EAST CAMBRIDGESHIRE
DISTRICT COUNCIL

Appendix A2

Risk Management Framework

Contents

1. Introduction

East Cambridgeshire District Council seeks to ensure that services, delivered either directly or through others, are of a high quality and provide value for money and meet evidenced need. We are a complex organisation that works with a wide variety of other organisations in different and varying ways. As a result, we need to ensure that the way we act, plan and deliver is carefully thought through both on an individual and a corporate basis.

However, there are many factors which might prevent the Council achieving its plans, therefore we seek to use a risk management approach in all of our key business processes with the aim of identifying, assessing and managing any key risks which might be faced. This approach is a fundamental element of the Council's code of governance and is explained in the following statement:

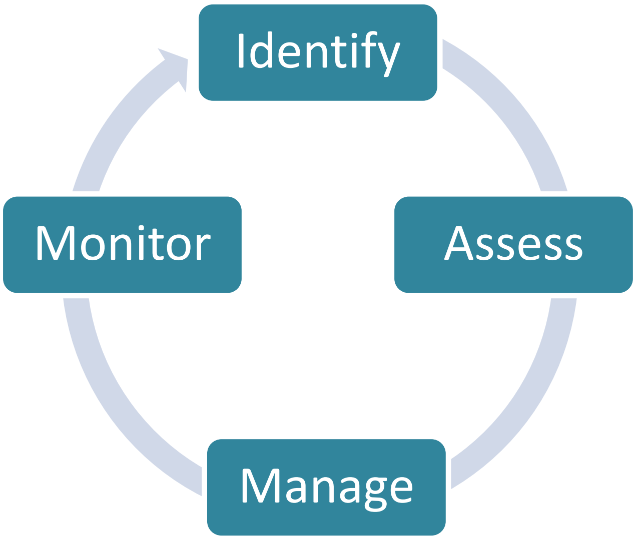
'The system of internal control is a significant part of that [governance] fr*amework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically*.'

It is important to recognise that the Council is not seeking to 'factor out' all risk, as this would not be a cost effective use of scarce resources, but instead to manage risk in a proportionate manner relative to the severity of the risk. It is also important to remember that risks must be managed, but not avoided to the extent that innovation and opportunities are stifled.

The definition of risk is:

“Factors, events or circumstances that may prevent or detract from the achievement of the Council’s corporate priorities and service plan objectives”.

The risk management approach is based upon the standard management cycle of:



This document details the Council’s risk management approach and the practices required to make it work.

Risk management is a dynamic tool which should be used from the point at which a risk is first identified until such time as it no longer represents a significant risk to the Council.

2. Benefits of Risk Management

There are many benefits to risk management:

- It alerts members and officers to the key risks which might prevent the achievement of the Council's plans, in order that timely mitigation can be developed to either prevent the risks occurring or to manage them effectively if they do occur.
- Risk management at the point of decision making should ensure that members and officers are fully aware of any key risk issues associated with proposals being considered.
- It leads to greater risk awareness and an improved and cost effective control environment, which should mean fewer incidents and other control failures and better service outcomes.
- It provides assurance to members and officers on the adequacy of arrangements for the conduct of business. It demonstrates openness and accountability to various regulatory bodies and stakeholders more widely.
- It allows the Council to take informed decisions about exploiting opportunities and innovation, ensuring that we get the right balance between rewards and risks.

3. Risk Management Processes

3.1 Risk Recording

It is important that all stages of the risk management process are recorded to allow risks to be managed effectively on a dynamic basis. A standard risk register template is shown at Appendix 3.

3.2 Risk Identification

The identification of risk is the most difficult aspect of risk management, as once a risk is identified the structured process of risk management should mean that the risk is fully evaluated and managed appropriately. Employees are therefore encouraged to devote sufficient time to it, such that all key risks are recognised and appropriately managed.

Risk identification should include consideration of any risks associated with missed opportunities, e.g. failure to take advantage of external funding opportunities.

A good way to identify risks is through open discussion at individual service team meetings, where each team member is able to identify their perspective of risk, potentially linked to the Service Planning process. The outputs from this process can then be subject to review to give a consensus on the main risks faced by the Council and which risks need including in the Corporate Risk Register.

Further guidance and support on the risk identification process, can be obtained from the Chief Internal Auditor, or Directors and Service Leads who act as risk champions for their service. The detailed responsibility of these support roles can be found in Appendix 1: Roles and Responsibilities.

To assist risk identification, Appendix 2: Risk Identification lists the types of risks which might be faced. This list is simply a guide, and other factors could be considered.

Risks should be clearly articulated to ensure there is a clear understanding of the risk. To be clear however, Service Planning is about the management of the service, so while Service Leads need to be mindful of the risks in their areas when preparing their Plan, there is no expectation that these plans will include a specific formal risk register.

3.3 Trigger and Result

At the point of risk identification, the possible causes of the risk and the likely effects, if the risk were to occur, should be identified to give a good understanding of the dynamics of the risk.

“Trigger” naturally leads to the identification of the mitigating actions necessary to either prevent the risk occurring, or to recover quickly from the risk should it occur.

“Result” assists in understanding the impact of the risk and hence its scoring (see 3.6 below).

3.4 Risk Ownership

The effective management of risk requires that each risk should have a named owner (post title). Ownership should be assigned to an individual post and not team level.

3.5 Escalation of Risk

In the interests of empowerment, each risk should be managed at the lowest appropriate level of management. However, if it is considered that a risk identified at one management level cannot be effectively managed at that level, the risk should be escalated up the management chain until it reaches the level at which it can be effectively dealt with.

3.6 Scoring of Risk

In order to assess the impact of risk in a consistent manner a scoring methodology has been adopted which takes account of the two distinct aspects of risk:

- The likelihood of the risk occurring;
- The impact if it does occur.

The scoring methodology is expressed in the corporate 5x5 scoring matrix as attached at Appendix 4.

Inherent Risk								Residual Risk				Assurances	Actions			
Risk No.	Risk Description	Cause	Effect	Owner	Likelihood	Impact	Score & RAG	Key Controls	Likelihood	Impact	Score & RAG	Sources of assurance over key	Action	Owner	Target Date	Action RAG

Appendix 4 - Risk Scoring Matrix

The matrix itself is supported by descriptors, over various elements, for the impact element of the risk. The impact score selected will be the highest score for any of the descriptor elements (not all may apply).

The risk will be scored in two stages:

- At inherent risk level, i.e. an initial base level which ignores any controls which might already be in place.
- A residual level which will take account of any controls already in place.

The identification of inherent risk provides the benefits of:

- Providing a listing of all major risks faced regardless of how well they are being managed in practice.
- Recording the key control framework for all major risks, which risk owners are responsible for ensuring are operating effectively in practice.

3.7 Risk Mitigation

Risk mitigation is the term used to show that the impact of a risk has been reduced.

The following examples illustrate how risks can be mitigated:

Transfer	Transfer the risk to someone else – i.e. insurance
Reduce	Introduce checks and balances – i.e. checks built into our everyday business processes which are the main source of risk mitigation
Recovery	These are the plans we have in place to recover business critical systems on a timely basis when business disruption occurs. The Council's approach to business continuity management is a key aspect of effective risk management.

When the above mitigating activities have been applied to the inherent risk the Council is left with the level of exposure which it is prepared to accept, or has to accept in the circumstances. This is known as the residual risk.

In some cases, however, the Council may be prepared to accept and tolerate the risk exposure within the inherent risk and decide not to take any steps to manage the risk.

Further, it is not appropriate for the Council to attempt to manage all the risks which it faces – sometimes it is more effective to **terminate** the risk. This may mean ceasing the activity likely to trigger the risk or simply doing something in a different way that eliminates the original risk.

3.8 Action Planning

The residual risk score should be evaluated and an assessment made if this level of risk is appropriate, i.e. not too high, not too low.

The Council has defined its risk appetite as not accepting a residual risk score of 16 or more, this in line with the scoring matrix attached at appendix 4.

Risks scored above the risk appetite should be escalated through the management reporting line to the Corporate Management Team, Audit Committee and Full Council. Although in exceptional circumstances, a residual risk in excess of the risk appetite can be approved if it is agreed that it is impractical or impossible to reduce the risk level below 16.

Otherwise the appropriate level of residual risk should be based on the experience of the manager responsible for managing the risk. Advice can be sought from Service Leads, the Director, Finance or from the Chief Internal Auditor.

In determining the mitigation required to manage a risk, one option is to think about the proportionality of the cost of the mitigation compared to the cost impact if the risk occurs. It would make no sense if the cost of the control exceeded the cost of the impact.

If the risk score is deemed to require adjustment, i.e. either reduction or increase, actions should be designed accordingly which must be assigned to a named owner (post holder) and set an achievable specified target completion date, with interim stage targets if necessary. Target dates should not be set as 'on-going', as this does not enable the effective management of action delivery.

3.9 Risk Monitoring

A full review of corporate risks should be undertaken on a three-monthly basis by the Risk Management Group. Directors and service leads should be reviewing their elements of the register on a regular basis and reporting issues to the Risk Management Group on an exception basis to ascertain:

- If all relevant risks are included;
- If any risks can be closed;
- The progress in implementing agreed actions.
- If residual risk scores should be re-evaluated, e.g. to reflect completed actions.

Action progress will be identified through a RAG rating (red, amber, green), with red rated actions requiring written explanation from the action owner.

Managers should have regard to potential risks at all times and should use this risk management approach to help them analyse and manage such risks at the point they are identified. Managers must not wait for the next formal review.

3.10 Risk Reporting

The Risk Management Group, on behalf of Corporate Management Team, will on a quarterly basis, review the Council's risk register at a corporate level and determine if any risks escalated from service areas, should be included on the Corporate Risk Register.

The Audit Committee is responsible for overseeing the Corporate Risk Register and recommending revisions to the Risk Management Policy and Framework. They will receive the Corporate Risk Register twice a year (every six-months) to support them in delivering their responsibilities.

3.11 Annual Assurance

Directors and Service Leads will provide annual assurance in respect of the development, maintenance and operation of effective control systems for the risks under their control. This will provide a key assurance source for the Annual Governance Statement which is prepared by the Council as part of the annual Statement of Accounts.

3.12 Risk Management in other business processes

The risk management approach defined in other business processes should be complied with. These include:

Member decision making	It is critical for effective decision making that the decision makers are provided with details of the risks associated with each proposal being considered.
Council and service planning	It is critical that senior managers and ultimately members understand all the known risks associated with the plans being designed by the Council at the point of design.

	While preparing their Service Plan, Service Leads need to be mindful of the service risks in their area and ensure these are reflected in the narrative within the document as necessary. However, Plans are not required to specifically include a formal risk register (as in appendix 3). Service Plans are signed off by directors and service leads and formally approved by the respective policy committee. Presentations to members on budget proposals will highlight key financial risks. As with ‘Member decision making’ above, reports requesting approval of annual / medium term plans will detail the key risks associated with the decision being requested.
Project management	Risk (and issue) management is a key element in delivering an effective project management methodology. A 5 by 5 matrix will be used and any risks scoring 16 or above are escalated to the Project Board.
Contracts and joint ventures (including the Council’s own trading companies	The Council aims to influence strategy and deliver outcomes for the District through a range of different collaborative relationships, and alternative delivery models, in addition to direct contracts. As a result, effective contract and relationship management is of vital importance. Business relationship and contract management tools are used to minimise risks.
Health and safety	The Council’s health and safety policy is also a key component of the Council’s structure of controls contributing to the management and effective control of risks affecting staff, contractors and the general public.
Partnerships	Councils increasingly deliver their services through partnerships with other local authorities, third sector groups and statutory bodies. Assurance will be taken from joint registers where possible – e.g. Anglia Revenue Partnership. Risk management for the Council considers corporate risks relating to and/or arising from partnership activity, as well as risks within the Council needs to be able to understand and manage both types of risks by including partnership risk in the organisational risk management process.
Business continuity planning	The Civil Contingencies Act 2004 places a statutory duty on local authorities to establish business continuity management arrangements to ensure that they can continue to deliver business critical services if business disruption occurs.

3.13 Risk Management Awareness

The Council is committed to ensuring that all members, officers and partners, where appropriate, have sufficient knowledge of the Council's risk management approach to fulfil their responsibilities for managing risk.

This will be delivered thorough formal training programmes, risk workshops, briefings, and internal communication channels.

3.14 Risk Management Group

The Council has a Risk Management Group, which convenes quarterly to assess corporate risks and consider emerging threats. They review the Corporate Risk Register, at each meeting and make updates to this as required. They further review the Risk Management Policy and Framework documents bi-annually.

The group is facilitated by Internal Audit and comprises professional officers with specific advisory roles. This helps to efficiently conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The group includes the following people:

- Ian Smith – Director, Finance
- Sally Bonnet – Director, Community
- David Vincent – Health & Safety / Emergency Planning Manager
- Maggie Camp – Director, Legal Services
- Isabel Edger - Director, Operations

Appendices

Roles & Responsibilities

Who	Risk Management Role
Elected Members	Ensure that risks are taken into consideration for Committee and Council decisions.
Audit Committee	To oversee the Council's Corporate Risk Register and recommend revisions to the Council's Risk Management Policy and Framework documents. This includes: Ensuring corporate risks are identified and effectively managed across the Council. Reviewing the Corporate Risk Register half-yearly. Receiving updates on significant risk issues Reviewing reports on the Council's risk management processes in order to provide independent assurance of the adequacy of the risk management framework and the associated control environment
Council	Notification of residual risks which exceed the Council's risk appetite. Approval of the Council's Risk Management Policy and Framework documents.
Chief Executive	Overall responsibility and accountability for leading the delivery of an effective Council-wide risk management approach.
Director, Finance	Championing and taking overall responsibility for seeking to ensure that effective risk management processes operate throughout the Council Author of the Risk Management Policy and Framework Chair the Risk Management Group Provide awareness and training on risk management to Members and employees as appropriate
Corporate Management Team	Owning and leading the corporate risk management process. Ensuring that risk management is embedded into the Council's thinking and is given due consideration in all management processes / decisions. Reviewing corporate risks by exception.

Who	Risk Management Role
Risk Management Group	Provide support for the delivery of the Risk Management Policy and Framework across the Council, including the periodical review and up-dating of these documents. Promote and advise upon risk management practices across all services of the Council. Help to develop a consistent and effective approach to risk management, which is adopted within relevant Council management functions. Meet quarterly to review the Corporate Risk Register and consider if any further risks need to be added to this. Make updates to the Corporate Risk Register, for review at Audit Committee.
Internal Audit	Providing guidance, advice & support on the Council's risk management approach Facilitate risk workshops Maintain the Corporate Risk Register, based on input / requests from the Risk Management Group Arranging risk management awareness, support and training for managers, staff and members, as requested Prepare reports for the Audit Committee Provide independent assurance on the risk management process
All Service Leads	Ensuring that risk is given due consideration in all management processes Ensuring that risks are identified / reviewed as part of the Service Planning process and while individual Service Plans will not contain a risk register, these are managed / monitored at an appropriate level and escalated to the corporate register where appropriate Provide an annual assurance statement as to how risk is being managed, to help in the production of the Annual Governance Statement Drive the development and embedding of effective risk management across their service Contributing to the development of the Council's risk management processes.
All staff	Understand their accountability for individual risks Reporting systematically and promptly to their manager any perceived new risks or failures of existing control measures Completing any risk management training relevant to the post, including e-learning

Appendix 2 - Risk Identification

The checklist below is an aid to managers in risk identification. However, the checklist cannot be exhaustive and you may identify other areas where you foresee there might be risks or opportunities.

Risks are grouped into categories, to help monitor them. The use of the "right" category is not critical, it is simply an aid to assist the identification of a risk. The critical factor is that all key risks are identified and then managed effectively.

The first stage of risk identification is making sure that the objectives of the area being assessed are clearly understood in accordance with the Council's risk definition:

"Factors, events or circumstances that may prevent or detract from the achievement of the Council's corporate priorities and objectives".

A risk may relate to the non-achievement of all or a number of corporate or service priorities or a single corporate or service priority.

Depending on how a risk is worded, you may wish to reflect the areas detailed below as the trigger of a risk rather than a risk in its own right, e.g. 'Changes in demography' may be recorded as a trigger of 'Customers are not provided with the services they need'.

Risk category	When thinking about possible risks that could affect the different categories you might like to consider the following areas:
Customer Perspective	**Customers:** • Customers are not provided with the services they need
	Citizens: • Changes in demographic, residential or socio-economic trends, e.g. an increase in demand for Council services from a specific group of citizens • Effects on social wellbeing, e.g. changes in economic conditions • Environmental issues, e.g. the effects of climate change, progressing the Council's strategic objectives e.g. the disposal of waste
	Councillors: • Difficult political issues, lack of member support or disapproval • Election changes and new political arrangements

Risk category	When thinking about possible risks that could affect the different categories you might like to consider the following areas:
Finance and Resources	• Ineffective financial planning including budget preparation • Weaknesses in workforce planning • Ineffective budget management • Loss or reduction in funding • Missed opportunities for obtaining additional funding • Failure to manage the Council's cash assets effectively, i.e. treasury management function • Failure to manage non-cash assets effectively
Processes and Systems	**Regulators:** • Non-compliance with regulatory expectations • Non-compliance with legislative requirements, e.g. health and safety, equalities, data protection, environmental legislation, employment law, etc. • The Council does not act within its statutory / legal powers, i.e. it acts ultra vires **Partners/Suppliers:** • Poor partnership agreements / arrangements / relationships • Suppliers / partners do not provide effective, efficient and economic services to the Council, e.g. a major contract fails **General** • Weakness in procedures / systems that could lead to breakdown in service • Criminal or corrupt activity • Incorrect / unreliable / untimely information
Learning and Growth	• Not having staff with the right skills and experience • Failure of key projects and programmes

Note: Further guidance on risk identification can be obtained from your Service Lead, the Director, Finance or Internal Audit.

Appendix 3 - Template register

Inherent Risk								Residual Risk				Assurances	Actions			
Risk No.	Risk Description	Cause	Effect	Owner	Likelihood	Impact	Score & RAG	Key Controls	Likelihood	Impact	Score & RAG	Sources of assurance over key controls	Action	Owner	Target Date	Action RAG

Appendix 4 - Risk Scoring Matrix

The following table illustrates how risks are scored:

Impact	Very High	5	**5**	**10**	**15**	**20**	**25**
	High	4	**4**	**8**	**12**	**16**	**20**
	Medium	3	**3**	**6**	**9**	**12**	**15**
	Low	2	**2**	**4**	**6**	**8**	**10**
	Negligible	1	**1**	**2**	**3**	**4**	**5**
			1	2	3	4	5
			Very rare	Unlikely	Possible	Likely	Very Likely
			Likelihood				

Colour	Score	Detail
Red	16 and above	This is in excess of the Council’s risk appetite. Action is needed to redress, with regular monitoring. Such risks should be escalated through the management reporting line to Corporate Management Team, Audit Committee and Council. In exceptional circumstances residual risk in excess of the risk appetite can be approved if it is agreed that it is impractical or impossible to reduce the risk level below 16.
Amber	5 to 15	Likely to cause the Council some difficulties – six monthly monitoring
Green	1 to 4	Low risk. Monitor as necessary

Appendix 5 - Impact guidance

The following table provides examples for the scoring of the impact of a risk:

	Negligible 1	Low 2	Medium 3	High 4	Very High 5
Legal and Regulatory	Minor civil litigation or regulatory criticism	Minor regulatory enforcement	Major civil litigation and/or local public enquiry	Major civil litigation setting precedent and/or national public enquiry	Section 151 or government intervention or criminal charges
Financial	<£25k	<£50k	<£100k	<£500k	>£500k
Service provision	Insignificant disruption to service delivery	Minor disruption to service delivery	Moderate direct effect on service delivery	Major disruption to service delivery	Critical long term disruption to service delivery
People and Safeguarding	Slight injury or illness	Low level of minor injuries	Significant level of minor injuries of employees and/or instances of mistreatment or abuse of individuals for whom the Council has a responsibility	Serious injury of an employee and/or serious mistreatment or abuse of an individual for whom the Council has a responsibility	Death of an employee or individual for whom the Council has a responsibility or serious mistreatment or abuse resulting in criminal charges
Reputation	No reputational impact	Minimal negative local media reporting	Significant negative front page reports / editorial comment in the local media	Sustained negative coverage in local media or negative reporting in the national media	Significant and sustained local opposition to the Council's policies and/or sustained negative media reporting in national media
Project	Minimal effect on budget or overrun	Project overruns or over budget	Project overruns or over budget affecting service delivery	Project significantly overruns or over budget	Project failure
Sustainability and Environment	Minimal or no impact on the environment or sustainability targets	Minor impact on the environment or sustainability targets	Moderate impact on the environment or sustainability targets	Serious impact on the environment or sustainability targets	Very serious impact on the environment or sustainability targets

Likelihood guidance

Likelihood scoring is left to the discretion of managers as it is subjective, but should be based on their experience of the risk. As a guide, the following may be useful:

Likelihood	Score	Guidance
Very rare	1	Highly unlikely, but it may occur in exceptional circumstances. It could happen, but probably never will
Unlikely	2	Not expected, but there's a slight possibility it may occur at some time
Possible	3	The event might occur at some time as there is a history of occasional occurrence at the Council
Likely	4	There is a strong possibility the event will occur as there is a history of frequent occurrence at the Council
Very likely	5	The event is expected to occur in most circumstances as there is a history of regular occurrence at the Council

Appendix 6 - Diagram of the Risk Management Process

Risks identified (including trigger and result)

Corporate Risk Register developed

Risks will:

- be entered into a risk register.
- be associated with appropriate corporate plan objectives
- be assigned an owner

Inherent risk

The risk should be scored for inherent risk using the 5 x 5 scoring matrix.

Identify existing controls

Controls / mitigation should be identified

Residual Risk

Evaluate risk score considering existing controls – is it a level we are comfortable with?

Score too high?

Identify actions to reduce risk score to desired and proportionate level, taking account of the cost of mitigation verses the cost impact if the risk occurs

Risk needs higher level management; risk will be escalated to the next management level

Risk needs lower level management attention, risk will be delegated

Risk at right management level

Review

Risk Management Group will review the corporate risks and consider whether any service risks should be added to the Corporate Risk Register every three months.

Audit Committee will receive and review reports on key changes to corporate risks every six months. Assurance will be provided to Full Council.

Annual assurance will be provided by Directors and Service Leads