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LONDON BOROUGH

RISK MANAGEMENT STRATEGY

(Version 10. June 2013)

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Purpose and objectives of the strategy

The purpose of this Risk Management Strategy is to establish a framework for the systematic management of risk,

The objectives of this strategy are: -

a) Define what risk management is about and what drives risk management within the Council

b) Set out the benefits of risk management and the strategic approach to risk management

c) Outline how the strategy will be implemented

d) Identify the relevant roles and responsibilities for risk management within the Council

e) Formalise the risk management process across the Council

f) Support successful working with other bodies and partner organisations.

The measurable outcomes of the strategy are: -

a) Embed the risk management process to further strengthen the links between management of risk, performance within the organisation and the meeting of objectives.

b) Degree of integration – as part of the annual review the progress to further integrate risk management into business processes will be considered and reported to Corporate Leadership Team.

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RISK MANAGEMENT POLICY STATEMENT

London Borough of Havering's Risk Management Strategy ensures that for each Council function, activity, operation or service the level of risk is known, recorded and monitored. In each case, a conscious decision must be taken on how to manage that risk whether through controlling it, transferring it or tolerating it.

The Council's risk management strategic objectives are to:-

- Integrate risk management into the culture of the Council;
- Manage risk in accordance with best practice;
- Anticipate and respond to changing social, environmental and legislative requirements;
- Prevent injury, damage or losses and reduce the cost of risk; and
- Raise awareness of the need for risk management by all those connected with the Council's delivery of services.

These objectives will be achieved by:

- Establishing clear roles, responsibilities and reporting lines within the Council for risk management;
- Providing opportunities for shared learning on risk management across the Council;
- Reinforcing the importance of effective risk management as part of the everyday work of employees by offering training;
- Incorporating risk management considerations into the Havering 2014 Transformation Programme and other projects; and
- Monitoring and reviewing arrangements on an on-going basis.

CHERYL COPPELL
CHIEF EXECUTIVE

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Approval, communication, implementation and review of the risk management strategy

The Risk Management Strategy was subject to a detailed review in 2012 as part of full review into the Council's approach. For 2013 a less detailed review has been completed the main aim of which is to ensure the document remains current. Following approval by the Audit Committee it will be publicised and made available on the intranet.

An independent review is planned at the end of 2013/14 of Risk Management, to give assurance to Senior Management and Members.

Context

What is Risk Management?:

Risk Management is defined by the Institute of Risk Management as:

> **"**Risk Management is the process which aims to help organisations understand, evaluate and take action on all their risks with a view to increasing the probability of their success and reducing the likelihood of failure."

Risk management will, by adding to the business planning and performance management processes, strengthen the ability of the Council to achieve its objectives. Risks associated with these objectives can be managed and the potential impact limited, providing greater assurance that the Vision will be achieved.

Benefits of risk management

Successful implementation of risk management will produce many benefits for the Council. These include:

- Increased chance of achieving strategic objectives as key risks are identified, understood and managed.
- An organisation can become less risk averse (because risks are understood).
- Improved performance (accountability and prioritisation) - feeds into performance management framework.
- Better governance (can be demonstrated to stakeholders).

Risk management, emergency planning and business continuity

There is a link between these areas; however it is vital for the success of risk management that the roles of each, and the linkages, are clearly understood. The diagram below sets out to demonstrate the differences.

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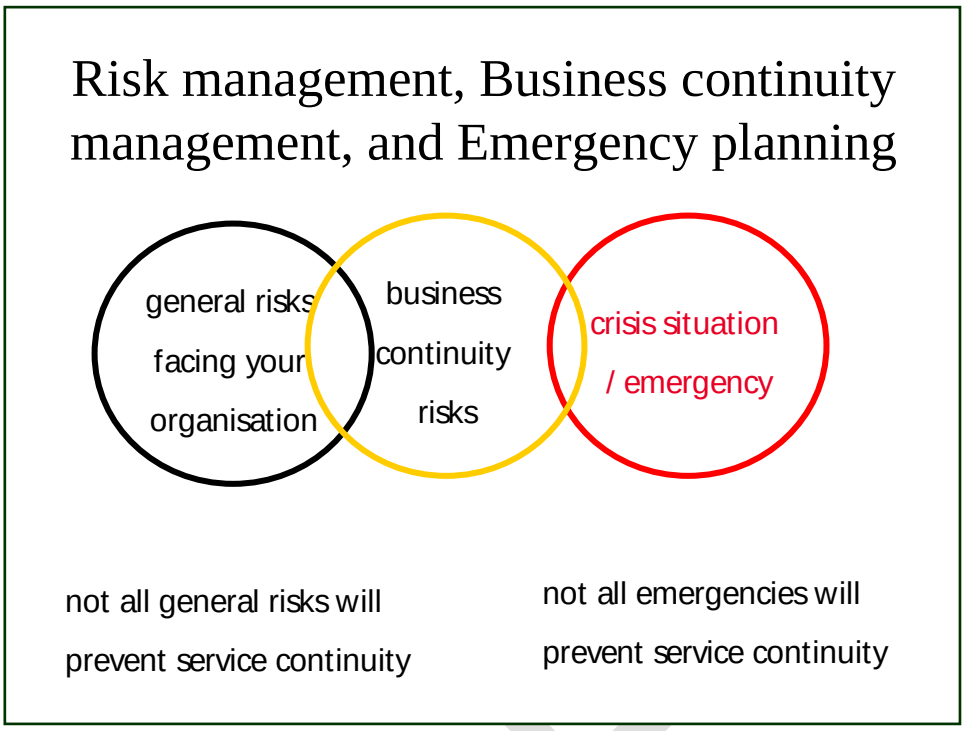

- **Risk management** is about trying to identify and manage those risks which are more than likely to occur and where the impact on our strategic objectives can be critical.

- **Business continuity management** is about trying to identify and put in place measures to protect your priority functions against potentially unforeseen risks that can stop your organisation in its tracks.

- **Emergency planning** is about managing those incidents that can impact on the community (in some cases they could also be a business continuity issue).

The Council has recognised there is a link between risk management, business continuity management and emergency planning and this is demonstrated by all three issues being led by the Group Director Finance on Commerce on behalf of Corporate Management Team.

Risk management in projects and partnerships

Risk management needs to be a key part of the ongoing management of projects and partnerships.

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Project / Programme management - There is a consistent and robust approach to risk management used in projects, both at PID stage and throughout the entire project. Written guidance is available on the intranet.

Partnership - The approach taken is based largely on the approach used across the authority. Written guidance on Partnership Governance, including risk management is available on the intranet.

Link with insurance

Risk Management is integrally linked with insurance, but it is not solely about insurance. The authority regularly reviews its insurance arrangements and actively manages these with Risk Management in mind.

- Both our insurer and insurance specialist officers are actively involved in risk management activities;
- Regular reviews of insurance claims will be undertaken by the newly formed Operational Risk Management Group; and
- There is a learning culture encouraged from claims history.

Strategic approach to risk management

In order to formalise and structure risk management at the Council, it is recognised that there are obvious and clear links between risk management and strategic planning; financial planning; policy making & review and performance management.

The linkages are as follows:

- Each priority identified in the Vision and key objectives is translated into the Council's Service Plans and are targets that the Council's activities will aim to achieve. During the lifetime of this plan there will be direct and indirect threats to these achievements and these are the risks.

- Measurement of performance against the corporate objectives, performance indicators and key tasks is achieved in a number of ways including:

  - Reporting and monitoring performance on a regular basis and escalating through the organisation as appropriate;
  - Cabinet portfolio holders review performance information relevant to their areas on a quarterly basis;

- Management of key strategic risks which could affect the delivery of the Council objectives / targets is undertaken by the Corporate Leadership Team;

- Service Plans feed from the strategic objectives of the Council, and explain how the Service helps to deliver the Council's objectives in respect of:

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- The Corporate Plan; and
- The Council's Vision and Values.

- An assessment of service risks forms part of all Service Plans, which is an identification and prioritisation of the most significant risks faced in delivering the key elements of the Service Plan, with actions identified to mitigate and manage these. These risks are managed as part of the action plans within the Service Plans.

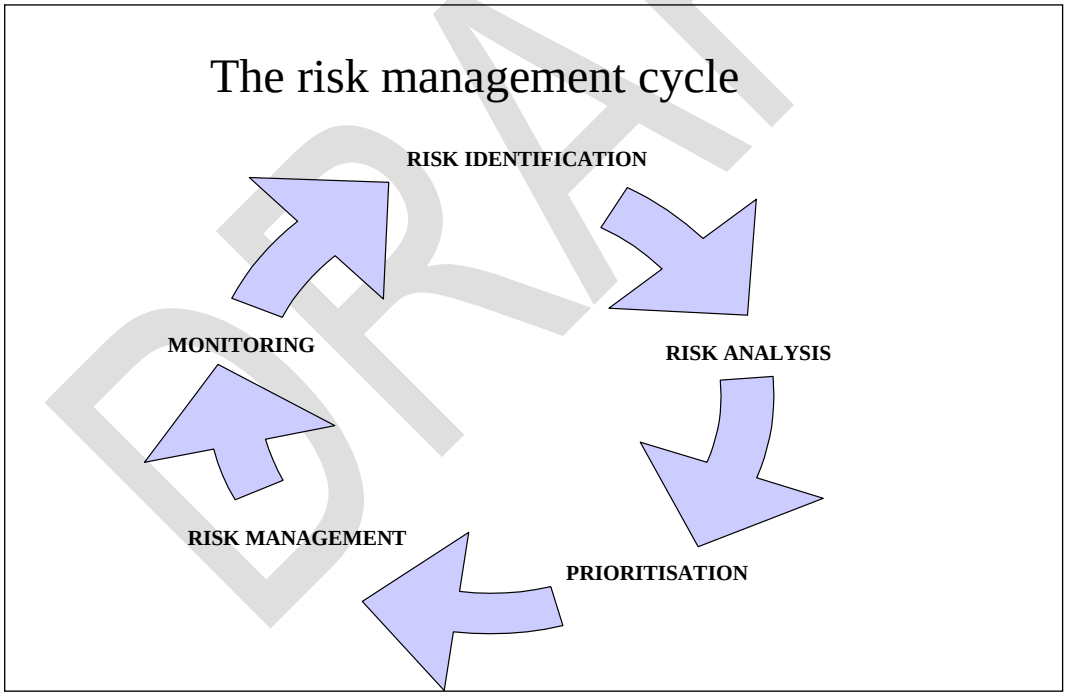
- Performance management is also cascaded down to individual employees via the performance and development review framework which ensures all employees have clear accountabilities and objectives linked to those of the service and the Council.

Implementation of Risk Management

The risk management process

Implementing the strategy involves a 5-stage process to identify, analyse, prioritise, manage and monitor risks as shown in figure 1.

Figure 1: The risk management cycle



Stage 1 – Identification of the risks

The first step is to identify the 'key' risks that could have an adverse affect or prevent key business objectives from being met. It is important that those involved with the process clearly understand the service or organisation's key business objectives. It is important to consider the relevant Service Plan in a

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broad context, considering the wider direction and aims of the service and what it is trying to achieve.

Various techniques can then be used to begin to identify ‘key’ or ‘significant’ business risks including: -

- A ‘brainstorming’ session;
- Own (risk) experience – what did we learn from previous mistakes?;
- Inspectorate or audit reports;
- Experiences of others - can we learn from others mistakes?; and
- Exchange of information/best practice with other authorities, organisations or partners.

The process for the identification of risk should be undertaken for projects, partnerships, service delivery planning and at a strategic / corporate level. Details of who contributes to these stages are explained further in the roles and responsibilities section.

Stage 2 – Analysing the risks

The information that is gathered needs to be analysed. The council has a Risk Analysis template (with detailed guidelines) to guide Risk Owners through the process of analysis. (Appendix 1)

Each risk is logged on the respective risk register; these registers could be Corporate, against a specific Service Plan, or relating to a project or partnership. The purpose of the risk register is to store details of the risk, its likelihood and impact (see stage 3) and mitigation activity.

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Stage 3 – Risk profiling and prioritisation

Following identification and analysis the risks will need to be evaluated according to the potential likelihood of the risk occurring and its impact if it did occur. A matrix is used to plot the risks and once completed this risk profile clearly illustrates the priority of each risk.

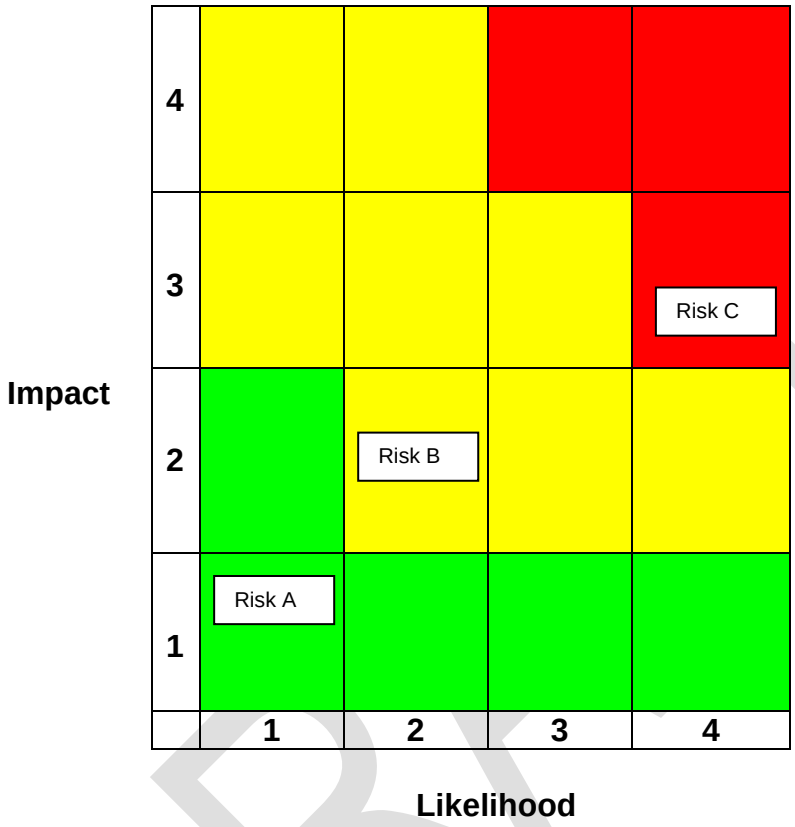

Figure 2: Example of the Council risk matrix

In order to profile/rate risks, the authority considers the next 3-5 years for strategic risks and 1-2 years for service level risks:

- The impact – this being the extent to which the issue (assuming it were to manifest itself to the degree defined in the consequences) would impact on the organisation's ability to achieve its vision and priorities on the following scale:
  1 – low/negligible
  2 – medium
  3 – high
  4 – significant/extreme

- The likelihood – taking into account existing measures to manage the issue and (not those planned or not yet in operation) how likely is the impact to occur within the timeframe of the Corporate Plan on the following scale:
  1 – very unlikely

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2 – unlikely but possible
3 – likely
4 – very likely

- When assessing the further action to take, along with a target risk rating, the Council will consider if there is:
  - significant scope for improvement of the risk response
  - moderate scope for improvement of risk response
  - sufficient risk response

The matrix is also constructed around 3 filters - these being red, amber and green. The red filtered risks are of greatest priority and require immediate attention. Amber risks should be reviewed and moderate risk mitigation action may be required. Green risks are likely to require no further action and should be monitored at 3-monthly intervals, in case the situation changes.

Stage 4 – Action Planning

This is the process of turning 'knowing' into 'doing'. It is assessing whether to control, tolerate, transfer or terminate the risk .Risks may be:-

Controlled - It may be possible to mitigate the risk by 'managing down' the likelihood, the impact or both. The control measures should, however, be commensurate with the potential frequency, impact and financial consequences of the risk event.

Tolerated - Certain risks may have to be accepted as they form part of, or are inherent in, the activity. The important point is that these risks have been identified and are clearly understood.

Transferred - to another body or organisation i.e. insurance, contractual arrangements, outsourcing, partnerships etc.

Terminated - By ending all or part of a particular service or project.

In many cases, existing controls will already be in place. It is necessary to evaluate these controls before considering further action. It may be that these controls are not being complied with or are 'out of date'.

The potential for controlling the risks will be addressed through Service Plans. Most risks can be managed – either by mitigating down the likelihood, impact or both. Few risks have to be transferred or terminated. The service plans will also identify the resources required to implement the controls, the timescale and monitoring arrangements.

Full details of the risk mitigation measures that are to be delivered are likely to be recorded in the respective business plans and cross reference should be made to this in the risk registers.

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Consideration should also be given here as to the ‘cost-benefit’ of each control weighed against the potential cost / impact of the risk occurring. N.B. ‘cost / impact’ here includes all aspects including financial, resourcing, but also reputational.

Suggested matrix to use when determining cost/benefit of mitigating controls:

High cost/low impact on mitigating risk	High cost/big impact on mitigating risk
Low cost/low impact on mitigating risk	Low cost/big impact on mitigating risk

Stage 5 – Monitoring risk management

The Corporate Leadership Team is responsible for ensuring that the key risks on the strategic risk register are managed and the progress with the risk mitigation measures should be monitored at appropriate intervals. Directors and Heads of Service are responsible for ensuring that the key risks in the risk registers It is recommended that the ‘red risks’ feature as a standing item on ‘Head of Service’ meeting agendas.

The Strategic and Service Plan risk registers should be reviewed regularly and where necessary risks re-prioritised. Risks should be amended so they reflect the current situation, obsolete risks should be deleted and new risks identified. This ensures that the risk registers and resulting risk mitigation measures are appropriate for the current service and corporate objectives.

Reporting and escalating risks

Often, new risks will arise that have not previously been included on existing risk registers; or there may be emerging risks to consider. Also the environment in which the risks exist might change making some risks more critical or others less important. At least every quarter the respective risk registers should be updated to reflect this. If such risks require corporate ownership then they should be considered for inclusion in the strategic risk register. If service level management is more appropriate then the risk should be included in the respective Service risk register.

Some service risks have the potential to impact on the corporate objectives and these will often be the red risks on the matrix.

Corporate Management Team will report the headline red risks to the Audit Committee.

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Roles and responsibilities

The following describes the roles and responsibilities that Members and officers will play in introducing, embedding and owning the risk management process.

Members

Elected Members are responsible for governing the delivery of services to the local community. Members have a responsibility to understand the strategic risks that the Council faces and should consider the risks associated with the decisions they undertake and will be informed of these risks in the reports that are submitted to them.

Audit Committee

To provide an independent assurance of the adequacy of the risk management framework and the associated control environment. In particular:

- To receive the annual review of internal controls and be satisfied that the Assurance Statement properly reflects the risk environment and any actions required to improve it.
- To receive regular reports covering implementation of the Council's Risk Strategy to determine whether strategic risks are being actively managed.
- To review and approve the Risk Management Strategy on an annual basis, or if significant changes require a revision of it.

Chief Executive, Corporate Management Team and Corporate Leadership Team

- To ensure that effective systems of risk management and internal control are in place to support the Corporate Governance of the Council.
- To take a leading role in identifying and managing the risks and opportunities to the Council and to set the example and standards for all staff.
- To advise on the management of strategic and other significant risks.
- To ensure that the Policy and Strategy are communicated, understood and implemented by all Members, managers and staff and fully embedded in the Council's business planning and monitoring processes.
- To identify, analyse and profile high-level corporate and cross-cutting risks on a regular basis as outlined in the monitoring process.
- To report to Members on the management of corporate and other significant risks and the overall effectiveness of risk management controls.
- To ensure that appropriate risk management skills training and awareness is provided to all Members and staff.
- The Assistant Chief Executive Legal and Democratic Services is recognised as the officer champion for Risk Management.

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Heads of Service

- Each Head of Service is individually responsible for proper monitoring of their Service Plan risk register, local action plan and the embedding of risk management into the business and service planning of their relevant service area.
- Be actively involved in the identification and assessment of service level risks resulting in an up to date Service Plan risk register and matrix.
- Ensuring that all reports of a strategic nature written for Members include a risk assessment of the options presented for a decision.
- To implement approved action plans.
- To maintain the awareness of risks and feed them into the risk identification process.

Operational Risk Management Group

- To act as a forum for the sharing of best practice.
- Review and challenge Service and Corporate Risk Activity.

Internal Audit

- To provide assurance to the Council through an independent and objective opinion, on the control environment comprising risk management, control procedures and governance.
- To report to Members on the control environment.
- To provide an annual Audit Plan that utilises a reasonable evaluation of risk and an annual assurance statement to the Council based on work undertaken in the previous year.

Individual Employees

- To participate, where appropriate, in ongoing risk management within service areas, as part of the business planning process
- To actively manage risks and risk actions, where appropriate
- To demonstrate an awareness of risk and risk management relevant to role.

Partners

It is important that partners be brought into the risk management framework it is essential that accountabilities are adequately determined and that London Borough of Havering does not overlook any risks arising from its part in a joint venture or outsourcing. It is not possible to outsource the risk management process.

Conclusion

This strategy will set the foundation for integrating risk management into the Council's culture and formalise a process to be applied across the Council to ensure consistency and clarity.

The next annual review of this strategy is planned to take place by June 2014.

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RISK ANALYSIS TEMPLATE

(April 2012 Version)

***Risk**: The possibility of an event occurring that will have an adverse impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.*

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Guidance on the Risk Analysis Template

This section presents each of the questions included in the template with advice and guidance on how to answer and what you should be considering.

COMMON TERMS	
Risk	The possibility of an event occurring that will have an adverse impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.
Mitigation	Any action taken by management or other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. This is often called control.
Inherent risk	The risk before management takes action to reduce the impact and likelihood of an adverse event.
Residual risk	The risk remaining after management takes action to reduce the impact and likelihood of an adverse event.
Likelihood	How likely is the adverse event or issue to occur?
Impact	The extent to which the issue (assuming it were to manifest itself to the expected degree) would impact on the organisation's ability to achieve its objectives.

The information at the top of the risk analysis document is so that it can be linked to the relevant risk register.

Risk Register:			
Reference:			
Date Completed/Updated			
Lead 1:		**Lead 2:**	

Risk Register – this will either be CORPORATE or the relevant SERVICE area will be input. It could also refer to a specific project or programme.

Reference – Relevant numerical or alpha numerical reference to the risk. Nb. You may want to give each risk a unique number and not reuse when risks are removed from the register as this will aid tracking.

Date Completed or Updated – this will provide an audit trail for changes and updates and ensure that the most recent version is used to update the relevant Risk Register.

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Lead 1 – For the Corporate Risk Register this will be a CMT member for a Service Risk Register it will be the Head of Service.

Lead 2 – For the Corporate Risk Register this will be a (or more than one) Head of Service for the Service Risk Register it will be a Third Tier Officer.

Question 1	**What is the risk?**
• For a risk that has already been entered on the Risk Register use the description of the risk from the Risk Register. • For a new risk, or where no separate risk log is kept, provide a brief description of the risk in less than 100 words (you can then use this description when the risk is entered on your risk register). • Consider whether this is a risk that will always be apparent or whether this is temporary risk caused by a specific event such as new legislation or the introduction of new technology.	

Question 2	**What might cause the risk materialise?**
• What would have to happen (or not happen) for your risk to change from a risk to an adverse event or issue? <u>Example:</u> Risk: hot meals cannot be delivered to the elderly in inclement weather. Cause: bad weather; shortage of 4x4 cars; roads not gritted; staff not getting to work.	

Question 3	**What is the anticipated impact and who will be affected?**
• If the risk materialises what might happen? • Consider the direct and indirect impacts. The immediate direct impacts might be: lack of service provision or injury whereas longer term, indirect might be the councils reputation; financial burden of paying compensation etc. • Who will be affected: service users? Staff? The whole council? Members? • Using the same example as in question 3 the impact might range from : a) pensioner misses a days meals (direct) or b) pensioners family complain to local press and the council's reputation is damaged (indirect).	

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Question 4	Rate your risk using the 4x4 scoring method (this should be without taking into account any mitigation)

- The 4x4 method is used as the corporate standard in Havering. More detail can be found on this in the councils Risk Management Strategy.

  The impact – this being the extent to which the issue/event would impact on the organisation's ability to achieve its objectives on the following scale:
  1 – Low/Negligible (short term effects / need to reallocate existing resources)
  2 – Medium (short term effects / some additional resources required to resolve)
  3 – High (ongoing but contained/localised effects / some additional resources required to resolve)
  4 – Substantial/Extreme (ongoing wide reaching effects / high input of additional resources to rectify)

  The likelihood – how likely is it that the adverse event will occur on the following scale:
  1 – very unlikely
  2 – unlikely but possible
  3 – likely
  4 – very likely

- Based on the above descriptions you should rate your risk before you have put any mitigation in place.
- The scores you give are then multiplied which will give a score of anything between 1 and 16. This is the inherent risk score.

Question 5	What mitigation is currently in place and how effective is it?

- You will need to briefly describe what mitigation is in place. There are different types of mitigating factors, some might be built into the system, or process e.g. authorisations and access levels; others will sit outside of the process e.g. regular staff training or procedure manuals.
- To assess how effective the mitigation is you will need to consider what assurance you have regarding its effectiveness. Examples of assurance are: recent audits or inspections; performance monitoring (such as PIs, monthly reports, reconciliations) or recent testing of emergency plans.

- Example - risk: cash maybe stolen from the till

  - **Mitigating Factor 1:**

  Reconciliation is carried out at the end of each day.

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- **How do you know this is effective?**

Annual audit testing has confirmed that this is being done effectively

Question 6	**Taking into account the mitigation currently in place re-evaluate your risk score**

- Using the same scoring method as for question 5, re-assess the likelihood of your risk occurring and what the impact might be after your mitigation is in place. If you have not been able to gain any assurance with regards to the effectiveness of your mitigation this may affect your score as you have no guarantee that your mitigating factors are working.

Question 7	**Do you feel that more or less mitigation is needed? Before increasing or reducing mitigation you should consider the cost-benefits.**

- Having considered your residual risk score you need to weigh up the benefits of increasing or reducing your mitigating factors.

  You need to balance the cost of the mitigation (or of not mitigating) with the benefit gained. There will be one of 4 outcomes:

  - High cost but low impact on mitigating risk
  - High cost but big impact on mitigating risk
  - Low cost and low impact on mitigating risk
  - Low cost big impact on mitigating risk

  Applying the cost-benefit analysis should enable you to be clear on the value of the mitigation.

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Question 8	If your risk remains in the red zone (scores 12+) after mitigation you will need to draft an action plan.

- The table below is from the Risk Management Strategy. In our example the risk was rated as 4 for likelihood and 3 for impact. When placed on the grid this would be in the Red Zone. This means that mitigation is needed to either reduce the likelihood or the impact (or both).

Impact

4			Risk	
3				
2				
1				
	1	**2**	**3**	**4**

Likelihood

If the risk you are analysing is scored 12+ it is likely that an action plan will be needed to reduce the risk. The action plan is merely an outline of further mitigation that will be put in place, when it can be achieved and who will lead. A template can be found at the end of the Risk Analysis template. It may be useful to re-score the risk anticipating the effect of the planned new mitigating factors. This may enable you to assess whether the planned mitigation is likely to achieve the aim of reducing the score.

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LONDON BOROUGH OF HAVERING RISK ANALYSIS

Risk Register:			
Reference:			
Date Completed/Updated			
Lead 1:		**Lead 2:**	

1. What is the risk?

2. What might make the risk materialise?

3. What is the anticipated impact and who will be affected?

4. Rate your risk using the 4x4 scoring method (this should be without taking into account any mitigation)

a) Likelihood =

b) Impact =

Risk score (a x b) = / 16

This is your inherent risk score.

5. What mitigation is currently in place and how effective is it?

- **Mitigating Factor 1:**

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- **How do you know this is effective?**

- **Mitigating Factor 2:**

- **How do you know this is effective?**

- **Mitigating Factor 3:**

- **How do you know this is effective?**

Add more if necessary.

6. **Taking into account the mitigation currently in place re-evaluate your risk score**

   a) Likelihood =

   b) Impact =

   Risk score (a x b) = / 16

   This is your residual risk score.

7. **Do you feel that more or less mitigation is needed? Before increasing or reducing mitigation you should consider cost-benefits.**

8. **If your risk remains in the red zone (scores 12+) after mitigation you may need to draft an action plan (appendix 1).**

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Appendix 1

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RISK ACTION PLAN

Risk Description:			
Reference:			
Lead 1:		**Lead 2:**	

	REQUIRED ACTION	LEAD	TARGET DATE
1			
2			
3			
4			
5			
6			

Consider what the risk rating will be when your action plan has been implemented

a) Likelihood =

b) Impact =

Risk score (a x b) =

This is your <u>target</u> residual risk score.

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