

**AUDIT COMMITTEE  
24 MARCH 2015:**

**RISK AND OPPORTUNITY MANAGEMENT STRATEGY**

**Cabinet Member** Cllr Peter Hare-Scott  
**Responsible Officer** Head of Communities & Governance

**Reason for Report:** To present the Committee with the updated Risk and Opportunity Management Strategy for approval

**RECOMMENDATION:** The Committee approve the updated Risk and Opportunity Management Strategy (Appendix A)

**Relationship to Corporate Plan:** Having effective Risk and Opportunity Management arrangements in place is crucial for identifying risks and opportunities and mitigating the Council's risks and is a fundamental element of being a well-managed Council

**Financial Implications:** Failure to mitigate risks or take advantage of opportunities could result in financial loss to the Council.

**Legal Implications:** Failure to mitigate risks could result in a number of legal implications for the Council

**Risk Assessment:** Failure to take advantage of opportunities and mitigate business risks is a major risk to the Council and could impact on the Council's ability to deliver its strategic objectives. Failure to regularly review and update the Risk and Opportunity Management Strategy could have an adverse impact on the Council's Annual Governance Statement

**1.0 Introduction**

- 1.1 The Risk Management Strategy was last updated and approved by the Audit Committee on 23<sup>rd</sup> September 2014.
- 1.2 The purpose of this report is to update the Council's Risk Management Strategy (attached as Appendix A) for the 2015/16 financial year.
- 1.3 Risk Management forms an integral part of the Annual Governance Statement which is concerned with demonstrating that the Council has adequate and effective internal control arrangements in place for dealing with key business risks.
- 1.4 For ease of reference the changes to the document have been tracked.

**2.0 Conclusion**

- 2.1 Risk and Opportunity Management is not a separate initiative, but is the demonstration of good management practice. The Council has an obligation to provide assurance to Members and the Community that the principles of

good governance, including Risk and Opportunity Management, are reflected in the activities of the Council. The Council also has a legal obligation to comply with the requirements placed upon it by the Accounts and Audit Regulations and the publication of an Annual Governance Statement.

- 2.2 Approval of the Risk and Opportunity Management Strategy (Appendix A) will assist with the Council embedding Risk and Opportunity Management and demonstrating good Governance principles.

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**Circulation of the Report:** Cllr Peter Hare Scott and Management Team

# Risk & Opportunity Management Strategy 2015/16

## 1.0 BACKGROUND

1.1 This combined Risk and Opportunity Management Strategy details the Council's framework for managing business risk and opportunity. The Risk and Opportunity Management framework is the culture, processes and structures that are directed towards effective management of potential risks and opportunities that the council faces in delivering its objectives.

1.2 The definition of risk varies. ALARM (the Association of Local Authority Risk Managers) and the Audit Commission define Risk Management as follows

### ALARM

*"Risk Management is the culture, processes and structures that are directed towards effective management of potential opportunities and threats to the organisation achieving its objectives"*.

### Audit Commission

*"Risk Management is the process of identifying risks, evaluating their potential consequences and determining and implementing the most effective way of controlling and monitoring them. The objective of the process is to enable objectives to be achieved in the optimum way and to control negative factors or risks which could impact on an organisation's success"*

1.3 Developing and improving public services in the current challenging climate requires opportunities to be taken whilst managing the risks involved. Therefore Mid Devon District Council's definition of Risk and Opportunity Management is:

*"The planned and systematic approach to identify, evaluate and manage the risks to, and opportunities for, to achievement of objectives"*

1.4 The overall process of managing risk and opportunity can be divided into:

- The identification and analysis of risks and opportunities
- Risk and opportunity management, which encompasses the planning, controlling and monitoring of the information derived from the risk and opportunity analysis.

## 2.0 PURPOSE, AIMS AND OBJECTIVES

2.1 The purpose of the strategy is to embed risk and opportunity management in the Authority by establishing a risk management framework, which provides:

- An efficient control environment
- The overt allocation of accountability for risk and opportunity management throughout the organisation
- A culture where officers and Members are able to be more creative and innovative in taking opportunities that benefit the Council and the District provided that there is clear analysis of the risks and a robust justification for the decision
- A well-established risk and opportunity assessment process which ensures that risks and opportunities are considered and managed as part of the decision making process

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- Performance monitoring of risk and opportunity management activity
  - Communications process to support risk and opportunity management
  - A robust opinion for the Annual Governance Statement which comments of the adequacy of the Council's risk and opportunity management arrangements
  
- 2.2 The aim of the Mid Devon District Council Risk and Opportunity Management Strategy is to adopt best practices in the identification and evaluation of risks and opportunities and the cost-effective control of risks to ensure that they are reduced to an acceptable level.
  
- 2.3 It is acknowledged that some risks will always exist and will never be eliminated. All employees must understand the nature of risk and accept responsibility for risks associated with their area of authority. The necessary support, assistance and commitment of senior management will be provided.
  
- 2.4 The risk and opportunity management objectives of the Council are to:
  - Embed risk and opportunity management into the culture of the Council
  - Fully incorporate risk and opportunity management as an integral part of corporate planning, business planning, project management and performance management
  - Manage risk and opportunity in accordance with best practice and in particular in accordance with the requirements of the Annual Governance Statement
  - Consider legal compliance as a minimum
  - Prevent injury and damage and reduce the cost of risk
  - Raise awareness of the need for risk and opportunity management
  
- 2.5 These objectives will be achieved by:
  - Establishing a clear risk and opportunity management process that is communicated to all officers and Members
  - Clearly define roles and responsibilities for risk and opportunity management
  - Developing an action plan for embedding risk and opportunity management with tasks and milestones for monitoring progress against targets
  - Providing risk and opportunity management training to officers and members
  - Completing corporate and operational risk and opportunity management workshops to identify risks
  - Conducting risk and opportunity management workshops to identify the risks and opportunities of any major projects
  - Maintaining and reviewing a register of corporate, operational and project risks and opportunities and assigning ownership for each risk
  - Ensuring that reports to the Cabinet, Scrutiny Committee, Audit Committee, Policy Development Groups and Regulatory Committees include a risk and opportunity assessment
  - Identifying risks and opportunities in relation to working in partnerships
  - Ensuring that the Cabinet, Audit Committee and Scrutiny Committee receive quarterly reports on the key business risks and opportunities and takes action to ensure that business risks and opportunities are being actively managed
  
- 2.6 The following sections consider how the Council will implement the above objectives.

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## 3.0 ROLES AND RESPONSIBILITIES

- 3.1 The following groups and individuals have the following roles and responsibilities for risk and opportunity management within the Council.
- 3.2 The **Audit Committee** will approve this risk and opportunity management strategy and any subsequent revisions. They will also monitor the effective development and operation of risk and opportunity management within the Council by receiving quarterly progress reports on the Council's key business risks and opportunities, takes appropriate action to ensure that they are being actively managed and will consider the adequacy of the Council's risk and opportunity management arrangements as part of the Annual Governance Statement.
- 3.3 The **Management Team** is primarily responsible for setting the organisations risk appetite, identifying corporate strategic risks and opportunities, as well as being responsible for determining action on these risks and opportunities and delegating responsibility for the control of the risks and opportunities. The Management Team will also be responsible for monitoring the progress of managing risks and opportunities and will review quarterly reports to the Audit Committee, Cabinet and, Scrutiny Committee.
- 3.4 The **Cabinet** will also monitor the effective development and operation of risk and opportunity management within the Council by receiving quarterly progress reports on the Council's key business risks and opportunities through the performance and risk report.
- 3.5 The **Scrutiny Committee** will also receive quarterly progress reports on the risks and opportunities through the performance and risk report. Any concerns or issues will be reported to the Cabinet and/or Audit Committee.
- 3.6 The **Policy Development Groups (PDGs)** will receive updates on risks and opportunities relating to any policy development matters that they are working on and this is expected to be in the form of a risk and opportunity assessment as part of the working group papers or report to the Group.
- 3.7 The **Finance Cabinet Member** will:
- Communicate the importance of risk and opportunity management to other Members
  - Act as a sounding board and provide a critical friend challenge to the risk and opportunity management process
- 3.8 **Heads of Service/Service Managers** will be responsible for:
- Leading the risk and opportunity management process within their services and ensuring that business plans include an annual assessment of key risks and opportunities
  - Identifying and managing significant operational risks by carrying out risk assessments with their teams as and when this becomes appropriate i.e. if making a significant change to service or undertaking a project

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- Developing actions to mitigate the risks identified, assigning responsibility for implementing controls and set realistic target dates for implementation
  - Ensuring that all risks are ~~put~~ on the corporate risk register (~~SPAR~~) (the Key Business Risks will be held on SPAR and other service risk assessments held on the corporate health and safety drive)
  - Regularly reviewing risks associated with their service area(s) ~~(via the corporate risk register on SPAR)~~, ensuring that the agreed actions and deadlines have been met
  - Ensuring that any briefing papers/ reports that they produce to make changes to their services will consider the associated risks and opportunities of any proposed course of action
- 3.9 The **Head of Communities and Governance** is responsible for providing assurance to the Council through monitoring the implementation and effectiveness of this risk and opportunity management strategy and for reviewing compliance with mitigating controls introduced by the Service Managers. The Head of Communities and Governance will comment upon the effectiveness of the risk and opportunity management process in work undertaken to support the Annual Governance Statement. The Head of Communities and Governance will also chair the Council's Health & Safety Committee to ensure that any risks arising from the work of this group will be incorporated into the Corporate Risk Register.
- 3.10 The **Health and Safety Committee** is responsible for reviewing the measures taken to ensure the health and safety of all those who work in and visit the Council or may be affected by its activities - ensuring that people are not exposed to risks and that the risks are mitigated effectively. Where concerns are raised these will be escalated to the Health and Safety Officer and Management Team for action.
- 3.11 All **employees** need to have an awareness of risk and opportunity management and are responsible for ensuring that they manage risk effectively in their jobs and report hazards and risks to their Head of Service/Service Manager.
- #### 4.0 STRATEGIC, OPERATIONAL AND PROJECT RISKS
- 4.1 Broadly speaking risks can be divided into three categories:
- **Strategic** – risks which need to be taken into account in judgements about the medium to long term goals and objectives of the Council whilst at the same time considering the opportunities; and
  - **Operational** – risks and opportunities which managers will encounter in the daily course of their work.
  - **Project** - risks and opportunities which will be encountered during specific tasks/projects being undertaken
- 4.2 **Strategic Risks**
- 4.2.1 The management of strategic risks and opportunities is a core responsibility of the Management Team. Strategic risk and opportunity assessments should be factored in to corporate and service planning.

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## 4.2.2 The major categories of strategic risk are:

- **Political** – associated with failure to deliver either local or central government policy. The Council could also potentially be at risk from the actions of other agencies, other Councils, partner organisations, etc. This risk will be particularly relevant in 2015/16 due to the election in May
- **Economic** – affecting the ability of the council to meet its financial commitments. These include internal budgetary pressures as well as external factors affecting the economy as a whole.
- **Social** – relating to the effects of changes in demographic, residential or socio-economic trends on the council's ability to deliver its objectives.
- **Technological** – associated with the capacity of the council to deal with the pace/scale of technological change, or its ability to use technology to address changing demands.
- **Data Protection/Information Security** – this includes the consequences of data/information transfer between the Council and other Bodies i.e. Government Connect, Partnership working, etc.
- **Legislative** – associated with current or potential changes in national or European Law (~~e.g. the appliance or non-appliance of TUPE Regulations~~).
- **Health and Safety** – This includes all aspects of Health & Safety as well as the Corporate Manslaughter legislation
- **Environmental** – relating to the environmental consequences of progressing the council's strategic objectives (e.g. in terms of climate change including energy efficiency, pollution, recycling, landfill requirements, emissions, etc).
- **Competitive** – affecting the competitiveness of the service (in terms of cost or quality) and/or its ability to deliver Value for Money.
- **Customer/Citizen** – associated with failure to meet the current and changing needs and expectations of customers and citizens.
- Partnership – associated with working in partnership or sharing services with another local authority or partner

## 4.3 Operational Risks

### 4.3.1 Risks which managers and staff will encounter in the daily course of their work. These may be:

- **Professional** – associated with the particular nature of each profession (e.g. housing service concerns as to the welfare of tenants).
- **Financial** – associated with financial planning and control and the adequacy of insurance cover.
- **Legal** – related to possible breaches of legislation.
- **Personal Safety** – related to lone working and the potential to encounter aggressive or confrontational people whilst carrying out their duties.

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- ❑ **Physical** – related to fire, security, accident prevention and health and safety (e.g. hazards/risk associated with buildings, vehicles, plant and equipment, etc).
- ❑ **Contractual** – associated with the failure of contractors to deliver services or products to the agreed cost and specification.
- ❑ **Technological** – relating to reliance on operational equipment and the potential for technological failure (e.g. IT systems or equipment and machinery)

## 4.4 Project Risks

4.4.1 Risks which will be encountered during specific tasks/projects being undertaken. These may be:

- ❑ **People** – associated with whether we have the right people with the right skills involved in the task/project. This also concerns getting buy in from staff at all levels of the organisation, Members and potentially external stakeholders
- ❑ **Technical** – associated with the Councils reliance on the software provider to deliver what has been agreed in the contract and that they provide support for dealing with any systems problems or issues
- ❑ **Cost** – associated with the potential for the project to go over budget if the people and technical matters are not delivered as per the Business Case and PID
- ❑ **Time** – ensure that the right amount of time is allocated to the project as well as sufficient contingency as slippage can cause to project delay/failure and this can also have an impact on cost and quality
- ❑ **Quality** – depending on what goes into the project will determine the quality of the output

## 4.5 Opportunities

4.5.1 Opportunities are to be considered at the same time as the risks. Examples may include:

- ❑ Spend to save projects where the Council will benefit from reduced expenditure or increased income in the future
- ❑ Transformational change which will generate cost savings or an income stream
- ❑ Opportunities for great partnership working with our stakeholders or other local authorities
- ❑ Opportunities to streamline working processes
- ❑ Opportunities to boost the local economy
- ❑ Opportunities to deliver and improve housing within the District
- ❑ Opportunities to protect and enhance our environment
- ❑ Opportunities to make a difference to our communities and to empower them
- ❑ Delivery of the objectives in the Corporate Plan and Service Business Plans

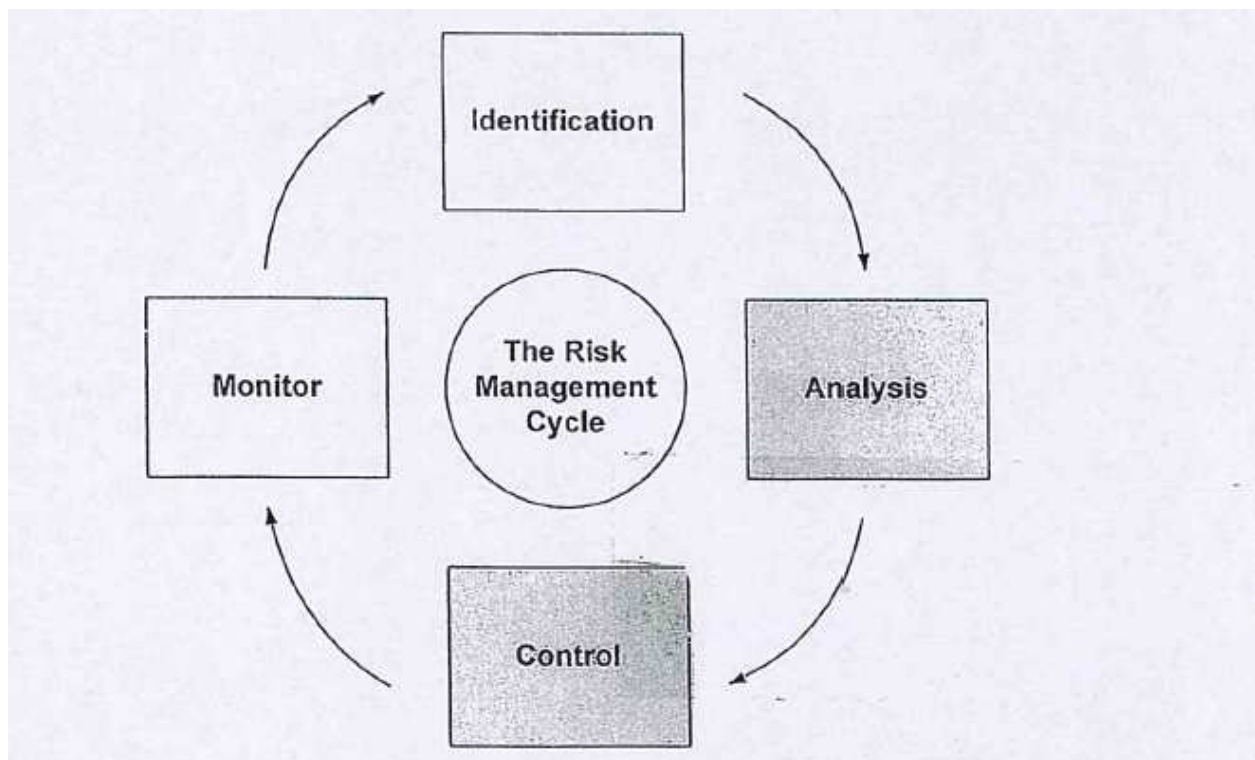
4.6 The categories are neither prescriptive nor exhaustive. However, they should provide a framework for identifying and categorising a broad range of risks and opportunities for the Council as a whole, as well as service areas.



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## 5.0 RISK MANAGEMENT PROCESS

5.1 The **four**-step process below will cover all areas of risk and opportunity management including making strategic decisions, managing strategic, operational and project risks and opportunities.



### Step 1 – Identify Risks and Opportunities

All sources of risk and opportunity need to be identified. These should include strategic, operational and project risks.

### Step 2 – Analysing Risks and Opportunities

Once the risks and opportunities have been identified they then need to be analysed to consider the impact/severity and likelihood of any risks occurring and the potential benefits of any opportunities.

### Risk

#### Impact/Severity

The impact of the threat being realised is defined as:

|          | Score |           | Definition                     |
|----------|-------|-----------|--------------------------------|
| Very Low | 1     | No impact | No notable impact identifiable |
| Low      | 2     | Minor     | Affects only one group of      |

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|           |   |              |  |
|-----------|---|--------------|--|
|           |   |              | stakeholders, with minimum impact. Organisationally localised, with position recoverable within the financial period. No external interest   |
| Medium    | 3 | Significant  | Affects more than one group of stakeholders, with widespread but short-term impact. May attract the short-term attention of legislative/regulatory bodies.   |
| High      | 4 | Major        | Affects more than one group of stakeholders with widespread medium-term impact. Attracts the medium-term attention of legislative/regulatory bodies.   |
| Very High | 5 | Catastrophic | Medium to long term impact on performance and delivery of services. Affects all groups of stakeholders, with a long-term impact. National impact with the rapid intervention of legislative/regulatory bodies. |

## Risk

### Likelihood

The likelihood of the threat being realised is expressed on a scale of 1-5, using the definitions below:

|          | Score |          | Definition                             |
|----------|-------|----------|--|
| Very Low | 1     | Rare     | May occur in exceptional circumstances |
| Low      | 2     | Possible | Risk may occur in the next 3 years     |
| Medium   | 3     | Likely   | The risk is likely to                  |

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|           |   |                |   |
|-----------|---|----------------|---|
|           |   |                | occur more than once in the next 3 years                                    |
| High      | 4 | Almost certain | The risk is likely to occur this year                                       |
| Very High | 5 | Certain        | The risk has occurred and will continue to do so without action being taken |

The assessment process uses a 5x5 scoring matrix (see below) where the scores of impact x likelihood equal the total risk score. Risks scoring between 15 and 25 would be classed as high risk (red) with 25 being the biggest risk. Risks scoring between 5 and 12 would be classed as medium risk (amber) and risks scoring between 1 and 4 would be low risk (green). Risks that score 15 or above (as well as those that score a 5 on impact irrespective of their overall score) will be classed as the Council's key business risks and will be reported to the Audit Committee, Cabinet and Scrutiny Committee on a quarterly basis.

|                             |          |                   |           |           |           |
|-----------------------------|----------|-------------------|-----------|-----------|-----------|
|                             | <b>5</b> | <b>10</b>         | <b>15</b> | <b>20</b> | <b>25</b> |
| <b>Impact/<br/>Severity</b> | <b>4</b> | <b>8</b>          | <b>12</b> | <b>16</b> | <b>20</b> |
|                             | <b>3</b> | <b>6</b>          | <b>9</b>  | <b>12</b> | <b>15</b> |
|                             | <b>2</b> | <b>4</b>          | <b>6</b>  | <b>8</b>  | <b>10</b> |
|                             | <b>1</b> | <b>2</b>          | <b>3</b>  | <b>4</b>  | <b>5</b>  |
|                             |          | <b>Likelihood</b> |           |           |           |

Once analysed the risks need to be ranked and prioritised according to their likelihood and severity i.e. those scoring 25 will be at the top of the list and those scoring 1 will be at the bottom of the list.

The risks will then need to be considered in conjunction with any opportunities when making decisions.

## Benefits of Opportunities

The assessment methods for determining the potential benefits of opportunities can include:

- Assessing the increased income/reduced expenditure from the innovation
- Quantifying the number of potential new customers
- Calculating the potential sales growth that could stem from capturing the opportunity
- Calculating the return on investment for a particular project and whether that is the level of return that the Council is looking for
- Considering the value added as a result of capitalising on the innovation e.g. the benefit to the community

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## Step 3 – Control the Risks

This involves taking action to minimise the likelihood of a risk occurring and/or reducing the severity of the consequences should the risk occur. Actions need to be allocated to responsible officers along with a realistic target date for implementation.

Determine the best course of action for the Council. There are 5 key action strategies to managing risk:

| Strategy     | Action                                    |
|--------------|---|
| Prevention   | Terminate the risk*                       |
| Reduction    | Treat the risk                            |
| Transference | Pass risk to a third party e.g. Insurance |
| Acceptance   | Tolerate the risk                         |
| Contingency  | Action plan implemented                   |

\* This can include carrying on the activity but modified so that the risk ends, or stopping the activity to end the risk.

## Step 4 – Monitor and Report Progress

Progress in managing risks and opportunities should be monitored and reported so that losses are minimised and intended actions and opportunities are achieved. Risk and Opportunity Management is an on-going process that should be constantly revisited and reviewed to ensure that new and emerging risks and opportunities are picked up and acted upon.

- 5.2 It is important to recognise these four steps as part of a cycle. Risk and Opportunity Management is dynamic and so the identification phase needs to be done continuously. It is also important to consider whether the nature of the risk or opportunity has changed over time – thereby completing the cycle.

## 6.0 RISK AND OPPORTUNITY MANAGEMENT TRAINING AND AWARENESS

- 6.1 For the benefits of Risk and Opportunity Management to be realised, it is necessary for the process to be embedded in the culture and operations of the organisation.
- 6.2 Once the Strategy has been agreed all officers and Members will be required to read the policy and answer questions using the new Insight policy system.
- 6.3 The Head of Communities and Governance will regularly raise awareness of Risk and Opportunity Management through the Officer newsletter (the Link), the Member newsletter (WIS) and through briefing sessions.
- 6.4 The Head of Communities and Governance will be involved in the induction process for new officers and Members where a session on Risk and Opportunity Management will be included.