

## Rother District Council

**Report to:** Audit and Standards Committee

**Date:** 26 September 2022

**Title:** Risk Management Update

**Report of:** Gary Angell, Audit Manager

**Purpose of Report:** To consider the new Risk Management Policy and updated Corporate Risk Register, and to discuss the draft risk appetite statements and other actions outlined in the report.

### Officer

**Recommendation(s):** **Recommendation to COUNCIL:** That the new Risk Management Policy in Appendix A be adopted.

AND

It be **RESOLVED:** That the Council's Corporate Risk Register at Appendix B be noted.

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### Introduction

1. This report provides a position update on risk management processes and the key strategic risks currently facing the Council.
2. Risk refers to the uncertainty that surrounds future events and outcomes. It is essential that the Council adopts a strong approach to risk management to ensure good governance, especially given the current backdrop of significant financial pressures.
3. The Audit Manager, in his role as Risk Management Coordinator, is currently responsible for facilitating all strategic risk management activity including maintaining the Risk Management Policy and collating and reporting on updates to the Corporate Risk Register. The responsibility for identifying and managing risks, however, remains with Senior Management.
4. In addition to reporting the new Risk Management Policy and latest version of the Corporate Risk Register, this update also outlines some of the recent improvements made to the risk management process.

### Recent Activity

5. Following on from their Enterprise Risk Management, Business Continuity and Disaster Recovery Review in February 2022, the Council's insurance provider, Zurich, were engaged to carry out further work to help improve our risk management processes. This work included the use of anonymous feedback surveys and face-to-face workshops; the purpose of which are outlined below:
  - 5.1 **Survey 1** – Sent to all officers in the Corporate Management Team (CMT) on 9 May 2022 seeking their views and opinions on current and future risks.

- 5.2 **Workshop 1 (Training and Risk Register Refresh)** – Held on 1 June 2022 and attended by most of CMT. This workshop, which was hosted by Jesper Glasius of Zurich Resilience Solutions, was divided into two parts. Part 1 provided risk management training to ensure a common understanding of the risk framework, descriptions and scoring. Part 2 reviewed the results of Survey 1 and used them to inform a discussion on what new risks should be included in the Corporate Risk Register and what existing risks should be kept/amended or deleted.

Survey 1 produced 43 suggested corporate risks. With duplicates and discarded risks identified through discussion at the workshop, a total of 10 new risks were agreed upon. In addition, a further 12 risks were to be kept or amended from the existing Corporate Risk Register. This initially reduced the total number of risks in the Corporate Risk Register from 38 to 22. However, the final count is even lower as a result of merging certain risks and downgrading others to the service based risk registers.

- 5.3 **Zurich Report 1 and Follow Up** – The outcome of Workshop 1 was then reported by Zurich and this was used by the Audit Manager to compile a new Corporate Risk Register. Input was then required from the nominated risk owners to further refine the content and scoring of the risk register.

- 5.4 **Risk Categories and Draft Risk Appetite Statements** – The Audit Manager worked with Zurich to agree the following items in preparation for Survey 2.

- (a) the risk categories and descriptions
- (b) the risk appetite levels and colour-coding based on a 5x5 risk scoring matrix
- (c) draft statements for all risk appetites within each risk category

- 5.5 **Survey 2** – Sent to CMT and all Members on 4 July 2022 to gauge their opinion on how much risk the Council should be prepared to accept in the pursuit of its corporate objectives.

- 5.6 **Workshop 2 (Risk Appetite Statement)** – Held on 20 July 2020 and attended by officers in CMT as well as by the Council Leader, Councillor Doug Oliver, and Deputy Leader, Councillor Sue Prochak. This workshop, also hosted by Jesper Glasius, focused on the results of Survey 2 and used them to inform a discussion on the Council's risk appetite for each category of risk.

- 5.7 **Zurich Report 2 and Follow Up**

This report contains a proposal for how Rother District Council could articulate their risk appetite. It contains a draft statement for an overall risk appetite and draft risk appetite statements for nine individual risk categories. Both are included in the new Risk Management Policy for Member approval.

## External Audit – Annual Report

6. Grant Thornton’s Annual Audit Report 2020/21 (April 2022) which was reported to this Committee on 20 June 2022 (Minute AS22/10 refers) makes the following summary recommendation in respect of risk management.

### **Governance - Recommendation 4**

*To further enhance the risk management approach the Council’s review of risk management should consider:*

- *Providing detail guidance on risk management for risk managers.*
- *Reducing the number of risks in the corporate risk register to those risks with greatest impact or likelihood and manage the lower scored risks at Director level.*
- *Factors such as target risk score, actions required, sources of risk and assurance and dates of last and next review should be recorded on the risk register.*
- *Developing a comprehensive risk management training programme for Members and staff.*

The section entitled “Auditor Judgement” also goes on to mention that the Council has not defined its risk appetite.

7. The shortcomings of the existing risk management processes were acknowledged in the management response and it is pleasing to note that several of the raised points above have now been addressed as part of our work with Zurich. All outstanding items will be incorporated into further planned improvements.

## **Risk Management Policy**

8. The Council’s Risk Management Policy was last reviewed in February 2020. This document has now been completely revised to reflect the changes made to the risk management process and the latest version can be found in Appendix A.
9. The most significant changes made to the previous policy are the inclusion of sections outlining the Council’s risk management methodology and how we propose to define the Council’s risk appetite.
10. The policy also includes information on:
- the risk categories used in the Corporate Risk Register
  - the 5x5 risk scoring matrix
  - risk appetite levels (i.e. Averse/Minimal/Cautious/Open/Eager), and
  - draft risk appetite statements for each category of risk.
11. This Committee will need to make sure that it is satisfied with the wording of the draft risk appetite statements, and if not, make any amendments it deems necessary prior to the policy being reported to full Council for adoption.

12. Once the risk appetite is agreed, officers will need to ensure that risks associated with their business activities stay within the stated risk appetite.

### Corporate Risk Register

13. CMT has recently reviewed and updated the new Corporate Risk Register produced as a result of the Risk Management Refresh exercise. The latest version is shown in Appendix B.
14. The following improvements have been made to the Corporate Risk Register since it was last reported in March 2022:
  - More emphasis is now placed on the monitoring of strategic risks which could impact on the Council's ability to deliver its corporate objectives. Any existing risks that have been identified as operational in nature have therefore been removed and will need to be incorporated into the service based risk registers if they are not already covered.
  - Less emphasis is placed on business continuity planning risks. A few business continuity risks are still included but it is intended that most will be covered in the service based risk registers from now on.
  - The removal of the inherent risk column to aid clarity. (All risk scores are now shown after mitigation.)
  - Ensuring that a designated risk owner is assigned responsibility for each risk.
  - The nature and potential impact of each risk is now described in more detail to improve the reader's understanding. Specifying the root cause of each risk also helps identify risk interdependencies and opportunities for mutually beneficial actions to mitigate common risk areas.
  - The introduction of a 5x5 risk scoring matrix to allow for more precise scoring. The colour-coding of this matrix also ties in with the new risk appetite levels
15. Other proposed improvements include:
  - The inclusion of a target risk score and the dates of the last and next review to help monitor progress.
  - Defining the risk impact thresholds associated the different risk appetite levels within each risk category. For example, the risk impact threshold for economic / financial risk might be "*0.5% of the Capital or Revenue Budget*" at the lowest (Averse) risk appetite level and "*greater than 30% of either a Capital or Revenue Budget*" at the highest (Eager) risk appetite level. Defining the risk impact threshold for these and all levels in between would help quantify the potential consequences of setting the risk appetite level for this type of risk. The same exercise would then need to be repeated for all the other risk categories.
  - Ensuring that all operational risks removed from the previous version of the Corporate Risk Register are covered in the service based risk registers.

16. It remains a longer-term objective to establish a mechanism for the Corporate Plan Risk Register and all service based and project risk registers to feed into the Corporate Risk Register, preferably adopting a similar template, and scoring method for all risk registers at all levels. Training and guidance may also be required to ensure that managers are equipped with the necessary tools to identify and evaluate risk.

### Service Based Risk Registers

17. Heads of Service/Service Managers should maintain a risk register for key operational risks within their service area. At present, there is no standard template for a service based risk register nor any formal review mechanism for ensuring that risk registers are kept and regularly reviewed. The Deputy Chief Executive is therefore looking to incorporate the requirement for maintaining risk registers into the service planning process. This should be introduced in 2023/24.

### Conclusion

18. The changes made to the Risk Management Policy and Corporate Risk Register will help improve the monitoring of strategic risks, and the inclusion of risk appetite statements should make it easier to check that the Council is not taking on more risk than it is comfortable with. The process of embedding risk management practices at all levels of management will however take more time to achieve.

### Risk Management

19. The failure to adequately monitor and respond to an ever changing risk environment could have serious negative consequences for the Council.

Other Implications	Applies?	Other Implications	Applies?
Human Rights	No	Equalities and Diversity	No
Crime and Disorder	No	Consultation	No
Environmental	No	Access to Information	No
Sustainability	No	Exempt from publication	No
Risk Management	Yes		

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Appendices:	A – Risk Management Policy B – Corporate Risk Register
Relevant Previous Minutes:	AS21/49 Risk Management Update AS22/10 Report of the External Auditors, Grant Thornton Annual Audit Report 2020/21
Background Papers:	<a href="#">Risk Management Policy - March 2021</a>
Reference Documents:	None.