RYEDALE DISTRICT COUNCIL

PART A:	**MATTERS DEALT WITH UNDER DELEGATED POWERS**
REPORT TO:	**OVERVIEW AND SCRUTINY COMMITTEE**
DATE:	**22 OCTOBER 2020**
REPORT OF THE:	**CHIEF FINANCE OFFICER (s151)** **ANTON HODGE**
TITLE OF REPORT:	**UPDATE ON RISK MANAGEMENT**
WARDS AFFECTED:	**ALL**

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

1.1 This report provides an update on work to revise and review the Council's Risk Management Strategy and Risk Register, attached (Appendix 2) shows the latest draft of the Risk Register. The main content of this report (section 6) includes details which will form part of the Council's Risk Strategy. This is the half-yearly update to the Committee and would normally have been presented in July. However this is the first occasion, since the resumption of meetings, when the Committee has had the chance to receive it. A further update is due to be presented in January, bringing the reporting cycle back on track.

2.0 RECOMMENDATION(S)

2.1 It is recommended that the Committee notes the contents of this report and comments on the format and details of the Corporate Risk Register (Appendix 2).

3.0 REASON FOR RECOMMENDATION(S)

3.1 This report provides an update on work to revise and review the Council's Risk Management Strategy and Risk Register, following concerns raised by an Internal Audit report earlier this year. Risk Management has been highlighted as a key improvement issue in recent years, and this paper is evidence of improvements made in the process and reporting to members.

4.0 SIGNIFICANT RISKS

4.1 The risk of not managing corporate risks are as identified in the Register

5.0 POLICY CONTEXT AND CONSULTATION

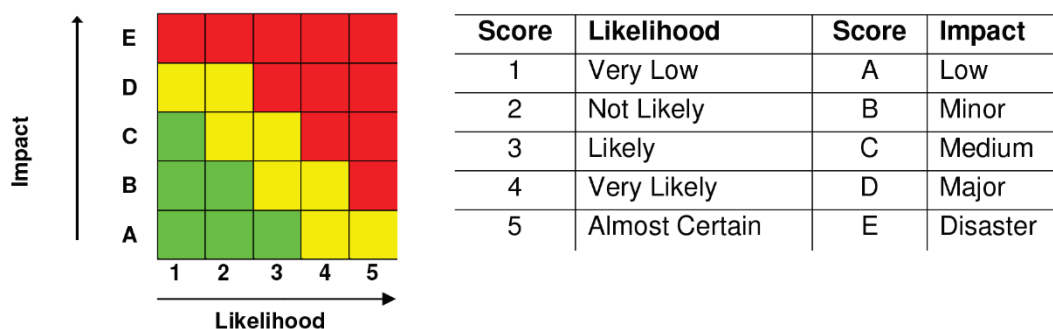5.1 The Authority has a duty to manage Risk.

6.0 BACKGROUND AND INTRODUCTION

Introduction

6.1 A revised approach to managing risk has been adopted in recent years. This had led to an overhaul of the Corporate Risk Register and also further development of Service Risk Registers. Advice and Guidance has been provided by Veritau and in some cases by North Yorkshire County Council.

6.2 This work has been recognised and endorsed by members who see it as an important part of the Council's improvement strategy. As part of that, an update on Risk Management, including the Corporate Risk Register, will be presented to Audit Committee twice a year.

6.3 The updating of the Corporate Risk Register over the past year has demonstrated the Council's improvement journey, showing how risks are being managed and generally downgraded over that period. However Risk Management is an ongoing process and the papers presented here will continue to be updated.

6.4 Appendix 1 sets out some of the key issues in the management of risk. It is included here as a reminder of our approach to risk.

Corporate Risk Register (Appendix 2)

6.5 The Corporate Risk Register is a live document and Members are requested to review this and feed back any comments to officers

6.6 To assist with this, Members are reminded that the current scoring matrix is defined as below:

Score	Likelihood	Score	Impact
1	Very Low	A	Low
2	Not Likely	B	Minor
3	Likely	C	Medium
4	Very Likely	D	Major
5	Almost Certain	E	Disaster

7.0 IMPLICATIONS

7.1 The following implications have been identified:
   a) Financial
       As set out in Risk Register

   b) Legal
       Failure to manage risk can result in legal action and costs

   c) Other (Climate Change, Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder)
       Failure to manage risk can result in legal action and costs

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Background Papers:
       Reports to Overview and Scrutiny 22 Nov 2018, 14 February 2019, 24 July 2019, 24 October 2019
       Annual Governance Statement 2018-19, 2019-20, 2020-21

APPENDIX 1

Background Information supporting the Council's Risk Management

Risk Management can be defined as:
"All of the processes involved in identifying, assessing and judging risks, assigning ownership, taking actions to mitigate or anticipate them and monitoring and reviewing them."

It is therefore an essential part of effective and efficient management and planning. As a strategic tool, risk management identifies those issues that will act as a barrier to the Council achieving its objectives and also helps to identify opportunities to achieve objectives. This sentiment will be echoed in the Council's Risk Management Strategy which recognises both the downside and upside of risk. Management of risk is a continuous process which involves addressing the full spectrum of risks facing the Council and managing their combined impact as an interrelated risk portfolio.

There are different classifications of risk. These risks may be recorded in risk registers at different levels in the organisation. It is intended that the Council will use four classifications for its risk types, as follows:

Risk Classification	Detail	Risk Register
Strategic	Risks concerning medium to long terms goals and objectives of the Council.	*The Corporate Risk Register (CRR)*
Operational	Risk involved with specific operational activities of the Council.	*Service Based Risk Registers (SBRR)*
Project	Risks emerging from project and programme activities of the Council.	*Project Risk Registers*

A risk register is a risk management tool. It acts as a central repository for all risks that have been identified. At Ryedale District Council, the performance management system (Pentana) serves as the risk register and is used to record the risk management process for its identified risks.

For each risk, the following information will be required:

- An appropriate risk title, which should be clear, succinct and understandable

- A risk description which includes a starting descriptor such as: "Reduction of...", "Loss of...", "Disruption to...", "Inability to...", "Increase in..." etc. and describes what the risk event would look like to the Council.

- A completed risk profile which will include:

- o <u>Causes</u> – the circumstance(s) that could lead up to the event
- o <u>Controls/Mitigation</u> – the risk response measures already in place which reduce the likelihood and/or the impact of the risk occurring or reduce its impact should the risk occur
- o <u>Consequences</u> – what the effect(s) on the organisation would be if the risk materialises

- Each risk must have a risk owner. The risk owner should be someone who understands the risk (including its causes and consequences) and is responsible for the area of the organisation from which the risk arises. The risk owner is responsible for the ongoing monitoring and, where necessary, treatment of the risk and for escalating potential issues.

<u>RISK ANALYSIS</u>
The current system of measurement used in Ryedale District Council echoes that which is generally widely used for analysing risk, although as we review the strategy, we may amend that as appropriate.

Each risk has two elements: the probability of the event occurring (likelihood) and the consequence if it does occur (impact). The aim of risk analysis is to estimate the likelihood and impact of the risk on three different levels.

The first level is the **ORIGINAL RISK** (also known as the 'gross risk' or the 'inherent risk'). This is an estimation of the impact and likelihood of the risk before the effects of any controls[1] that have been put in place are taken into account. The significance of this score is that it provides clear indication as to whether or not the risk has the potential to have a disastrous impact on the Council. Equally importantly, if not more so, is that the score enables an assessment of the importance of the controls acting on the risk.

The second level is the **CURRENT RISK** (known as the 'net risk' or the 'residual risk'). This is the analysis of the impact and likelihood of the risk occurring with all the controls and mitigating actions in place. It is the assessment of the risk at the time the risk analysis was undertaken.
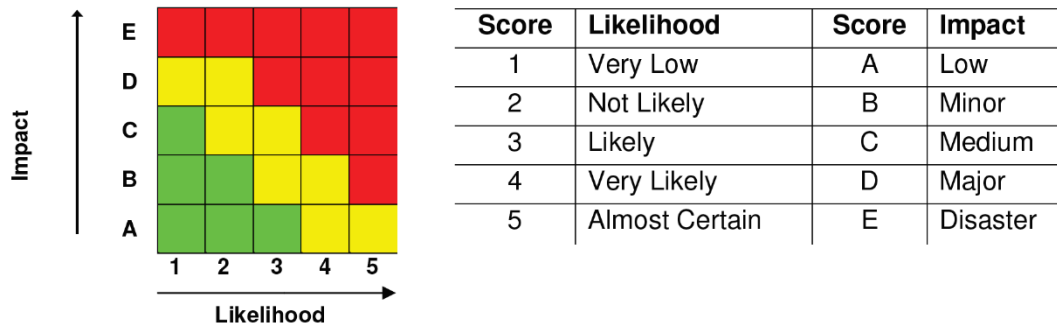
The third level is the **TARGET RISK**. This is a score which reflects the analysis of the impact and likelihood of the risk when all desired controls are fully implemented and are operational. Wherever possible, the target risk score should be set at or below the risk appetite for the risk being analysed. However, the nature of the risk might mean that this not possible. In these circumstances the risk should be managed to a level that is as low as reasonably practical.

<u>RISK SCORES</u>

The final risk scores are currently calculated by using a 5x5 matrix which means that there are 5 levels of likelihood (very low, not likely, likely, very likely and almost certain) and 5 levels of impact (low, minor, medium, major and disaster). The intersection of the likelihood and impact of a specific risk on the matrix will decide its score and, in turn, the requirements for its management. This is shown below.

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[1] A control is any preventative (i.e. help to reduce the likelihood of the event) or mitigating (i.e. help to reduce the impact of the consequences of the event) measure that is put in place to reduce the likelihood and/or impact of the risk.

Table 1: Current Risk Matrix for Ryedale District Council

Score	Likelihood	Score	Impact
1	Very Low	A	Low
2	Not Likely	B	Minor
3	Likely	C	Medium
4	Very Likely	D	Major
5	Almost Certain	E	Disaster

The current guidance identifies that for the purposes of managing its risks the Council has a further classification system. Risks are therefore categorised as one of high, medium or low with each category requiring a different level or monitoring or management. The categories are mapped out on the matrix (Table 1) as colours: **Red** is high; **Amber** is medium and **Green** is low.

For example:

A risk which is classed as having a major impact (D) and is very likely to occur (4) would have an overall risk score of D4 and would be classed as **high risk**. *Constant monitoring and an action plan on Pentana would be required for the management of this risk.*

A risk which is classed as having a minor impact (B) and is not likely to occur (2) would have an overall risk score of B2 and would be classed as **low risk**. *It would not be necessary for an action plan to be in place for this risk but it would be monitored regularly to ensure that the original risk analysis remains unchanged.*

This is illustrated below:

Colour	Assessment	Required Action
	High (treat)	Constant monitoring, an **action plan** and measures to be put in place to reduce risk exposure
	Medium (treat)	Frequent monitoring, an **action plan** and measures to be put in place to reduce risk exposure
	Low (tolerate)	Regular monitoring

Appendices 2 and 3 can be referred to when analysing a risk to establish if the score that has been given falls within or outside of the Council's stated risk appetite for that particular type of risk. The requirement for the monitoring and/or management of the

risk is then established by referring to the management expected actions as set out above. This is not an exact science but it is useful to be able to score risks within the context of the organisation's stated risk appetite and tolerance levels (i.e. the acceptable level of variation relative to achievement of a specific objective) so that they are scored appropriately.

In reviewing the strategy and guidance and in developing the Risk Register, we are considering whether this is too prescriptive and whether in fact all risk should be identified with relevant mitigations. The outcome of that could be that

- all risks will be subject to regular monitoring, as identified in the mitigations, and
- the existence, or otherwise, of an action plan will itself be defined within the mitigations

RISK REPORTING AND MONITORING

Risk reporting and monitoring should be part of 'business as usual' for Council departments. However, there are occasions when risks are required to be formally noted. The table below shows the suggested level of monitoring and reporting arrangements. This should be used for guidance only as any risk has the potential to occur at any time. It is important that emerging events that have the potential to trigger any risks are escalated to the attention of the appropriate senior officer.

Risk Level	MONITORING			REPORTING	
	Responsible	Audience	Frequency	Audience	Frequency
Corporate	SMB[2]	SMB	Monthly (initially)	Overview & Scrutiny	Bi-annually July/ January
Service	Service Lead or equivalent	Service Lead	Quarterly	SMB	Quarterly By exception
Projects	Project Manager	Programme Board	As per project demands	SMB	By exception

EMBEDDING RISK MANAGEMENT

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[2] Strategic Management Board

For risk management to be an effective and meaningful management tool it needs to be an integral part of key management processes and day-to-day working. This is a key objective of the Council's Risk Management Strategy. As such, identifying risks and the monitoring of associated actions should be considered as part of a number of the Council's significant business processes, including:

- Budget Planning and monitoring.
  Budget monitoring is about the organisation delivering against each of the constituent elements of the budget, not just the bottom line. Monitoring against budget and accurate forecasting ensures that resources are applied and can be managed in accordance with corporate priorities.

- Contract Management
  All significant risks associated with all stages of contract management are identified and kept under review.

- Corporate Decision Making
  Significant risks which are associated with policy or action to be taken when making key decisions are included in appropriate committee reports.

- Health and Safety
  The Council has a specific risk assessment policy to be followed in relation to health and safety risks.

- Information Governance
  A Data Protection Impact Assessment (DPIA) is a risk management exercise carried out to assess the risks to individuals' interests associated with the use of their information. The Personal Privacy Policy stipulates when a DPIA should be conducted and who is responsible for the process. The Council's wider Information Governance Policy suite outlines roles, responsibilities and accountabilities in relation to data protection more generally.

- Organisational Structure and Processes
  The management team set the tone for the risk processes and risk appetite within the organisation. Risk management flows down the organisation through senior officers while control activities flow upwards from the operational functions. Both of these directions of travel help to maintain the Council's risk management framework.

- Partnership Working
  Partnerships should establish procedures to record and monitor risks and opportunities that may impact the Council and/or the aims and objectives of individual partnerships.

- Procurement
  Contract Standing Orders include the requirement that all risks and actions associated with a purchase need to be identified and assessed, kept under review and amended as necessary during the procurement process.

- Service Planning
  Service planning sets out specific actions and targets that a service needs to achieve, not just to help deliver good services, but to continuously improve. Service

specific risks are identified and monitored throughout via Service Based Risk Registers. These will be produced by 30 April 2019.

- Performance Management
Performance management is similar in process, approach, purpose and scope to risk management. It involves ongoing and periodic monitoring, communication and review to ultimately ensure that the strategic objectives of the Council are met. The information generated through the performance management process at both the corporate and service level should be considered when scoring and updating risks so that only the most up-to-date information is used. If properly integrated, a synergism exists between the two processes to the benefit of the organisation.