

Agenda Item No: 8

Report Title: Risk Management and the Strategic Risk Register

Report To: Audit and Standards Committee **Date:** 19 March 2018

Ward(s) Affected: All

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Purpose of Report:

To present the Council's Risk Management Strategy, propose a change in approach to reporting of strategic risks and highlight those risks that are faced by the Council.

Officers Recommendation(s):

That the Audit and Standards Committee:

- 1 Receives and endorses the Council's Risk Management Strategy (Appendix 1).
 - 2 Adopts the change in approach to the reporting of strategic risks.
 - 3 Notes the strategic risks identified by the Corporate Management Team (CMT) and the associated mitigating controls (Appendix 2).
 - 4 Considers those matters it wishes to highlight to CMT.
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Reasons for Recommendations

- 1 The Council is committed to the proper management of risk. This report forms part of reporting cycle on risk as set out in the Risk Management Strategy. This report also provides key elements in the Council's submissions to the external auditor, BDO, and will provide data for the Annual Governance Statement (AGS).
- 2 To align risk management processes with those of Eastbourne Borough Council.

Introduction to Risk Management

- 3 Risk management is about using common sense to take effective action to prevent or limit the impact of risks so as to help the Council meet its priorities and deliver services effectively. In September 2003 Cabinet adopted a Risk Management Strategy that set out the responsibilities for risk management at the Council, and which has been

supported by a framework of procedures and guidance for the assessment of risks and the development of mitigating controls.

- 4 Since 2003 the Risk Management Strategy has included provision for an annual review of the strategy by CMT. The strategy was reviewed in March 2018 and has been updated to take account of a revised approach to risk management (see Appendix 1). The significant change is that the Audit and Standards Committee is now the principal recipient of the strategic risk register.
- 5 To support this strategy the Council has a standard approach for assessing risk which is applied to service planning, the management of major projects and decision making. The methodology reflects the need to manage the different aspects of the uncertainty that is inevitable when making changes in how the Council works and taking new approaches to regeneration and investment. The methodology recognises both the uncertainty that could have an adverse impact leading to loss, harm or damage (ie a risk) and the uncertainty that could have a positive effect leading to benefits or rewards (ie an opportunity).

Approach to the reporting of strategic risks

- 6 This report gives an opportunity to the Council to develop and improve on its approach to risk management. The following changes to approach are made:
 - The Audit and Standards Committee becomes the principal recipient of the Strategic Risk Register and on-going updates. This aligns with the Committee's Remit as set out in the Constitution of the Council.
 - Each risk is scored on the basis of likelihood and impact before mitigation and after mitigation.
 - Each strategic risk becomes the responsibility of all of CMT.
 - CMT to review the strategic risks on a quarterly basis. Where any changes are proposed they are reported to the Audit and Standards Committee with a detailed explanation of the changes in risks or the scoring.
 - A broader basket of risks which incorporates all the areas of strategic risk previously identified in the Annual Report on Risk Management to the Committee.
- 7 These changes have also given the opportunity to align risk management reporting processes between Lewes District Council and Eastbourne Borough Council as well as making the process more efficient. CMT now reviews the risks for both councils at the same time and applies a consistent approach.

Strategic risks

- 8 Strategic risks are those that are likely to have a significant impact across the Council, in that if they occur they are likely to prevent it from achieving its strategic objectives.
- 9 The compilation of a strategic risk register provides evidence of a risk aware and risk managed organisation. Generally, the register reflects the risks that will be common to comparable local authorities in this current period of change and financial challenge for Local Government.
- 10 Appendix 2 shows the strategic risk register that has been compiled by CMT for the year 2018/19. This register shows the:

- The title of the risk.
- A description of the risk scenario.
- Scoring of the likelihood and impact before any mitigating controls.
- Mitigating controls that are put in place to reduce the risk or prevent it from occurring.
- Scoring of the likelihood and impact after any mitigating controls.
- Cross reference to the strategic risks from the previous risk register.

11 CMT is responsible for ensuring that the strategic risks have mitigating controls in place.

12 For 2018/19, CMT will be reviewing the strategic risks of the Council on a quarterly basis. Any new risks identified, together with any changes in the scoring of risks, will be reported to the Audit and Standards Committee.

Scoring of risks

13 The Council has a methodology for scoring risks based on a five by five matrix. Each risk is scored from one to five for likely impact and likelihood. The two scores are multiplied to give an overall score for the risk. Risks are scored prior to mitigation and after mitigation. Depending on the score the risks will be assessed as red, amber or green. Appendix 3 outlines how the scoring methodology works. Each of the strategic risks in Appendix 2 has been assessed on this basis.

Areas of emerging risk

14 The Council has set up a number of commercial enterprises and this approach is set to continue. This has accordingly been included as Strategic Risk 9 in Appendix 2. Such commercial enterprises include:

- The North Street Project
- Aspiration Homes (LDC 50% EBC 50%)
- Lewes Housing Investment Company

15 The new General Data Protection Regulation comes into force in May 2018 and there is a large amount of work underway in preparation for this deadline. This includes ensuring all privacy notices are updated, systems/ processes allow for documents to be found and destroyed in line with the Retention and Disposal Policy and to ensure there is an awareness of the new regulations across the Council. This is considered under Strategic Risk 8.

Financial Appraisal

16 There are no financial implications arising from the recommendations to this report other than those already contained within existing budgets. However, if a strategic risk is not subject to effective mitigation there could be significant financial impact on the Council.

Equalities Screening

- 17** An equalities impact assessment is not considered necessary because the report is seeking endorsement of risk arrangements at the Council including the strategic risks identified by CMT.

Risk Management Implications

- 18** If the Council does not have an effective risk management framework that is subject to proper oversight by Councillors it will not be able to demonstrate that it has in place adequate means to safeguard Council assets and services, and it could be subject to criticism from the Council's external auditor or the public.

Legal Implications

- 19** There are no direct legal implications arising from this report.

Sustainability Implications

- 20** I have not completed the Sustainability Implications Questionnaire as there are no significant effects as a result of these recommendations.

Background Papers

None

Appendices

Appendix 1: Lewes District Council – Risk Management Strategy

Appendix 2: Lewes District Council –Strategic Risk Register 2018/19

Appendix 3: Lewes District Council – Scoring Methodology for Risks

Appendix 1

LEWES DISTRICT COUNCIL - RISK MANAGEMENT STRATEGY

1.0 Policy

- 1.1 We define risk as uncertainty that could have a detrimental impact on the achievement of the Council's objectives or service delivery. Uncertainty that could have a positive effect is an opportunity.
- 1.2 The appraisal and management of risk and opportunity will be part of our business planning and project management.
- 1.3 We will use risk management to promote innovation, and work proactively with stakeholders to minimise risks and maximise the opportunities associated with project and service decisions.

2.0 Organisation

- 2.1 This risk management strategy will be subject to approval by Corporate Management Team (CMT).
- 2.2 The Chief Executive is responsible for risk management. CMT will support the Chief Executive in assessing and mitigating risks likely to have a significant impact on the achievement of the Council's objectives. CMT will also review risks on a quarterly basis.
- 2.3 Heads of Service will implement risk management within their services and ensure that;
 - annual service plans contain an appraisal of risks to service delivery
 - managers carry out risk assessments as a routine part of service planning and project management activities
 - managers put in place appropriate controls to mitigate risks
 - managers will notify the Deputy Chief Executive of any significant risks that will require additional insurance and/or financing measures
- 2.4 The Head of Audit and Counter Fraud is responsible for providing advice and guidance and coordinating the Council's approach to risk

management. Internal Audit is responsible for monitoring the implementation and effectiveness of this risk management strategy and for reviewing compliance with controls introduced by CMT and their managers to manage risks.

- 2.5 The Audit and Standards Committee is responsible for reviewing the effectiveness of the systems and processes in place for managing risk. The Audit and Standards Committee receives reports on risk management and the strategic risk register.
- 2.6 Cabinet is responsible for considering risks when it makes key decisions.

3.0 Arrangements

- 3.1 Annual service plans support achievement of the Council Plan. Service plans will include an assessment of risk which will be reviewed and updated by Heads of Service.
- 3.2 Reports to Cabinet will include risk management implications.
- 3.3 Risk management training will be provided to senior managers with the aim of ensuring that they have the skills necessary to identify, appraise and control the risks and opportunities associated with the services they provide. Councillors will receive training/information on risk management so that they can consider the implications of risks and opportunities in their work for the Council.
- 3.4 Project managers will be responsible for appraising risks and opportunities associated with their projects and make provision for dealing with them.
- 3.5 This strategy will be communicated to Councillors and staff via the Council's intranet and will be reviewed annually by CMT.

March 2018

Appendix 2: Lewes District Council – Strategic Risk Register 2018/19

Risk	Description	Likelihood	Impact	Original Risk Score	Mitigating controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Cross reference to risks from the previous strategic risk register.
1. No political and partnership continuity/consensus with regard to organisational objectives	Sudden changes of political objectives at either national or local level renders the organisation, its current corporate plan and Medium Term Financial Strategy unfit for purpose.	4	4	16	1. Creation of inclusive governance structures which rely on sound evidence for decision making. 2. Annual review of corporate plan & Medium Term Financial Strategy. 3. Creating an organisational architecture through the Joint Transformation Programme that can respond to changes in the environment.	CMT	3	3	9	Amber	
2. Changes to the economic and financial environment makes the Council economically less sustainable	1. Economic development of the district suffers. 2. Council objectives cannot be met.	4	4	16	1. Robust Medium Term Financial Strategy reviewed annually and monitored quarterly. Refreshed in line with macro-economic environment triennially. 2. Creating an organisational architecture through the Joint Transformation Programme that can respond to changes in the environment.	CMT	4	3	12	Amber	Failure to achieve the Joint Transformation Programme. Failure to achieve the Council's savings. Economic factors outside the Council's control.
3. Unforeseen socio-economic and /or demographic shifts creating significant changes in demands and expectations.	1. Unsustainable demand on services. 2. Service failure. 3. Council structure unsustainable and not fit for purpose. 4. Heightened likelihood of fraud.	2	4	8	1. Ensuring significant corporate decisions are based on up to date, robust, evidence base. (e.g. Census information) 2. Ensuring community and interest group engagement in policy development (e.g. Neighbourhood Management Schemes; Corporate Consultation Programme)	CMT	2	3	6	Amber	

Risk	Description	Likelihood	Impact	Original Risk Score	Mitigating controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Cross reference to risks from the previous strategic risk register.
4. The employment market provides unsustainable employment base for the needs of the organisation	Employment market unable to fulfil recruitment and retention requirements of the Council resulting in a decline in performance standards and an increase in service costs.	4	4	16	<ul style="list-style-type: none"> 1. Joint Transformation Programme to increase non-financial attractiveness of LDC to current and future staff. 2. Appropriate reward and recognition policies reviewed on a regular basis. 3. Review of organisation delivery models to better manage the blend of direct labour provision. Pursuit of mutually beneficial shared service arrangements. 	CMT	2	2	4	Green	
5. Not being able to sustain a culture that supports organisational objectives and future	<ul style="list-style-type: none"> 1. Decline in performance. 2. Higher turnover of staff. 	4	4	16	<ul style="list-style-type: none"> 1. Deliver a fit for purpose organisational culture through the Joint Transformation Programme. 2. Continue to develop our performance management capability to ensure early intervention where service and/or cultural issues arise. 3. Continue to develop communications through ongoing interactions with staff. 	CMT	2	4	8	Amber	

Risk	Description	Likelihood	Impact	Original Risk Score	Mitigating controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Cross reference to risks from the previous strategic risk register.
6 Council prevented from delivering services for a prolonged period of time.	<p>1. Denial of access to property (including plant and equipment)</p> <p>2. Denial of access to technology/information</p> <p>3. Denial of access to a significant contract or partnership.</p>	3	5	15	<p>1. Reviewed and tested Business Continuity Plans.</p> <p>2. Reviewed and tested Disaster Recovery Plan.</p> <p>3. Joint Transformation Programme has created more flexible, less locationally dependent service architecture.</p> <p>4. Adoption of best practice IT and Asset Management policies and procedures.</p>	CMT	2	4	8	Amber	<p>Loss of IT Services.</p> <p>Loss of premises.</p> <p>Major failure in the financial systems.</p> <p>Loss of plant or equipment.</p> <p>Failure of significant contractor.</p> <p>Failure of partnership.</p> <p>Damage to reputation.</p>
7 Council materially impacted by the effects of an event under the Civil Contingencies Act	<p>1. Major incident caused by fire, flood or other disaster resulting in homelessness, disruption to Council services and local business community.</p> <p>2. Service profile of the Council changes materially as a result of the impact of the event.</p> <p>3. Cost profile of the Council changes materially as a result of the impact of the event.</p>	3	5	15	<p>1. Robust Emergency Planning/ use of Council's Emergency powers.</p> <p>2. Ongoing and robust risk profiling of local area (demographic and geographic). e.g. flood risk</p> <p>3. Review budget and reserves in light of risk profile to make funds available if an event occurs.</p> <p>4. Working in partnership with other public bodies to put in place preventative measures and/or deal with effect of an incident once it has occurred.</p>	CMT	1	3	3	Green	<p>Major event or emergency affecting the District or the Region.</p>

Risk	Description	Likelihood	Impact	Original Risk Score	Mitigating controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Cross reference to risks from the previous strategic risk register.
8. Failure to meet regulatory or legal requirements	<p>1. Credibility of the Council is negatively impacted.</p> <p>2. Deterioration of financial position as a result of regulatory activity/ penalties.</p> <p>3. Deterioration of service performance as a result of regulatory activity/ penalties.</p> <p>4. Increased probability of prosecutions and compensation claims as a result of inadequate management of Health and Safety duties.</p> <p>5. Possibility of fraud and bribery.</p> <p>6. Ensure compliance with legislation such as Data Protection and Safeguarding.</p> <p>7. Entering into contracts etc. without having adequate finance in place.</p>	3	4	12	<p>1. Maintain, monitor and continue to develop a robust governance framework for the Council.</p> <p>2. Building relationships with regulatory bodies.</p> <p>3. Performance Management capability in place and continue to further develop to ensure early intervention where service and/or cultural issues arise.</p> <p>4. Ensure there is full understanding the impact of new legislation or regulations .e.g. GDPR</p> <p>5. All managers are required to abide by the Council's procurement rules.</p> <p>6. JTP Board considers activity mapping, ensuring that it covers regulatory/legal and main financial matters.</p>	CMT	1	4	4	Green	Governance and regulatory failure. Damage to reputation. Major changes to legislation.

Risk	Description	Likelihood	Impact	Original Risk Score	Mitigating controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Cross reference to risks from the previous strategic risk register.
9. Commercial enterprises and new significant joint ventures that are fully controlled by the authority do not deliver financial expectations or do not meet governance requirements.	1. Unfamiliar activity with staff inexperienced in this area. 2 Council finances affected if projects do not meet financial expectations. 3 Reputational damage if governance procedures are inadequate. 4 Failure to abide by company law.	3	3	9	1. Hire suitably qualified/experienced staff to give legal and specialist support. 2. Appoint Head of Commercial Activities. 3. Ensure that projects meet core principles. 4. Up or reskill staff to maximise commercial opportunities. 5. Maintain strong governance processes which are adhered to. When new commercial enterprises and significant joint ventures are set up ensure strong governance processes are put in place.	CMT	2	3	6	Amber	Major Projects – North Street Quarter and Newhaven Enterprise Zone. Damage to reputation.

Appendix 3: Scoring methodology for risks

Assess the impact of risks

Classify (and score) the risks (assuming that nothing is done to prevent the risks occurring) into:

- Very low impact
- Low impact
- Medium impact
- High impact
- Very high impact

Assess the likelihood of risk

Classify (and score) the risks (assuming that nothing is done to prevent them). Risks are evaluated in terms of:

- Very low likelihood
- Low likelihood
- Medium likelihood
- High likelihood
- Very high likelihood

Evaluate the risks

Each risk should be plotted on the risk matrix (see below). This allows you **evaluate the** overall effect of your risk assessment.

Evaluation of risk score

Colour	Score	Commentary
Green	1 to 4	Low Risk
Amber	5 to 14	Medium Risk
Red	15 to 25	High Risk

Determine the action or controls to deal with the risks

Determine what can be done or what is already being done to deal with the risks that have been identified.

Accept

Some risks may be accepted if they have a low impact or are not likely to occur, or are considered to be risks worth taking to secure a business advantage.

Reduce/Treat/Mitigate

Risks may be reduced by taking steps to control or reduce the risk. It is for managers to take appropriate action to limit the threat posed by risks.

Effective control systems already exist in many areas of the Council's activities. However, it is important that existing controls are **not** assumed to mitigate all the risks identified by the risk assessment exercise. As the risk environment needs regular monitoring, so will managers need to consider whether new controls or improvements to existing controls are needed.

Where significant new controls are required these need to be planned as part of the Service Plan. If additional resources are necessary, managers will need to discuss requirements with their Director and the Head of Finance to determine if resources are available.

Avoid

If the risk is too great for the Council and it is not practical to reduce the risk, then it may be decided that the risk should be avoided. Please note that areas of greatest uncertainty may provide the greatest opportunity for significant benefits to the Council. In that context, decisions to avoid risks should be taken after a full assessment of the positive/negative impacts.

Transfer

Insurance is the normal method of transferring risks, particularly high impact risks that cannot be accepted. It may be necessary to consider additional insurance cover and the Council's Insurance Officer will be able to offer further advice on this if required. It is possible to transfer some risks by contracting out certain functions/services, but the contracting process itself can create other risks.

Specify what can be done to reduce/mitigate/control the risk.

Rescore the risk. Once the mitigation or control is in place you should re score the impact and likelihood to reflect the current position.

Risk matrix**IMPACT**

5					
4					
3					
2					
1					
	1	2	3	4	5

LIKELIHOOD