

## Appendix 1 – Risk Management Strategy and Policy Statement 2016

### Risk Management Policy Statement 2016

#### Our approach to the management of risk

Risk management is all about managing the Council's threats and opportunities. By managing the Council's threats effectively we will be in a stronger position to deliver the Council's objectives. It is acknowledged that risk is a feature of all business activity and is a particular attribute of the more creative of its strategic developments. The Council accepts the need to take proportionate risk to achieve its strategic obligations, but expects that these are properly identified and managed. By managing these opportunities in a structured process the Council will be in a better position to provide improved services and better value for money.

The Council will undertake to:-

1. Identify, manage and act on opportunities as well as threats to enable the Council to achieve its objectives and integrate risk management into the culture and day to day working of the Council.
2. Manage risk in accordance with best practice and comply with statutory requirements.
3. Ensure that a systemic approach to risk management is adopted as part of Divisional Planning and Performance Management.
4. Anticipate and respond to changing social, environmental and legislative requirements.
5. Keep up to date and develop our processes for the identification/management of risk.
6. Have in place a defined outline of individual roles and responsibilities to manage risk.
7. Raise awareness of the need for risk management to those involved in developing the Council's policies and delivering services.
8. Demonstrate the benefits of effective risk management through:-
  - Cohesive leadership and improved management controls;
  - Improved resource management – people, time, and assets;
  - Improved efficiency and effectiveness in service and project delivery;
  - Better protection of employees, residents and others from harm;
  - Reduction in losses leading to lower insurance premiums; and,
  - Improved reputation for the Council;
9. Ensure risk assessments (identification of, and plans to manage, risk) are an integral part of all papers; plans; and, proposals to the Executive and the Corporate Management Team.
10. Recognise that it is not possible, nor desirable, to eliminate risk entirely, and so have a comprehensive insurance programme that protects the Council from significant financial loss following damage or loss of its assets.

**Andy Keeling**  
Chief Operating Officer

**Sir Peter Soulsby**  
City Mayor

# Risk Management Strategy 2016

## INTRODUCTION

1. This Risk Management Strategy is a high level document that seeks to promote identification, assessment and response to key risks that may adversely impact the achievement of the Council's aims and objectives. This strategy builds on, and replaces, the 2015 Risk Management Strategy. Through the continued development of these strategies, the maturity of the Council's risk management will be reflected in a more enabled and proactive culture of embracing innovative opportunities and managing risks.

## AIMS and OBJECTIVES

2. The aims and objectives of Leicester City Council's Risk Management Strategy are:-
  - To provide the Executive, Members and senior officers with regular risk management reports that give a comprehensive picture of the Council's risk profile;
  - To assist the Council and its partners to adopt a "fit for purpose" methodology towards identification, evaluation and control of risks and to help ensure those risks are reduced to an acceptable level – the 'risk appetite';
  - To ensure that transparent and robust systems are in place to track and report upon existing and emerging risks which potentially could cause damage to the Council or have an effect on the achievement of objectives;
  - To help further integrate risk management into the culture and day to day working of the Council and ensure a cross divisional/operational approach is applied;
  - To provide reliable information on which to base the annual strategic and operational risk and governance assurance statements;
  - To ensure a consistent approach in the identification, assessment and management of risk ('the risk cycle') throughout the organisation.

## ROLES and RESPONSIBILITIES

3. Given the diversity of services and the wide range of potential risks, it is essential that responsibility for identifying and taking action to address potential risks is clear. No one person or group should perform risk management. Commitment and involvement of staff at every level is needed to effectively carry out risk management. Although different staff/managers will have specific duties to assist in this process, it is important that they all know and understand their role. This staff involvement may also take in views and comments from other Divisional teams who may have experience of managing similar risks.

## RISK DEFINITION AND APPETITE

4. At Leicester City Council we use the definition of risk taken from the International Risk Management Standard '*ISO31000 – Risk Management Principles and Guidelines standard and BS65000 – Guidance on Organisational Resilience*':

*"Risk is the effect of uncertainty on objectives"*

5. When discussing risk management it is easy to give the impression that all risks must be eliminated. However, risk is a part of everyday life and taking risks may also be a route to success, if managed properly. Elimination of all risk is not practicable. Risk appetite is the amount of risk an organisation is prepared to accept, tolerate or be exposed to at any point in time. Appendix 1A below attempts to demonstrate the Council's risk appetite. All of the risks that sit below the black line, the Council is prepared to tolerate. This does not mean that we do not plan for their occurrence, but that we should have considered their occurrence, and where

appropriate, given some thought to what we would do if that risk materialises. An example of this would be total loss of a building by fire. This is a typical 'high impact' but 'low likelihood' risk that cannot realistically be managed day to day, beyond normal management responsibilities; but which (should it occur) would be dealt with through the activation of an effective Business Continuity Plan and Insurance cover – both significant mitigants to that risk.

6. Risk appetite needs to be considered at all levels of the organisation – from strategic decision makers to operational deliverers. The Authority's risk appetite is the amount of risk that it is prepared to take in order to achieve its objectives. Defining the Authority's risk appetite provides the strategic guidance necessary for decision-making. The Authority's risk appetite is determined by individual circumstances. In general terms, the Authority's approach to providing services is to be innovative and to seek continuous improvement within a framework of robust corporate governance. This framework includes risk management that identifies and assesses risks appertaining to decisions being considered or proposed.
7. Decisions on whether to proceed with such proposals are part of the challenge process and are only taken after the careful assessment of the identified risks and an analysis of the risks compared to the benefits. As such, risk appetite should be considered for every proposal and risk rather than an over-arching concept for the entire Authority. There will be areas where a higher level of risk will be taken in supporting innovation in service delivery. These will be offset by areas where it maintains a lower than cautious appetite - for example, in matters of compliance with law and public confidence in the Authority. Risk appetite can therefore be varied for specific risks, provided this is approved by appropriate officers and/or Members. However, in all circumstances:
  - The Authority would wish to manage its financial affairs such that no action will be taken which would jeopardise its ability to continue as a going concern; and
  - The Authority would wish to secure the legal integrity of its actions at all times.

Despite this, at times the Authority may be forced to take risks beyond its choosing to comply with central government directives or to satisfy public expectations of improved services.

8. Local Authorities are, historically, risk averse. The aim of most local authorities is that key strategic and operational risks are well controlled, minimising the likelihood of an occurrence. However, it is recognised that there are costs involved in being too risk averse and avoiding risk, both in terms of bureaucracy and opportunity costs.
9. Leicester City Council's approach is to be risk aware rather than risk averse, and to manage risk. As set out in its Risk Management Policy Statement, it is acknowledged that risk is a feature of all business activity and is a particular attribute of the more creative of its strategic developments. Directors and Members are not opposed to risk; however, they are committed to taking risk with full awareness of the potential implications of those risks and in the knowledge that a robust plan is to be implemented to manage them. The Council's risk management process allows this 'positive risk taking' to be evidenced.
10. 'Positive risk taking' is a process of weighing up the potential benefits and impacts of exercising a choice of action over another course of action. This entails identifying the potential risks involved, and developing plans and controls that reflect the positive potentials and stated priorities of the Council. It then involves using available resources and support to achieve desired outcomes, and to minimise any potential 'harmful' impacts. It is certainly not negligent ignorance of potential risks but, usually, a carefully thought out strategy for managing a specific risk or set of circumstances.

11. However, having an effective risk management framework does not mean that mistakes and losses will not occur. Effective risk management means that unacceptable risks are highlighted, allowing appropriate action to be taken to minimise the risk of potential loss. The principle is simple, but this relies upon a number of individuals acting in unity, applying the same methodology to reach a soundly based conclusion. However, it is recognised that risk management is judgemental, and is not infallible. Incidents will still happen, but the Council will be in a better position to recover from these incidents with effective risk/business continuity management processes in place.

## **RISK FINANCING**

12. Risk Financing is the process which determines the optimal balance between retaining and transferring risk within an organisation. It also addresses the financial management of retained risk and may best be defined as money consumed in losses, funded either from internal reserves (such as the Insurance Fund) or from the purchase of 'external' insurance (such as the catastrophe cover provided by the Council's external insurers).

13. Leicester City Council's strategy for Risk Financing is to maintain an insurance fund and only externally insure for catastrophe cover. The Council's strategy is to review the balance between external/internal cover on an annual basis in the light of market conditions and claims experience. This balance will be influenced by the effectiveness of the risk management process embedded at the Council and the process is managed by the Risk Management and Insurance Services team on behalf of the Director of Finance.

## **RISK MANAGEMENT PROCESS**

14. This outlines the process which managers and staff should use to identify, assess, control, monitor and report their risks. Risk Management is intended to help managers and staff achieve their objectives safely and is not intended to hinder or restrict them. The process ensures that risk management is approached consistently across all of the many diverse activities of the Council.

15. There are five key steps in the risk management process. These stages are covered in greater detail in the Risk Management Toolkit – a step-by-step guide to risk management at Leicester City Council - which is available to all members, managers and staff via the RMIS Interface site. The risk management process is also explained in detail in the 'Identifying and Assessing Operational Risk' training course, which is now mandatory for staff that complete risk assessments and teaches staff to:-

- **Identify** - Management identify risks through discussion as a group, or discussion with their staff. The Risk Management and Insurance services team are available to support this process either by attending or facilitating risk 'workshops' or delivering risk identification and mitigation training to managers and their business teams in advance of their own sessions;
- **Assess/Analyse** - Management assess the likelihood of such risks occurring and the impact on the Council/their objectives using only the Council's approved risk assessment form and the 5x5 scoring methodology;
- **Manage** - Management determine the best way to manage their risks e.g. terminate, treat, transfer, tolerate or take the opportunity (see paragraph 18 below);
- **Monitor** – Management should monitor their risks and the effectiveness of their identified management controls;

- **Review** - Management ensure identified risks are regularly reviewed. This will normally be managed by means of a Risk Register (see sections 18 – 24 below for more detail).

16. The Strategic objectives of the Council and individual Divisional Operational objectives provide the starting point for the management of risk. Managers should not think about risk in the abstract, but consider events that might affect the Council's achievement of its objectives. Strategic risks are linked to Strategic objectives and Operational risks linked to Divisional service delivery objectives and day to day activities need, as a minimum, to be identified and monitored. This is best done by the effective use of Risk Assessments/Registers.
17. Risk Management is driven both top down and bottom up, to ensure risks are appropriately considered. To do this, all managers need to encourage participation in the process, through regular discussions/review with their staff. The Risk Management process seeks to work with and support the business and **not** add a layer of bureaucracy.

## MANAGE THE RISKS

18. Once risks have been identified and assessed by management, those managers should determine how their identified risks are to be dealt with – a process commonly known as the five T's:-

- **Terminate** or avoid the activity or circumstance that gives rise to the risk e.g. stop doing something or find a different way of doing it;
- **Treat** the risk e.g. take actions to reduce the likelihood that the risk event will materialise or better manage the consequences if it does. This is the most common option for a local authority;
- **Transfer** the risk, e.g. pass the risk to another party through insurance or by contracting with a third party to deliver on your behalf. This reduces the impact if a risk event occurs;
- **Tolerate** the risk. By taking an informed decision to retain risks, monitor the situation and bear losses out of normal operating costs. Typically this method will be used when the cost of treating the risk is a lot more than the cost arising should the risk occur;
- **Take** the Opportunity. This option is not an alternative to the above; rather it is an option which should be considered whenever tolerating, transferring or treating a risk. There are two considerations here:
  - Consider whether or not at the same time as mitigating a threat, an opportunity arises to exploit positive impact. For example, if a large sum of capital funding is to be put at risk in a major project, are the relevant controls good enough to justify increasing the sum at stake to gain even greater advantage?;
  - Consider also, whether or not circumstances arise which, whilst not generating threats, offer positive opportunities. For example, a drop in the cost of goods or services frees up resource which may be able to be redeployed.

## REVIEWING THE RISKS

20. It is important that those risks that have been identified as needing action are subject to periodic review, to assess whether the risk of an event or occurrence still remains acceptable and whether or not further controls are needed. If not, appropriate action(s) should be determined and noted. The frequency of reviews to be decided by management, depending on the type and value of the risks identified (see also 22 below). Currently at Leicester City Council, the significant Strategic and Operational Risks are reviewed and reported on a quarterly basis.

## RISK EXPOSURE AND TRACKING

21. After evaluating the measures already in existence to mitigate and control risk, there may still be some remaining exposure to risk (residual risk). It is important to stress that such exposure is not necessarily wrong, what is important is that the Council knows what its key business risks are; what controls are in place to manage (mitigate) these risks; and, what the potential impact of any residual risk exposure is. It is also important that the Council can demonstrate that risk management actions (the mitigating controls identified by managers as being needed) in the operational and service areas are implemented, remain appropriate and are working effectively.
22. Significant operational risks should continue to be logged and monitored using the operational risk registers. It is the responsibility of each Divisional Director to ensure that operational risks are recorded and monitored via a risk register. The Risk Management and Insurance Services (RMIS) team produce a pro-forma risk assessment/register that **must** be used by all business areas. The 'scoring' of these risks **must** also be carried out using the Council's 5x5 risk matrix as this ensures compliance with both best practice and the risk management standard ISO31000. These registers and the risks identified are aligned to the Council's operating structure. The process for reviewing and reporting Operational Risks at Leicester City Council should be:
- At least quarterly (during January, April, July and October) Divisional Directors should review and agree risks during their 121 with each of their Heads of Service (HoS). Following work since mid-2014 by the Manager, Risk Management, all HoS should have a risk register for their services in place by June 2016 which will allow this process to function properly. The HoS should then have in place a mechanism allowing their direct reports to flag risk issues with them and will have to consider/decide whether their direct reports too should compile a risk register.
  - Divisional Directors will take the most significant of their HoS service area risks (if any) and add them to their Divisional Operational Risk Register (DORR). The complete DORR should then be agreed by their Divisional Management Team;
  - Divisional Directors should, as appropriate, review and discuss their DORRs during their 121 with their Strategic Director at least quarterly (see 24 below);
  - Once agreed, the DORRs are then submitted to Risk Management and Insurance Services (RMIS) on, or before, the first working day of February, May, August and November;
  - The RMIS staff will then review (for obvious errors) all of the Divisional Operational Risk Registers and compile the Council's Operational Risk Register with the most significant of these risks (currently those with a risk score of 15 or above);
  - The Head of Internal Audit and Risk Management will then submit the Council's Operational Risk Register to the Corporate Management Team for agreement and final approval; and to the Audit and Risk Committee for noting.
23. These most significant risks identified by the Divisional Directors feed into the Council's Operational Risk Register which is managed by the Corporate Management Team. They are accountable for ensuring that all operational risks are identified against service delivery objectives; that plans are implemented to control these exposures; and that key risks are included within individual service plans.
24. The Strategic Directors have created, manage and monitor a Strategic Risk Register for those risks which may affect achievement of the Council's strategic objectives. The most significant of these risks, those that may threaten the Council's overall strategic aims, form this register which is reviewed and updated by those Directors each quarter. Responsibility for these risks rests with named Strategic Directors. As part of the overall process of escalation, each Strategic Director should also have risk on their 121 agenda with their Divisional Directors at least

quarterly as one of the significant Strategic Risks is a serious failing of the management of Operational Risks by their Divisional Directors.

25. The RMIS team facilitate and support this process and will continue to maintain the Operational and Strategic Risk Registers, using the input from each Divisional Operational Risk Register and the Strategic Risk Register. These registers will be reported quarterly to the Corporate Management Team and the Audit and Risk Committee. As part of this process, bespoke training needs may be identified and the RMIS team will provide training and support upon request.
26. All risks identified, both operational and strategic, will need to be tracked and monitored by regular, quarterly reviews of the risk registers (at the quarterly 121's mentioned above). This will ensure that any changes in risks are identified for action; there is an effective audit trail; and, the necessary information for ongoing monitoring and reports exists.

## **PARTNERSHIP RISK**

27. It is recognised that partnership working is a key area where associated risk needs to be identified and controlled. Best practice states that local authorities must meet two key responsibilities for each partnership they have. They must:-
  - Provide assurance that the risks associated with working in partnership with another organisation have been identified and prioritised and are appropriately managed (partnership risks);
  - Ensure that the individual partnership members have effective risk management procedures in place (individual partner risks).

## **RISK MANAGEMENT TRAINING**

28. Since January 2010, risk management training has been delivered, and continues to be offered to all staff (and Members) to explain risk management methodology. An annual programme of training (covering risk, insurance and business continuity planning) remains available to all staff, managers and Members. However, Directors and managers should still identify those staff that need this training through the staff appraisal process (existing staff) and through the jobs specification process (new staff). Appropriate training will be provided by the Risk Management and Insurance Services team, within the resources available. As mentioned above, in October 2014, Corporate Management Team made this training mandatory for staff that have to carry out a risk assessment.

## **REVIEW OF RISK MANAGEMENT STRATEGY AND POLICY**

29. This Risk Management Strategy and the associated Policy Statement are intended to assist in the development/integration of risk management from now until December 2016.
30. All such documents and processes will remain subject to periodic review. The next planned review to occur in Quarter 4 2016. This allows any changes in process to be aligned to the Council's financial year end.

## **RISK MANAGEMENT AT LEICESTER CITY COUNCIL**

31. A continuing robust risk management process needs to continue to be applied to all our activities during the next 12 months and beyond. To achieve this we need to identify our priority exposures, address these, incorporate appropriate risk management strategies and risk improvements into our service delivery in line with the Council's priorities, monitoring and reviewing emerging risk to determine how it affects those priorities and to account for changes in

our operations and to enable us to make well-informed decisions. Risk must be considered as an integral part of Divisional planning, performance management, financial planning and strategic policy-making processes. The cultural perception of risk management has to continue changing from a 'have-to-do' to a 'need-to-do'.

32. The Head of Internal Audit and Risk Management will continue to maintain a central copy of the Strategic and Operational Risk Registers, as well as the Divisional Operational Risk Registers. Internal Audit will continue to utilise these registers to produce a programme of 'process audits', which will test the maturity and embeddings of the risk strategy in the business areas – subject to resource being available. So, the Council's Risk Strategy and Policy will help Director's to report appropriately upon their risk and their risk registers will be used pro-actively to inform the Internal Audit work programme which, in turn, allows assurance to be given to both the Corporate Management Team (officers) and the Audit and Risk Committee (members) that risk is being properly identified and managed at Leicester City Council.
33. The management of risk should be included in job descriptions for all operational service area managers with responsibility and accountability for risks, and be included in every director/manager's objectives and performance appraisal discussion.
34. Directors and managers should also ensure that all stakeholders (employees, volunteers, contractors and partners) are made aware of their responsibilities for risk management and are aware of the lines of escalation for risk related issues. Risk management is most successful when it is explicitly linked to operational performance.



## Appendix 1A - RISK APPETITE

Key to Table:

The numbers in the boxes indicate the overall risk score which is simply the 'Impact score' (horizontal axis) multiplied by the 'Likelihood score' (vertical axis), which is then coloured coded to reflect a 'RAG' status. The solid black line indicates what Directors consider to be the Council's 'risk appetite' (see paragraphs 4-11 above) where they are comfortable with risks that sit below and to the left of that line.

LIKELIHOOD (A)	Almost Certain 5	5	10	15	20	25
	Probable/Likely 4	4	8	12	16	20
	Possible 3	3	6	9	12	15
	Unlikely 2	2	4	6	8	10
	Very unlikely/ Rare 1	1	2	3	4	5
		<i>Insignificant/ Negligible</i> 1	<i>Minor</i> 2	<i>Moderate</i> 3	<i>Major</i> 4	<i>Critical/ Catastrophic</i> 5
<b>IMPACT (B)</b>						

	IMPACT	SCORE	BENCHMARK EFFECTS
<b>CRITERIA</b>	<i>CRITICAL/ CATASTROPHIC</i>	<b>5</b>	<ul style="list-style-type: none"> <li>• Multiple deaths of employees or those in the Council's care</li> <li>• Inability to function effectively, Council-wide</li> <li>• Will lead to resignation of Chief Operating Officer and/or City Mayor</li> <li>• Corporate Manslaughter charges</li> <li>• Service delivery has to be taken over by Central Government</li> <li>• Front page news story in National Press</li> <li>• Financial loss over £10m</li> </ul>
	<i>MAJOR</i>	<b>4</b>	<ul style="list-style-type: none"> <li>• Suspicious death in Council's care</li> <li>• Major disruption to Council's critical services for more than 48hrs (e.g. major ICT failure)</li> <li>• Noticeable impact in achieving strategic objectives</li> <li>• Will lead to resignation of Strategic Director and/ or Executive Member</li> <li>• Adverse coverage in National Press/Front page news locally</li> <li>• Financial loss £5m - £10m</li> </ul>
	<i>MODERATE</i>	<b>3</b>	<ul style="list-style-type: none"> <li>• Serious Injury to employees or those in the Council's care</li> <li>• Disruption to one critical Council Service for more than 48hrs</li> <li>• Will lead to resignation of Divisional Director/ Project Director</li> <li>• Adverse coverage in local press</li> <li>• Financial loss £1m - £5m</li> </ul>
	<i>MINOR</i>	<b>2</b>	<ul style="list-style-type: none"> <li>• Minor Injury to employees or those in the Council's care</li> <li>• Manageable disruption to internal services</li> <li>• Disciplinary action against employee</li> <li>• Financial loss £100k to £1m</li> </ul>
	<i>INSIGNIFICANT/ NEGLIGIBLE</i>	<b>1</b>	<ul style="list-style-type: none"> <li>• Day-to-day operational problems</li> <li>• Financial loss less than £100k</li> </ul>

LIKELIHOOD	SCORE	EXPECTED FREQUENCY
<b>ALMOST CERTAIN</b>	<b>5</b>	Reasonable to expect that the event WILL undoubtedly happen/recur, possibly frequently and is probable in the current year.
<b>PROBABLE/LIKELY</b>	<b>4</b>	Event is <b>MORE THAN LIKELY</b> to occur. Will probably happen/recur, but it is not a persisting issue. Will possibly happen in the current year and be likely in the longer term.
<b>POSSIBLE</b>	<b>3</b>	<b>LITTLE LIKELIHOOD</b> of event occurring. Not likely in the current year, but reasonably likely in the medium/long term.
<b>UNLIKELY</b>	<b>2</b>	Event <b>NOT EXPECTED</b> . Do not expect it to happen/recur. Extremely unlikely to happen in the current year, but possible in the longer term.
<b>VERY UNLIKELY/RARE</b>	<b>1</b>	<b>EXCEPTIONAL</b> event. This will probably never happen/recur. A barely feasible event.