the costs of taking action can be compared with the price to be paid if the adverse event occurs;

- It will help to use prompts to identify the areas of risk. Common areas are:

  - **Strategic**: doing the wrong things as an organization, missing opportunities
  - **Finance**: losing monetary resources or incurring unacceptable liabilities
  - **Reputation**: the Council's image, loss of public confidence
  - **Political**: political embarrassment, not delivering local or national policies**Partnerships**: the risks/opportunities the Council is exposed to as part of a partnership

- **Legal / Regulatory**: claims against the Council, non-compliance
- **Operational**: doing the right things in the wrong way (service delivery failure, targets missed). Missing business opportunities
- **Information**: loss or inaccuracy of data, systems or reported information
- **Customer/ citizens**: understanding their needs; delivery of services
- **Environmental**: things outside of our control; environmental impact
- **People**: risks associated with employees, management and Councillors.

▪ Using the categories above, "brainstorm" the things that could prevent or hinder your team from achieving its business objectives. Try not to get too bogged down with the categories, or what risk fits under which category – they are just a general guide to aid your thinking. It is important to allow the session to be as free flowing as possible and members must be willing to identify risk without fear of retribution or criticism. Remember – the identification of risk now means that the team faces one less unpleasant surprise later!

▪ The thoughts and ideas from that brainstorming then need to be grouped into common themes and developed into the actual risk.

Risks and issues:

Very often issues will be raised in the brainstorming session, and you will need to get to the root cause i.e. what is the risk that the issue poses? An issue is a concern that cannot be avoided or maybe ongoing, whereas a risk may not actually materialise.
Risks can become issues, but issues cannot become risks.

Expressing the risks as a statement is often harder than it first seems. It may require re-thinking some basic assumptions about a situation and re-evaluating the elements that are most important. For example "lack of staff" is an issue and is not in itself a complete description. Try to externalise the issue and develop it into a risk that expresses how the issue will impact upon achievement of the Council's strategic objectives.

Try to include those three parts to your risk **Event – Consequence – Impact.**
This will ensure that focus, and therefore action is placed on the event.
Typical risk phrasing could be

loss of…
failure of…..
failure to...
lack of…
partnership with…
development of…

leads to ….. resulting in……

For example, Environmental Services may identify the failure of the waste collection service, e.g. due to bad weather conditions, as a risk. They develop this around **event, consequence, impact** to:

"Failure of the waste collection service due to inclement weather (the event) could lead to unacceptable delays in collecting refuse (the consequence), resulting in public health issues and loss of reputation (the impact)."

Step 2: Assessing Risks

You will now have a list of risks. The next step is to assess those risks in terms of the likelihood that they will occur and the impact if they do. This will give us an **inherent risk** score that will help us identify the most serious risks **before any controls have been applied**. Using that information we can make decisions about the significance of those risks and how or whether we should address them.

The Council has agreed criteria for the levels of likelihood and impact for risks, shown in tables 1 and 2 below, and criteria for opportunities shown in tables 3 & 4. The definitions for likelihood of occurrence are quite short. However, because the impact of the risk can be much wider, the definitions are more comprehensive.

- Continuing in the Group session, look at each of the risks and using the criteria in the tables below, assess the risk in terms of the **likelihood** that it will occur and **impact** on the Council if it should occur.
- **Focus on the description** when assessing the level of likelihood and impact. Use the number rating to summarise the descriptive information.
- When you have assessed both the risk likelihood and impact, multiply the likelihood score by the impact score – this will give the **Inherent** risk score. This is the score we use to identify which risks are the most serious, allowing us to make decisions about the significance of those risks to the Council and how, or whether, we should address them.

Table 1: Description and definitions of the LIKELIHOOD of the RISK occurring

Scale / Level	Descriptor	Description
1	**Remote**	May only occur in exceptional circumstances
2	**Unlikely**	Is unlikely to occur, but could occur at some time
3	**Possible**	Fairly likely to occur at some time, or in some circumstances

4	**Probable**	Will probably occur at some time, or in most circumstances
5	**Highly Probable**	Is expected to occur in most circumstances

Table 2: An example of the description and definition of the IMPACT of the RISK should it occur (these are not set in stone – they are merely a guide)

Risk	Scale	Effect - Service Delivery	Effect - Financial	Effect Health & Safety	Effect – Environment	Effect – Reputation
Severe	**5**	Severe disruption to CBC. Loss of service delivery for more than seven days	Severe financial loss >£1,000,000	Loss of life. Intervention by HSE	Significant local, national and/or international environmental damage	Extensive coverage in the national press and broadsheet editorial, and/or a national TV item
Major	**4**	Major disruption to CBC – serious damage to CBC's ability to service its customers. Loss of service for more than 48 hours but less than 7 days	Major financial loss >£100,000 -<£1,000,000	Extensive / multiple injuries. Intervention by HSE	Major damage to the local environment	Coverage in national broadsheets, the press, and/or low national TV reporting
Moderate	**3**	Noticeable disruption to CBC – some customers would be affected.	High financial loss >£25,000 - <£100,000	Violence, threat or major injury - medical treatment required.	Moderate damage to the local environment	Coverage in the national tabloid press and/or extensive front page

		Loss of service no more than 48 hours		Intervention by HSE		coverage in local press, and/or TV
Minor	**2**	Some disruption to internal business only - no loss of customer service	Medium financial loss >£5,000 -<£25,000	Minor injury - first aid treatment only required	Minor damage to the local environment	Minimal reputation damage. Minimal coverage in the local press
Insignificant	**1**	Insignificant disruption to internal business – no loss of customer service	Low financial loss <£5,000	No injuries	No, or insignificant environmental damage	No reputational damage

- Now that the inherent risk score has been calculated, we need to plot the risks on a risk prioritisation matrix to show the level of the risks and so make decisions about the significance of those risks to the Council, and how they will be managed (see figure 2 below). This is our **risk profile.**

Figure 2: Risk Prioritisation Matrix: managing the risk

Note: Numbers in the left hand top corner of the boxes = the inherent risk score

LIKELIHOOD

IMPACT

	Remote 1	**Unlikely 2**	**Possible 3**	**Probable 4**	**Highly Probable 5**
Severe 5	5 ↑	10 ↑↑	15 ↑↑	20 ↑↑↑	25 ↑↑↑
Major 4	4 =	8 ↑	12 ↑↑	16 ↑↑↑	20 ↑↑↑
Moderate 3	3 =	6 ↑	9 ↑	12 ↑↑	15 ↑↑
Minor 2	2 =	4 =	6 ↑	8 ↑	10 ↑↑
Insignificant 1	1 =	2 =	3 =	4 =	5 ↑

MANAGING RISK

Level of risk / (Inherent risk Score)	**Indicated by**	**How the risk should be managed**
Very High Risk (16-25)	**Red ↑↑↑**	**Requires active management** High impact / High likelihood: risk requires active management to manage down and maintain the exposure at an acceptable level. Escalate upwards.
Medium to High Risk (10 -15) **Risk (5 – 9)**	**Amber ↑↑** **Amber ↑**	**Contingency Plans** A robust contingency plan may suffice together with early warning mechanisms to detect any deviation from the profile. **Good Housekeeping** May require some risk mitigation to reduce the likelihood if this can be done cost effectively, but good housekeeping to ensure that the impact remains low should be adequate. Re-

		assess frequently to ensure conditions remain the same.
Low Risk (1-4)	**Green =**	**Review periodically** Risks are unlikely to require mitigating actions but status should be reviewed quarterly to ensure that conditions have not changed.

Assessing Opportunities

The same steps need to be taken for assessing **opportunities**. Tables 3 & 4 below lay out the criteria for assessment of likelihood and impact. Figure 3 provides guidance on how the identified opportunities are best managed.

Table 3:
Description & definitions of the LIKELIHOOD of the OPPORTUNITY occurring

Scale / Level	Descriptor	Description / Indicators
1	**Highly Probable**	A clear opportunity already identified which can be relied upon, with reasonable certainty, to be achieved in the short term and which will deliver clear benefits.
2	**Probable**	An opportunity that has been explored and may be achievable but which will require careful management. Opportunities which have been clearly identified or deliverable benefits achieved from managing / tolerating an identified risk.

3	**Possible**	A possible opportunity which has been identified but which has yet to be fully investigated. Benefits that can be attributed to the careful management or toleration of an identified risk.
4	**Unlikely**	An opportunity for which the likelihood is low based on resources currently being available. The possibility of some benefits if the risk is carefully managed.
5	**Remote**	No evidence or experience of this happening in the organisation. No identified benefits.

Table 4: Description of IMPACT (i.e. the benefits) of the OPPORTUNITY – (again, this is merely a guide)

Risk	Scale	Effect - Service Delivery	Effect - Financial	Effect – Environment	Effect – Reputation
Significant	**5**	Customers would see significant and noticeable improvements in service delivery. National or international partnership initiatives identified	Income generation and / or savings >£1,000,000	Significant improvement to national and/or international environment	Extensive positive coverage in the national press and broadsheet editorial and/or a national TV item
Major	**4**	Major improvement to CBC. Customers would see an improvement in service delivery, quality, level and cost. Regional partnership initiatives identified	Major income generation and /or savings >£100,000 - >£1,000,000	Major improvement to the local environment	Coverage in national (broadsheet) press and/or low national TV reporting
Moderate	**3**	Noticeable improvement to CBC. Slight improvement to customer service. District, County and third party partnership initiatives identified	High income generation and / or savings <£25,000 - <£100,000	Moderate improvement to the local environment	Positive media coverage in the national tabloid press, municipal journals and/or significant local media coverage
Minor	**2**	Some slight improvement on internal business – little effect on customer service. No change in service delivery. Local partnership initiatives identified	Income generation and / or savings >£5,000 - <£25,000	Minor improvement to the local environment	Positive local media coverage

Insignificant	**1**	No improvement to internal business. No change to delivery of customer services. No additional partnership initiatives identified	Income generation and / or savings up to £5,000	No, or insignificant environmental improvement	Would not have any impact on the Council's reputation

Figure 3: Opportunity management matrix:

When you consider **risks** (threats), you concentrate on the ones most likely to occur and take steps to **reduce** the likelihood of those risks happening.

But when you consider **opportunities** (benefits), you concentrate on the ones most likely to benefit the Council and take steps to **increase** the likelihood of the opportunity being realised (i.e. this is the reverse of managing risks).

LIKELIHOOD / PROBABILITY

	Highly Probable 1	**Probable 2**	**Possible 3**	**Unlikely 4**	**Remote 5**
Significant 5	5 ↑	10 ↑↑	15 ↑↑	20 ↑↑↑	25 ↑↑↑
Major 4	4 =	8 ↑	12 ↑↑	16 ↑↑↑	20 ↑↑↑
Moderate 3	3 =	6 ↑	9 ↑	12 ↑↑	15 ↑↑
Minor 2	2 =	4 =	6 ↑	8 ↑	10 ↑↑
Insignificant 1	1 =	2 =	3 =	4 =	5 ↑

IMPACT

MANAGING OPPORTUNITIES

Level of Opportunity	Indicated by	How the opportunity should be managed
Significant opportunity 16-25	**Red ↑↑↑**	Requires prompt action to increase the likelihood of the opportunity being realised.
High developing opportunity 10-15 **Medium developing opportunity 5 - 9**	**Amber ↑↑** **Amber ↑**	Requires active engagement to increase benefits and / or probability of the opportunity being realised. Requires robust contingency plans and early warning mechanisms to ensure that the opportunity does not become any lower, or a threat.
Low > **developing opportunity 1-4**	**Green =**	Requires active management to ensure that the opportunity remains and does not become a threat.

Step 3: Managing & Controlling Risks

- Now that the risks and opportunities have been identified and assessed for likelihood and impact, there needs to be agreement on **who** will own the risk (and/or manage it) and **how** the risk/opportunity will be managed, controlled or exploited.

  There are three questions that will help here:
  1. Can we reduce the likelihood of occurrence?
  2. Can we reduce the impact?
  3. Can we change the consequences of the risk?

  There are four common approaches to treating risk: ‘**the four T’s’**

  - **TOLERATING** the risk. An organisation that recognises the value of risk management may accept that it might be appropriate to continue with an ‘at risk’ activity because it will open up greater opportunities for the future (but not before documenting the full reasoning behind that decision). Or perhaps nothing can be done to mitigate a risk at a reasonable cost in terms of potential benefit, or the ability to do anything about a risk may be very limited.

Where the Council decides to set these levels of acceptance is known as its **risk tolerance or risk appetite**, e.g. the Council may tolerate a risk where:

- The risk is effectively mitigated by internal controls, even if it is a high risk
- The risk cannot be mitigated cost effectively
- The risk opens up greater benefits

These risks must be monitored and contingency plans should be put in place in case the risks occur.

- **TREATING** the risk. This is the most widely used approach. The purpose of treating a risk is to continue with the activity which gives rise to the risk, but to bring the risk to an acceptable level by taking action to control it in some way through either
  - **containment** actions (these lessen the likelihood or consequences of a risk and are applied before the risk materialises) or
  - **contingency** actions (these are put into action after the risk has happened, thus reducing the impact. These <u>**must**</u> be pre-planned)

- **TERMINATING** the risk – doing things differently and therefore removing the risk. This is particularly important in terms of project risk, but is often severely limited in terms of the strategic risks of an organisation.

- **TRANSFERRING** some aspects of the risk to a third party, e.g. via insurance, or by paying a third party to take the risk in another way. This option is particularly good for mitigating financial risks, or risks to assets, e.g. transferring a risk may be considered to reduce the exposure of the Council, or because another organisation is more capable of effectively managing the risk. However it is a limited option – very few strategic risks are insurable and only around 15 - 20% of operational risks can be insured against.

When risk management is embedded, we become more confident risk takers and a <u>fifth</u> option is open to us:

- **TAKING THE OPPORTUNITY:** This is not an alternative to any of the above, rather it is an option to be considered whenever tolerating, treating, or transferring a risk. There are two aspects to this:

  - The first is whether or not at the same time as mitigating a threat an opportunity arises where a positive impact can be exploited. For example, if a large sum of capital funding is to be put at risk in a major project, are the relevant controls judged to be good enough to justify increasing the sum of money at stake to gain even greater advantages?

    - The second is whether or not circumstances arise which, whilst not generating threats, offer positive opportunities, e.g. lowering the cost of providing goods or services may free up resources that can be re-deployed.

- Try to establish the cost of your planned actions. Remember, the cost of management and control of the risk should be proportionate to the risk that is being addressed. Some measures may be relatively easy to address, others might have to be implemented in phases. If you have identified risk treatment that falls outside your immediate area of influence, this should be referred to the Risk Management Working Group so that they can help to co-ordinate control measures between services.

- The risk prioritisation matrix in Figure 2, page 14, gives a guide to how the risk should be managed. By following these guidelines we will ensure that risks are not over-managed, i.e. where contingency plans and early warning mechanisms or good housekeeping are required, that should be sufficient. We should not be using high levels of human, physical and financial resources trying to do anything more. We should focus those resources on the very high risks that need to be actively managed.

- Identify existing controls / action plans. Develop new controls / action plans where none exist. Refer to the Risk Management Working Group where assistance is required with co-ordination of controls outside of your own immediate area. When drawing up control measures, it is good practice to consider whether you can identify any early warning signs or triggers that will tell you it is time to put contingency plans in place. (Looking at your performance measures might help).

- Identify and agree who will own the risk and who will manage it (this may be the same person). The risk owner should have delegated authority to implement and manage the controls.

- Using the guidelines in the risk prioritisation matrix, agree how the risk will be managed (i.e. which of the 4 T's?).

- When the existing controls and action plans have been identified, the risk can be re-assessed for likelihood and impact. The new score is the **residual risk**, i.e. that which exists after controls have been applied and so the **real** level of risk to the Council.

Step 4: Recording & Reviewing Risks

Circumstances and business priorities can, and do, change, and therefore risks, opportunities and their circumstances need to be regularly reviewed. Some risks will move down the priority rating, some may leave, and others will be identified.

As part of the Council's risk management framework, risk owners are required to review their risks at least quarterly. Any new very high risks, or the escalation of existing risks, should be reported to the Head of Service immediately.

Risk management should be included as an item on the agenda of all departmental management or team meetings.

The risk management framework (the four steps of risk management) is a continuous cycle designed not only to identify, assess, manage and review risks, assess but also to support your business objectives. You should review the risk identification process when drawing up your annual service plan so that the risks and opportunities link directly to your business objectives. That way, risks and opportunities are directly linked to the achievement of the business objectives, which can then be prioritised using that information.

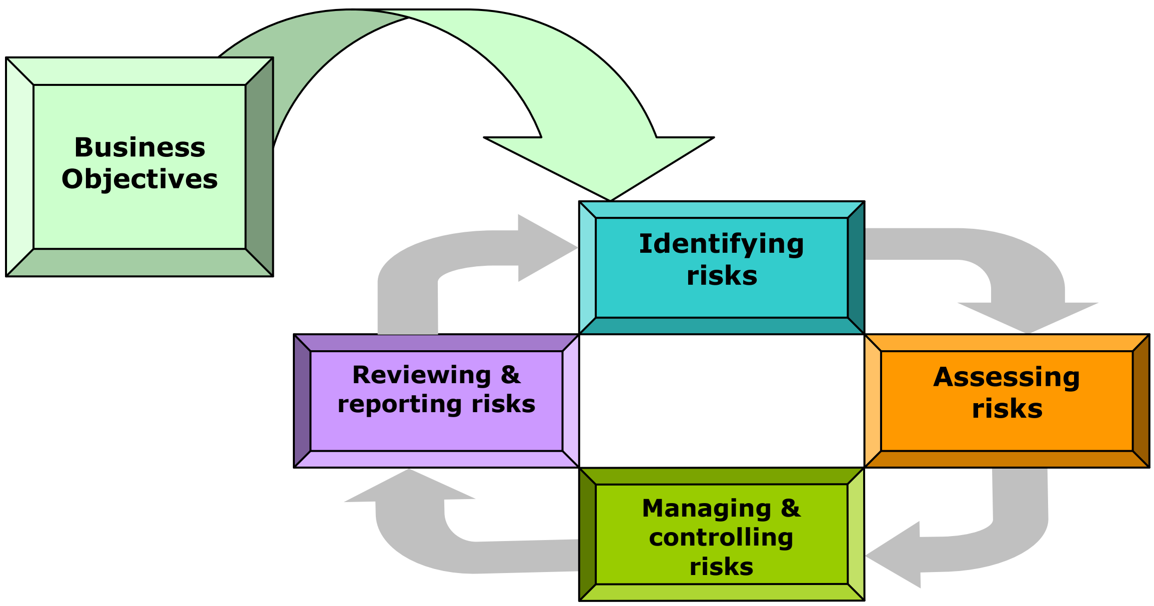

Figure 5: Linking business objectives and risk management cycle