Appendix B

RISK MANAGEMENT POLICY

Title	Risk Management Policy
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Approved By	
Next Review	
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1. PURPOSE

Lewes District and Eastbourne Borough councils are committed to adopting best practice in the management of risk to ensure that identified risks are managed to acceptable levels.

Adopting proportionate risk management procedures will enable the authorities to demonstrate that full consideration has been given to risks which could affect service delivery and the achievement of strategic aims and objectives.

The responsibility for managing risks lies with all officers and members of the councils and this policy explains these responsibilities.

This policy lays down the framework for identifying, recording and monitoring risks across the authorities.

2. INTRODUCTION

Risk management is the identification, evaluation and cost effective control of risks to ensure that they are either eliminated or reduced to an acceptable level. Systems are then put in place to track and report upon existing and emerging risks that could cause damage to the councils or their stakeholders.

Managing risk effectively will help the authorities achieve their corporate objectives and protect their assets and resources against risk in the most efficient way.

The identification of risks also allows informed business decisions to be made by members and officers and it is therefore important that risks are noted in all reports to committees.

Risk management has a strong link with corporate governance as it is a vital element in the internal control environment. As well as following the procedures laid down in this document, Directors, Assistant Directors and Heads of Service are required annually to complete a Manager's Assurance Statement. These statements are intended to cover the operational, project and partnership responsibilities. They can also be used to highlight concerns and actions required to improve governance across both authorities.

3. RISK MANAGEMENT AIMS AND OBJECTIVES

The purpose of this policy is to formally set out how the councils' managers and elected members are to manage risk.

The objectives of this risk management policy are to:

- integrate risk management into the culture of the councils
- manage risk in accordance with best practice
- anticipate and respond to changing social, political, environmental and legislative requirements

- assist in achieving the councils' corporate aims and objectives
- maximise opportunities and encourage innovation through reassurance on the management of potential risks
- prevent or minimise potential loss, disruption, damage and injury and reduce the cost of risk, thereby maximising resources
- raise awareness of the need for risk management by all those connected with the councils' delivery of services and objectives

These objectives will be achieved by:

- considering risk appetite and financing
- establishing clear roles, responsibilities and reporting lines for risk management within the councils
- establishing a regular agenda item on the Corporate Management Team agenda to discuss and update the Strategic Risk Registers
- incorporating risk management arrangements for the identification, mitigation, monitoring and reporting of risks into the councils' management and decision making processes
- providing risk management training and awareness sessions for council officers and members
- effective communication with, and the active involvement of, council officers and members
- annual review of this risk management policy

4. RISK APPETITE AND FINANCING

Risk Appetite

An organisation's risk appetite is the level of risk that it is prepared to tolerate without putting in place further risk mitigation. Mitigation relates to the actions taken to control the risk by reducing the impact or the likelihood. Risk management at operational levels should not be overwhelmed by relatively minor operational risks. However it is also acknowledged that some high risks will remain high no matter what mitigating actions are taken, or that there are no mitigating actions that can be taken.

The councils have agreed not to set one prescriptive risk appetite. Lewes District and Eastbourne Borough councils are two separate and distinctive organisations and one risk appetite would not be appropriate. It is also considered that the risk appetite will vary depending on the circumstances of each individual risk. Therefore a more flexible approach will be followed, allowing risks to be judged on their own merits and allowing informed decisions to be made in respect of each risk.

Risk Financing

The total cost of risk includes the costs of putting a risk management framework in place and keeping it under review, the cost of officers carrying out the risk management processes, the cost of control actions that are put in place, and finally the cost of risks occurring.

The cost of the councils' risk management framework is included within the budget framework. The cost of control actions to be put in place will be covered either from existing budgets or, where this is not possible, by a growth bid through the Service and Financial Planning process or through a report to Cabinet.

Risks should be identified and evaluated as early as possible in any project or policy decision so that the costs of managing the risk can be included in the overall project funding.

Risk financing can be retained, i.e. self-funded, or transferred.
The transfer of risk financing is carried out either through the outsourcing of operations or through the purchase of insurance.

The councils' insurance cover is provided by Zurich Municipal via a block policy. The current approach to agreeing premiums shows a low risk appetite, reducing as far as possible the risk of uncertainty.

5. ROLES AND RESPONSIBILITIES

Overall the risk management process will be overseen by the Chief Internal Auditor but managed by the Corporate Management Team.

Cabinets

- review the risk management implications of all Cabinet decisions

Audit and Risk Committee (Lewes) and Audit and Governance Committee (Eastbourne)

- approve the council's risk management arrangements through its Risk Management Policy
- consider the effectiveness of the authority's risk management arrangements
- review the council's strategic risks

Corporate Management Team

- review the implementation of the risk management framework, policy and process
- agree the councils' strategic risks
- monitor progress on managing risks

- oversee development of the Risk Management Policy
- oversee development of the Annual Governance Statement

Internal Audit

- use a risk based approach to inform the Internal Audit Plan utilising the Strategic Risk Register as well as its own assessment. This will be carried out annually and reviewed quarterly
- carry out independent reviews to assess the effectiveness of risk management and make appropriate recommendations

Directors/Assistant Directors/Heads of Service

- ensure that a risk register is in place for their service area and this is regularly reviewed
- ensure that risks are discussed at each Departmental Management Team meeting

Managers

- ensure that risk is managed in their area of work in accordance with the Risk Management Policy
- promote understanding and good practice amongst their staff
- identify and assess emerging risks in their service areas
- ensure that every risk identified has an appropriate Risk Owner

Risk Owners

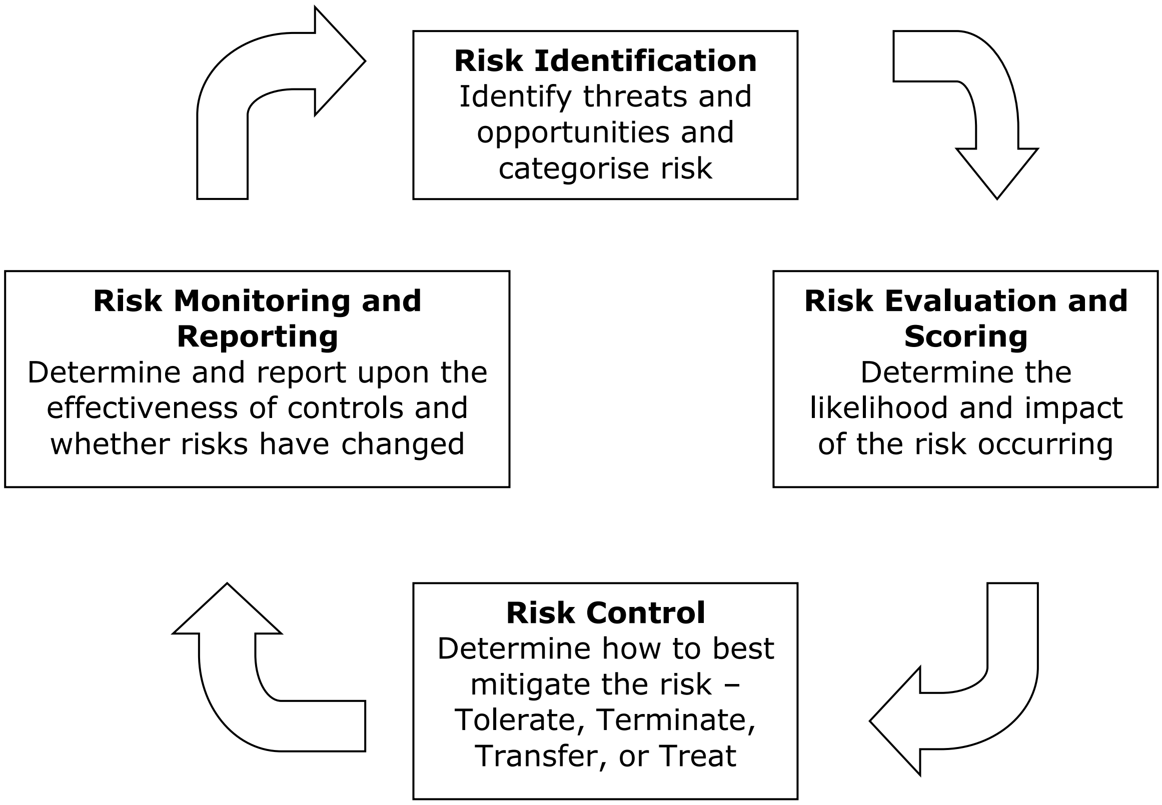
- evaluate emerging risks
- identify and implement mitigation where necessary
- monitor effectiveness of the mitigation
- maintain and review an accurate risk register for their risks

All Members and Employees

- understand that risk management and risk awareness are part of the councils' culture
- understand their accountability for individual risks
- report promptly to managers any emerging risks or failures in existing controls
- assist in the identification and evaluation of risks and opportunities
- implement any mitigating actions assigned
- comply with control processes introduced

6. RISK MANAGEMENT ARRANGEMENTS

To manage risks effectively, they need to be systematically identified, evaluated, controlled and monitored. The four stages in the risk management cycle are illustrated in the diagram below:



6.1 Risk Identification

Any process of risk identification must be carried out in a systematic manner to ensure that all risks to the councils' objectives are identified. It must therefore be integrated into the councils' business processes and holistic in its approach.

For every risk identified, a risk owner will be appointed who will be responsible for the remainder of the risk management process, i.e. evaluation, mitigation, monitoring and reporting of that risk. All risks should be assigned to an individual rather than a group.

<u>Operational Risks</u>

The Corporate Management Team decided that only risks at departmental and strategic level need be managed within the Risk Management Policy. However, an understanding of all the operational risks will be necessary in order to better inform the departmental risk registers. Therefore, whilst not necessary under this policy, managers may decide to retain their own operational risk register.

Departmental (Service Area) Risks

Departmental (Service Area) risk registers will be maintained by Heads of Service/Directors by way of their departmental management teams. These registers will identify the threats and opportunities that could influence the service area's ability to achieve its overall objectives. These will also be considered quarterly by the Corporate Management Team.

Strategic Risks

The Strategic Risk Register will be considered at Corporate Management Team at least quarterly. They will review the strategic risk registers, assess any new high level risks reported to them and, where appropriate, include them in the strategic risk register.

Project Risks

A project is defined as "A unique process, that has a beginning and an end, which is carried out to achieve a particular purpose, to a set quality, within given constraints of time, cost and resources."

All projects thus defined within the councils are managed under project management methodology. As such a risk register and action plan is developed at the beginning of each major project.

As part of the consideration of risks for a project, entrance and exit strategies must be considered and put in place.

For further information please refer to the Project Management Toolkit.

Partnerships

When entering into a partnership, entrance and exit strategies must be considered and put in place. Risks must be considered and recorded and regularly reviewed throughout the duration of the partnership.

Contracts

When outsourcing work via a contract it must be remembered that all risks are not outsourced with the contract. Some risks will remain, particularly around the possible failure of the contract.

Individual risk registers can be maintained for all large contracts and/or the major risk/s must be included in the service level risk register.

Consideration must be given to an exit strategy should the contractor suddenly not be able to provide the service.

6.2 Risk Categories

When risks have been identified, they will fall into one of four main categories. These are:

Strategic Risks	Risks that may prevent or delay the councils meeting their strategic objectives;
Departmental Risks	Risks that may prevent or delay the department meeting its strategic objectives;
Operational Risks	Risks that officers face when working to meet their service objectives;
Project Risks	Risks that may prevent or delay a project meeting its objectives.

These categories are then further subdivided into:

Political	Risks associated with achievement of central or local policy/ manifesto commitments.
Customer	Risks that could affect the councils' ability to meet their customers' requirements and expectations.
Reputation	Risks that relate to the councils' image, credibility or reputation.
Financial	Risks that relate to losing monetary resources or incurring unacceptable liabilities.
People	Risks that could affect staff, customers and other individual stakeholders.
Environment and Sustainability	Risks that could adversely impact the local environment or the local economy.
Regulatory	Risks associated with the regulatory (or legal) environment.

6.3 Risk Evaluation and Scoring

<u>Original Risk Score</u>

When risks have been identified, they will be scored according to the likelihood of the risk occurring and the impact caused by the consequences of the risk occurring.

The judgement on the likelihood and impact of the risk occurring should be made by those with experience in the relevant service area.

The numerical values of the likelihood and impact are then multiplied together. This facilitates targeting of risk mitigation by ranking the risks.
Two risk scores need to be assessed. The first is the "original risk score". This is the risk to the councils if no mitigating action is taken.

It is important that all risk registers use the same methodology to calculate the risk score in order to allow comparison and facilitate understanding of the risk levels.

Scoring – Likelihood and Impact

Likelihood

The following indicators will be used to assess the likelihood, or probability, of the risk occurring.

Score	Likelihood	Probability
1	Rare	< 10%
2	Unlikely	c 25%
3	Possible	c 50%
4	Likely	c 75%
5	Almost certain	> 95%

Impact

The following table will be used to determine the impact score.

Risk Score	1	2	3	4	5
	MINOR	**MODERATE**	**SIGNIFICANT**	**MAJOR**	**CRITICAL**
Political	Delay in delivery of one area of councils' objectives.	Delay in delivery of one or more of the councils' objectives. Delay in meeting a Govt policy.	Major delay in meeting a larger area of the councils' objectives. Delays in meeting Govt policies.	Failure and delays in meeting one or more of the councils' objectives. Significant delay or failure to meet Govt policies.	Failure to deliver local and national government policies.
Customer Satisfaction	Short term, minor service problem. Impact limited to a few customers. Unlikely to cause adverse publicity.	Short term service problem. Impact number of customers. Some adverse local publicity, needs careful PR.	Short to medium term disruption, impact many customers in one group/area. Adverse publicity in local media. Possible damage to credibility.	Long term disruption in one area or med term disruption to wider area affects many customers. Major adverse local publicity, major loss of credibility.	Major disruption with impact on widespread groups. Significant adverse publicity in national media..
Financial	Minor financial loss – accommodated within service area budget	Moderate financial loss – accommodated within divisional budget	Significant financial loss – accommodated within councils' overall budget	Major financial loss - major impact on councils' financial plan	Severe financial loss – critical impact on councils' financial plan, resources unlikely to be available
People	Staff dissatisfaction in localised area.	Dissatisfaction disrupts localised service.	Significant dissatisfaction and disruption to one or more service area.	Short/medium term dissatisfaction and disruption to large area of councils' services.	Long term, widespread dissatisfaction and disruption to councils' services.
Environment & Sustainability	No lasting detrimental effect	Short term, localised detrimental effect	Serious short-medium term effect that requires remedial action	Long term detrimental impact	Extensive, long term detrimental impact
Regulation	Breaches of local procedures/ standards. Internal only.	Possible complaints or litigation. Breaches of regulations or standards.	High potential for complaint, litigation possible. Breaches of law punishable by fines or imprisonment.	Litigation likely & may be difficult to defend. Breaches of law punishable by fines or imprisonment.	Litigation certain & difficult to defend. Breaches of law punishable by imprisonment.

Gross Risk Score

Once the likelihood and impact scores have been assessed the risk level itself is then calculated by multiplying the scores.

i.e. likelihood x impact = gross risk score

6.4 Risk Control/Mitigating Actions

Once the original risk score has been calculated, consideration needs to be given to the actions that can be taken to mitigate the risk. The likelihood and impact must then be reassessed taking into account the mitigations and new scores evaluated. This is the “residual risk” – the risk remaining after the mitigating actions have been put in place.

When considering the mitigating actions to be taken for identified risks consideration should be given to comparing the cost of mitigation to the cost of exposure.

All risks should be considered for levels of mitigation dependent upon their own, or aggregated merits.

Having identified, analysed and evaluated the risks, it must be decided what actions will be taken to mitigate the risk to an acceptable level. Mitigation is the action taken to control the risk by reducing the impact and/or reducing the likelihood.

There are four options available.

Tolerate the Risk

For some risks, for instance low scoring risks, it may be acceptable to do nothing and accept the risk. These risks should still be monitored to ensure that if the level of risk rises and becomes unacceptable, appropriate action is taken.

Treat the Risk

In most cases it will be possible to put controls in place that will reduce the likelihood of the risk occurring and/or reduce the severity of the consequences should the risk occur. Managers must judge which controls are most appropriate and cost effective. After controls have been put in place, the risks should always be re-evaluated to determine that the residual risk is acceptable.

Transfer the Risk

This involves transferring liability for the consequences of an event to another body. This can be done through transferring liability to another service provider through contractual arrangements for service delivery, or transferring some or all of the financial risk to an external insurance company. **NB** it is usually only possible to transfer responsibility for risk control and the financial impact, not the underlying risk itself.

Termination

This is when it is decided not to undertake an activity or service because the risk is too great. This usually occurs where risk treatment or transfer is not appropriate.

The aim of these actions (other than tolerate) should reduce the risk by lowering the scores of the likelihood and/or impact. Once identified the overall risk score can be calculated in the same way as the original risk score.

6.5 Risk Monitoring and Reporting

Risk Registers

All risks will be logged on Pentana Performance.

There will be separate registers for departmental (service area) risks, strategic risks and project risks.

The risk registers will contain the following information:

- the description of the risk
- the risk score before mitigation (original risk score)
- the mitigating action to be taken and, where appropriate, contingent action should the risk occur
- the responsible officer
- the anticipated risk score after mitigation (residual risk)

Risk registers will be updated regularly, e.g. at least quarterly for departmental (service area) and strategic risks and at appropriate intervals for projects dependant upon the timescale of the project.

Guidance on completing risk registers and carrying out regular updates can be obtained from the Performance Specialist in Business Planning and Performance.

Risk Monitoring

Risk monitoring and review is an essential and integral part of the risk management process.

When monitoring risks, risk owners will consider the following:

- is the risk still relevant?
- are the controls still in place and operating effectively?
- after reviewing the risk, what has happened to the risk score?
- if the risk score is increasing do I need to devise more controls or think of other ways of mitigating the risk?
- if the risk is decreasing can I relax some existing controls?

Risks should be reviewed at least quarterly and updates recorded on Pentana Performance. Guidance on carrying out regular updates can be obtained from the Performance Specialist in Business Planning and Performance.

Departmental (service area) risks will be reviewed and monitored as a standing item on Departmental Management Team meeting agendas. Project risks will be reviewed at each project team meeting.

Strategic Risks will be reviewed by the risk owners and the Corporate Management Team quarterly.

Risk Reporting

Reports on key risks will contain the following information:

- description of the risks
- their impact and likelihood scores
- changes to the risk score since the last reporting period and how these have been achieved
- any significant control failures or weaknesses that have occurred in the reporting period along with action plans to address them
- any new or emerging risks
- further explanations must be given where residual risks remain high risk

Departmental (Service Area) Risks

Risks with a residual high risk score will be reported to the Corporate Management Team by relevant Heads of Service/Directors and form part of their onward reporting to the relevant Audit Committee.

Major Project Risks

Each major project must have a project risks register written at the start of the project. Monitoring reports will be presented to each project board meeting.

Strategic Risks

All strategic risk reviews are reported to the Corporate Management Team and the audit committees quarterly.

7. EMBEDDING RISK MANAGEMENT WITHIN THE ORGANISATIONS

In order to be effective, risk management must be embedded in the operations of an organisation and form part of the culture of that organisation.

Risk management training and awareness sessions will be delivered to members and officers of the councils.

All senior managers will, in addition to being responsible for managing their risks, be accountable for embedding the process into their areas of responsibility and for promoting understanding and good practice amongst their staff.

Formal risk management processes will form part of the management of all major projects and in the consideration of entering into any new partnership arrangements. The risks inherent in such projects will be clearly defined, managed and reported.

All reports to Council, Cabinet and Committees will include an assessment and analysis of the risks associated with the requested decision.

8. UPDATING THE STRATEGY

This strategy will be reviewed and updated annually.