



# Risk Management Policy

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# Risk Management Policy

## Introduction

1. This is the Rother District Council Risk Management Policy. It sets out the Council's approach to Risk Management and how this will be monitored.

## Definition and Purpose of Risk Management

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Risk Management is the process by which the Council continuously and methodically addresses the risks which could hinder the achievement of its corporate priorities, planned service delivery or the fulfilment its statutory obligations.
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3. The focus of good risk management is the identification of risks, assessment of them, and mitigation where necessary, in order that success is achieved. Risk management increases the probability of success and reduces the probability of failure.
4. Risk management allows the Council to:
  - Identify risks in the context of corporate objectives, including potential opportunities.
  - Assess risks to determine the impact and likelihood of each risk.
  - Determine the response to each risk individually – i.e. either treat, tolerate, transfer or terminate the risk.
  - Develop the necessary actions, controls and processes to implement the chosen response to each risk.
  - Communicate the approach to risk management and the results of risk management activity.

## Risk Management Strategy

5. The aim of the policy is to facilitate effective risk management throughout the Council so that risks are identified, evaluated, mitigated, and monitored to enable the Council to achieve its corporate priorities, deliver services as planned and fulfil its statutory duties.
6. This will be achieved through:
  - Awareness of the risks faced by the Council.
  - Clearly defined responsibilities for risk management activity.
  - Ensuring that the Council's priorities, planned service delivery and statutory duties are the focus of risk management.
  - Considering not just the present but also the medium and long term.
  - Managing risks at an appropriate level.
  - Clear ownership of risks.
  - Establishing mitigation measures to reduce risks to an acceptable level
  - Regular monitoring and reporting on the effectiveness of risk management activities.

7. The Council cannot be risk averse if it is to achieve its corporate objectives, and the principles contained within this policy should help strike the right balance in its approach to business opportunity and risk management.

## **Risk Framework**

8. The Council's risk framework is based on a three-tier approach, namely:
  - **Corporate Risks** – Strategic risks that potentially impact on the whole Council. These are recorded and monitored in the Corporate Risk Register.
  - **Service Based Risks** – Operational risks that impact on a specific service area. All key operational risks are required to be recorded and monitored in a service based risk registers by the relevant Heads of Service/Service Manager and escalated to the Corporate Risk Register where appropriate.
  - **Project Based Risks** – Risks that are specific to Corporate Plan projects. Individual risk registers are required to be kept for all Corporate Plan projects and these form part of their project management plan.

## **Responsibility and Reporting**

9. The responsibilities within this policy are outlined below:

### **9.1 Council**

Any policy decisions on Risk are fed through to full Council, via the Audit and Standards Committee. Policy updates will be brought forward as required.

### **9.2 Audit and Standards Committee**

The Audit and Standards Committee is responsible for monitoring the Council's strategic risk management. The Committee will receive six-monthly progress updates on Risk Management matters.

### **9.3 Senior Leadership Team**

The Senior Leadership Team share overall responsibility for risk management at Rother District Council. The Senior Leadership Team specific responsibilities include:

- Implementing the Risk Management Policy.
- Reviewing the management of strategic risk.
- Monitoring the effectiveness of the controls developed to mitigate risk (including desktop exercises to check their resilience).
- Integrating risk management into project and service planning process.
- Ensuring that appropriate training is provided for officers and Members.

#### 9.4 **Heads of Service and Other Service Managers**

Heads of Service and other service managers are key in maintaining our ability to manage risk. Their responsibilities include:

- Working with the Senior Leadership Team to maintain the Corporate Risk Register and to manage the risks identified.
- Maintaining a service based risk register for key operational risks within their service area.
- Ensuring that project-specific risk registers are kept and closely monitored for all corporate projects within their remit.

#### 9.5 **Audit Manager**

The Audit Manager acts as Risk Management Coordinator and has the following responsibilities:

- Maintaining the Risk Management Policy.
- Encouraging regular reviews of Corporate Risk Register (i.e. whenever specific risk issues arise, and at least six monthly).
- Facilitating and collating updates to the Corporate Risk Register.
- Reporting progress to the Audit and Standards Committee.

Note – All responsibility for the content of the Corporate Risk Register remains with the Senior Leadership Team and/or the officers designated as risk owners.

### **Risk Management Methodology**

10. The risk management methodology describes the way in which risks are managed by the Council.

#### 11. **Part 1 – Setting our objectives**

11.1 A risk is the effect of uncertainty on objectives. So, before we can identify our risks, we need to know the objectives. To understand the context in which we are undertaking the risk assessment it is important to know:

- What are we seeking to achieve?
- by When? and
- Who is responsible?

11.2 This includes understanding what the Council wants to achieve and the resources it has available to deliver. The Council has set out its corporate objectives in the Corporate Plan. Individual services set objectives in their service plans.

11.3 The link between Council objectives and service objectives is often called the golden thread. When everyone is pulling in the same direction we will have a much greater chance of being able to achieve our shared goals.

## 12. **Part 2 – Identifying the risks**

12.1 The purpose of any risk identification exercise is to identify those things that could prevent us from achieving what we set out to do. As time passes, the things we need to do will inevitably change. As such this step has two principal elements:

- **Initial risk identification** - for example when embarking on a new project, following a major service change or creating a new service plan, and
- **Continuous risk identification** - required to identify new risks, changes to existing risks, including those which become irrelevant over time.

### 12.2 **Risk categories**

There is no one right way of identifying risks but it can help to use prompts which identify different sources of risk. The following nine risk categories are currently used in the Corporate Risk Register:

- Political
- Economic / Financial
- Social
- Technology
- Legal / Compliance
- Environmental / Climate Change
- Partnership / Contractual
- People
- Project / Programme Risk

12.3 A detail description of the activities encapsulated by each risk category is provided in Appendix 1.

12.4 Common techniques used across the Council to identify risks are horizon scanning, brainstorming, workshops and facilitated discussions. The following questions can help identify risks to your objectives:

- What could prevent us from achieving this objective? What could realistically go wrong?
- What do we need in order to achieve this objective? Do we depend on others to succeed?
- What opportunities might arise?

12.5 The risks generated from the identification exercise should be recorded in a risk register so that they can then be evaluated.

## 13. **Part 3 – Evaluating the risks**

13.1 The purpose of this step is to understand the threat posed by the risks identified and whether or not we need to take action to mitigate them.

13.2 Risk evaluation incorporates two principal elements:

- **Impact** – This is a consideration of how severely the Council would be affected if the risk transpires.
- **Likelihood** – This is a consideration of how likely it is that the risk will occur. In other words the probability that the risk will happen and become an event that needs to be managed.

13.3 A scale of 1-5 is used to assign a score to both the impact and likelihood. The bands and criteria used to assess impact and likelihood are shown in the risk scoring matrix below. This should be used to guide your evaluation of each risk identified.

13.4 **Risk Scoring Matrix**

Likelihood	Impact				
	Minimal (1)	Minor (2)	Moderate (3)	Major (4)	Catastrophic (5)
Almost Certain (5)	5	10	15	20	25
Likely (4)	4	8	12	16	20
Possible (3)	3	6	9	12	15
Unlikely (2)	2	4	6	8	10
Rare (1)	1	2	3	4	5

13.5 Risk impact is considered across a number of different criteria, financial and non-financial. The highest potential impact score should be taken as your overall impact score. This means that the overall score for the highest level risk will be 5 x 5 (25) and the lowest 1 x 1 (1).

13.6 This initial scoring of risks is known as the inherent risk. This refers to the risk as it exists currently but ignoring any controls already in place to mitigate it.

Note – This step is no longer documented in the Corporate Risk Register. All risk scores are now shown after mitigation.

14. **Part 4 – Managing and mitigating risks**

14.1 There are four principal ways in which we can respond to risks, these are known collectively as ‘the Four Ts’ – Treat, Tolerate, Transfer and Terminate.

<b>Treat</b>	This is the most common way of managing risks. The purpose of treating the risk is to continue with the activity, but at the same time take action to bring the risk score down to a lower, more acceptable level.
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<b>Tolerate</b>	This means accepting the likelihood and consequences of the risk. You would typically take this approach when it is not cost effective to act, because the likely impact of the risk, should it occur, is minimal.
<b>Transfer</b>	This means shifting the risk, in whole or part, to a third party. The transfer of risk to another organisation can be used to reduce the financial exposure of the Council and/or pass the risk to another organisation which is more capable of effectively managing it (e.g. insurance). However, it is important to note that transferring the risk does not always provide full mitigation, especially against reputational risk.
<b>Terminate</b>	This means stopping an activity altogether or doing things differently so that the risk is removed.

14.2 Addressing risks involves taking actions to reduce the likelihood of the risks occurring or limiting their impact should they materialise. One of the key ways in which a risk can be addressed is through implementation or enhancement of internal controls.

14.3 The costs of managing risks should be understood and be proportionate to the risk being addressed. Resources should be prioritised to the higher-level risks that need active management.

#### 15. **Part 5 – Assessing the residual risk**

15.1 Once action has been taken to control or mitigate the risks, the next stage is to re-evaluate the impact and likelihood again using the same risk scoring matrix shown in 13.4.

15.2 The managed risk score is referred to as the residual risk. This gives a better indication of whether the action taken to date is sufficient, and if the overall score is within the Council's risk appetite.

#### 16. **Part 6 – Recording and reviewing risks**

16.1 It is necessary to monitor risk mitigation action plans to regularly report on the progress being made in managing risk. Alternative action will be needed if the mitigations taken prove ineffective.

16.2 All the information relating to the identified risks should be recorded in a risk register. As a minimum, this information should include:

- a description of the risk
- its potential outcome should it occur
- the mitigations in place or being put in place
- the residual risk score, and
- the risk owner

16.3 Specifying the root cause of each risk can also be beneficial as it helps to identify risk interdependencies and opportunities for mutually beneficial actions to mitigate common risk areas.

16.4 Each risk register needs to be reviewed and approved at the right level of management. The Corporate Risk Register should be reviewed and approved by Senior Leadership Team and reported to the Audit and Standards Committee. Service based risk registers/corporate project risk registers should be reviewed and approved by the relevant Head of Service/Service Manager.

## Risk Appetite

17. Risks must be assessed against the Council's risk appetite. Risk appetite can be defined as the level of risk that an organisation is willing to accept, tolerate, or be exposed to in pursuit of its objectives.

18. A risk appetite has been formalised in this policy to provide clear guidance to all officers, Members and partners on the level of risk which can be accepted. It should be used to ensure consistency in, and accountability for:

- The reporting and management of existing or emerging risks.
- The extent of governance arrangements and controls required.
- Assessments of the suitability of proposals (savings, strategies, policies etc).

## 19. Risk appetite levels

19.1 The risk appetite levels are specified as follows:

Risk Appetite	Risk Level	Risk Score
<b>Averse</b>	Very Low Risk	1-2
<b>Minimal</b>	Low Risk	3-4
<b>Cautious</b>	Medium Risk	5-10
<b>Open</b>	High Risk	12-16
<b>Eager</b>	Very High Risk	20-25

19.2 The colour scheme used acts as a good visual tool for communicating and understanding risk – i.e. green for low or very low risk, yellow/amber for medium/high risk, and red for very high risk. The same colour scheme is also used in the risk scoring matrix.

19.3 These risk appetite levels are explained in more detail in Appendix 2.

## 20. Risk appetite statements

20.1 A high level summary of the Council's current risk appetite is shown overleaf.



## 20.2 Summary Risk Appetite Statement

Risk Appetite	Statement
<b>Cautious/Open</b> (Medium/High Risk)	The Council's ambitions makes it necessary to be open to a certain level of risk. However, we will be cautious not to jeopardise our ability to sustainably deliver social value and our political promises to our community. In this effort, we will only accept minimal risk to our environmental goals and to our technology infrastructure.

20.3 Risk appetite statements have also been produced for each of the nine risk categories specified in 12.2. A full breakdown of the risk appetite statement by risk category is provided in Appendix 3 and an overview of the risk landscape in Appendix 4.

20.4 The risk appetite statements will need to be reviewed annually to ensure that they continue to meet the Council's requirements.

## Appendix 1: Risk Categories

Nine of categories of risk are currently used to quantify the Council's strategic risk exposure. These are:

Risk Category	Description
<b>Political</b>	These risks include both the influence of the external political environment - such as changes in UK government policies that impact the Council, national strikes/fuel shortages, grass roots activism and political criticism - and risks that influence the political priorities of the Council and could lead to failure to deliver on election manifestos of either local or central government.
<b>Economic / Financial</b>	These risks could impact on the ability of the Council to meet its financial commitments or result in a failure to meet expected returns on investment. It covers both internal budgetary pressures, external macro level economic changes and risks associated with insufficient or non-compliant reporting. Examples: Cost of living crisis, interest rates, inflation, budget overspend, investment failures, reserve depletion.
<b>Social</b>	These risks arise from not meeting social needs as a result of changes in demographic, residential or socio-economic trends on the Council's ability to meet its objectives. These risks could lead to a loss of credibility or trust from the community. Examples could include housing supply shortages and failure to meet housing needs, decisions or actions involving treatment of people, staff levels from available workforce; not meeting the needs of an ageing population, not being prepared for bringing all people along when changes occur.
<b>Technology</b>	Risks arising from the use or ineffective use of technology resulting in the inadequate delivery of services whether the failure is due system, process or performance. It also includes breaches of data security or system integrity as well as the capacity of the Council to deal with technological advancements and changing demands. Examples: Change agenda; IT infrastructure; staff/client needs, security standards, digital poverty and (lack of) access to digital services.
<b>Legal / Compliance</b>	Risk related to legal challenges and being subjected to litigation including non-compliance with legal frameworks whether that is in regard to employment, delivery of statutory services, etc. It also includes risks of changing national and international regulations that would threaten the Council's operations and processes, Data Protection breaches, and failure to comply with Health and Safety regulations.

Risk Category	Description
<b>Environmental / Climate Change</b>	These risks arise from the impact of Council services and investment. Risks should be identified from both current operations and projects on how they might impact on both the local environment in terms of resilience to extreme weather (flood defences, drought resistance), the wider context of contributions to climate change (carbon emissions etc.) and the ability to adapt to future needs of the population.
<b>Partnership / Contractual</b>	Risks arising from failures of partners or contractors and weaknesses in the process for management of joint ventures and commercial endeavours including supply chains. Examples: Contractor fails to deliver; partnership agencies have no common goals, insufficient return on investment, service failure, lack of cost control.
<b>People</b>	Risks arising from ineffective leadership and engagement, suboptimal culture, inappropriate behaviours, the unavailability of sufficient capacity and capability, industrial action and/or non-compliance with relevant employment legislation/HR policies resulting in negative impact on performance.
<b>Project / Programme Risk</b>	Risks that change programmes and projects are not aligned with strategic priorities and do not successfully and safely deliver requirements and intended benefits to time, cost and quality.

Note

These risk categories are based on the PESTLE model (i.e. Political, Economic, Social, Technical, Legal, Environmental) plus a few additional areas to handle those areas not specifically covered elsewhere. Reputational risk is not included in the above list as it is considered to be secondary risk that may result from failure in any of other categories.

## Appendix 2: Risk Appetite Levels

The Council uses the following risk appetite levels. At each level there is a balance between risk and reward, with 'eager' risk appetite offering the highest risk and reward and 'averse' offering the lowest.

Risk Appetite	Typical Organisational Attitude or Behaviours
<b>Averse</b> (Very Low Risk)	<p>Our preference is for ultra-safe actions that will not result in a loss of reputation, credibility or money.</p> <p>We would rather abandon projects and initiatives than assume risk.</p> <p>Innovation is avoided unless it's forced upon us.</p> <p>We avoid any action that could lead to a legal challenge or breach of regulatory framework.</p>
<b>Minimal</b> (Low Risk)	<p>We accept that risk is unavoidable but will minimise risks as much as possible.</p> <p>All reasonable steps will be taken to manage the risk; we are prepared to be bureaucratic and to tightly control processes.</p> <p>Innovation is generally avoided and will only be entered into if all stakeholders are committed, and success is virtually guaranteed.</p>
<b>Cautious</b> (Medium Risk)	<p>Our preference is for actions that are unlikely to result in a loss of reputation or credibility.</p> <p>We are only prepared to accept the possibility of limited financial loss.</p> <p>We will remain open to innovation but prefer to only engage in initiatives proven to work in similar organisations.</p>
<b>Open</b> (High Risk)	<p>We are willing to be bold and risk our reputation but only if steps have been taken to reduce the risk.</p> <p>Innovation is supported, but only if clear benefits are demonstrated and we are confident in our success.</p> <p>We are prepared to invest for reward and accept moderate financial losses are possible.</p> <p>The likelihood of this risk happening, and the consequences are such that we are happy to live with it.</p>
<b>Eager</b> (Very High Risk)	<p>We are willing to accept increased scrutiny from stakeholders and a loss of credibility if things go wrong.</p> <p>Innovation is pursued - we are willing to break the mould to deliver organisational goals even if failure is a possibility.</p> <p>We are prepared to invest knowing significant financial losses are possible, or that innovation may fail to deliver the anticipated benefits.</p>

### Appendix 3: Risk Appetite Statement by Risk Category

Risk Category	Risk Appetite	Statement
<b>Political</b>	<b>Cautious</b> (Medium Risk)	We will be cautious in accepting risks that could result in political challenge or prevent us from achieving elements of Council strategy or manifestos. In some cases, we are open to push the boundaries in order to deliver on our ambitions.
<b>Economic / Financial</b>	<b>Open</b> (High Risk)	The Council possesses a willingness to think about investment, even where losses could be realised that would impact the Councils reserves, if clear benefits can be expected. Both financial and social benefits should be considered.
<b>Social</b>	<b>Cautious</b> (Medium Risk)	We exist to create social value and to be able to deliver sustainable results we will accept some risk to the short-term resilience of the organisation and meeting of community needs, when longer term benefits are deemed to outweigh short term risk
<b>Technology</b>	<b>Minimal/Cautious</b> (Low/Medium Risk)	We will focus on proven new technology solutions, where investment in, and adoption of, technology is only be considered after careful analysis of costs, benefits and potential risks. We will accept some risk in systems used in services, but only minimal risk regarding Council technology infrastructure
<b>Legal / Compliance</b>	<b>Cautious</b> (Medium Risk)	We are willing to work widely within regulatory frameworks and explore opportunities even if we are exposed to some challenge, but not, knowingly, exposed to breaches.
<b>Environmental / Climate Change</b>	<b>Minimal</b> (Low Risk)	In some limited circumstances, we are prepared to accept a risk of increasing our environmental impact or delays to our strategic objectives in this area where there is a clear, demonstrable benefit of increased social value, cost savings or revenue that is essential to the Council.
<b>Partnership / Contractual</b>	<b>Cautious</b> (Medium Risk)	We will seek out beneficial partnerships where risks can be managed to only impact some elements of strategic objectives and have limited financial downside. We are willing to be slightly flexible with the conditions of our supplier background checks.

Risk Category	Risk Appetite	Statement
<b>People</b>	<b>Open (High Risk)</b>	We will entrust our people with decision making within the guidelines set out by leadership. Services can operate autonomously in some instances, even where there's some risk of detachment from culture with resulting inappropriate behaviours. We will mitigate this risk by establishing expectations and encourage an organisation wide understanding of values.
<b>Project / Programme Risk</b>	<b>Open (High Risk)</b>	We support innovation and initiative, where risks are identified and reasonably managed. Oversight from senior management on critical decisions

## Appendix 4: Overview of Risk Landscape

Risk Category	Averse (Very Low Risk) Risk score 1-2	Minimal (Low Risk) Risk score 3-4	Cautious (Medium Risk) Risk score 5-10	Open (High Risk) Risk score 12-16	Eager (Very High Risk) Risk score 20-25
Political					
Economic / Financial					
Social					
Technology					
Legal / Compliance					
Environmental / Climate Change					
Partnership / Contractual					
People					
Project / Programme Risk					

### Note

Most strategic risks will fall within the yellow (medium risk) or light green (low risk) zones once mitigated, but the Council's risk appetite also allows for certain categories of risk (i.e. Economic / Financial, People and Project / Programme Risk) to reach scores that put them in orange (high risk) zone. However, anything in the red zone (very high risk) or any of the area shaded in grey would exceed the Council's risk appetite and further action would be needed to reduce the risk to an acceptable level.