Medway
COUNCIL
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D R A F T

Risk Management Framework

Medway Council

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Contents

1.   Introduction

1.1   Risk management is an integral part of good governance. The Council recognises that it has a responsibility to identify and manage the barriers and opportunities to achieve its strategic objectives and enhance the value of services it provides to the community.

1.2   This strategy incorporates and:

- promotes a common understanding of risk;
- proposes a methodology that identifies and manages risk in accordance with ISO31000
- outlines roles and responsibilities across the Council;

1.3   The strategy sets out:

- a definition of risk management.
- actions that need to be taken.
- roles and responsibilities.

1.4   The strategy will be reviewed annually to ensure that it remains up-to-date and continues to reflect the Council's approach to risk management.

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2. **The Principles of Risk Management**

2.1 The following diagram (fig 1) sets out the eleven principles set out in ISO31000 associated with sound risk management, which if adopted, provides Medway Council with the following benefits:

- Improved efficiency
- Improved service
- Improved decisions
- Reduced losses
- Improved morale
- Enhanced reputation
- Meeting objectives
- Improved quality
- Helps identify priorities
- Helps deliver priorities
- Defines and manages expectations
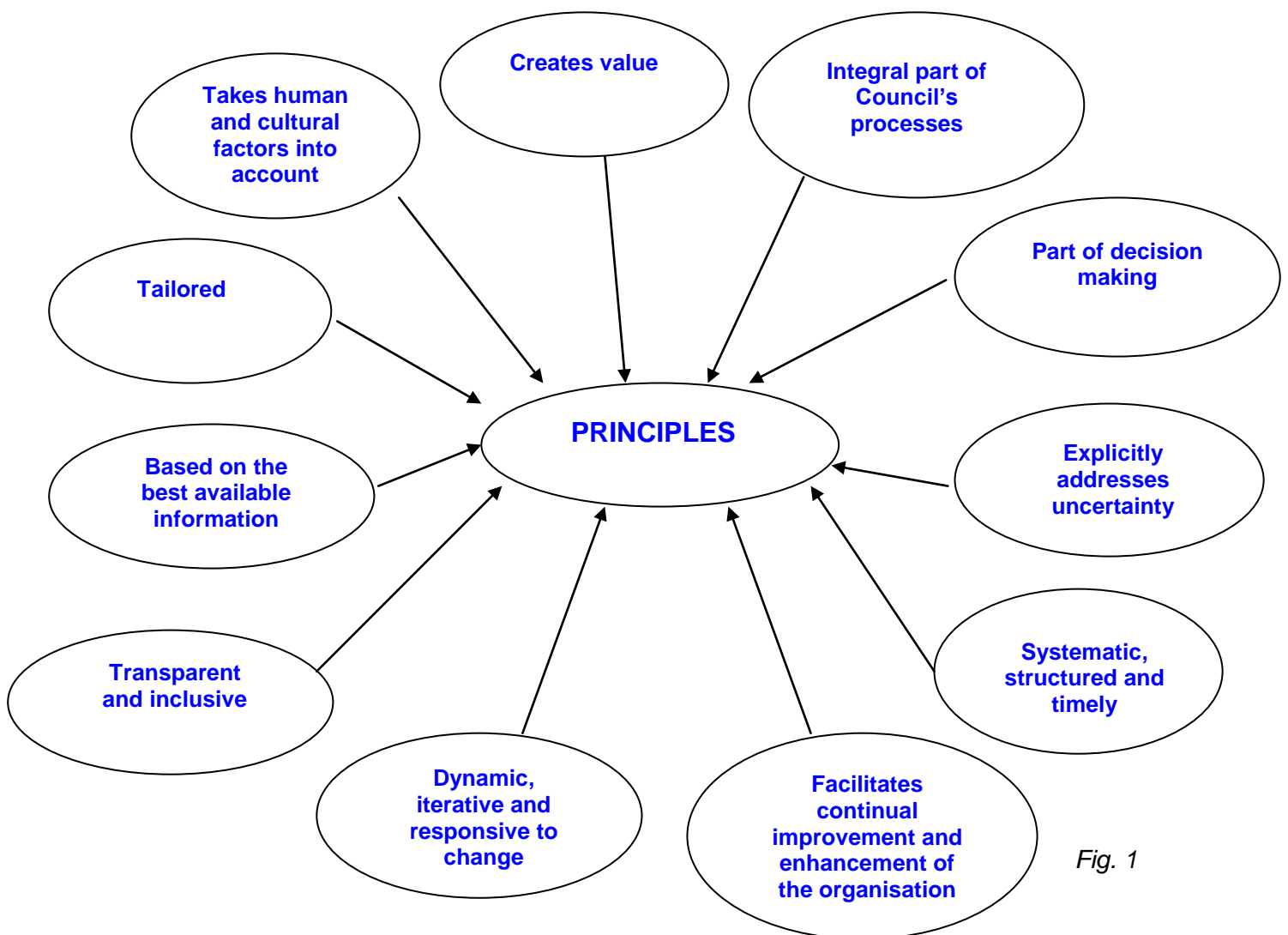- Maximises delivery within resource allocation
- Helps to increase resources

Fig. 1

3. What is Risk Management?

3.1   Risk management is a process which aims to help the Council understand, evaluate and take action on all their risks. It supports effective decision making, identification of priorities and objectives and increases the probability of success by making the most of opportunities and reducing the likelihood of failure.

3.2   Risk helps to deliver performance improvement and is at the core of good governance, business planning, managing change, innovation, budget setting, project management, equality and access, contract management. Risk Management also supports the delivery of Medpay and Investors in People accreditation. Risk Management needs to be practised at both management and service delivery level. This enables the effective use of resources; helps secure the assets of the organisation and continued financial and organisational well-being.

3.3   The process of risk management can be illustrated through the risk management cycle:
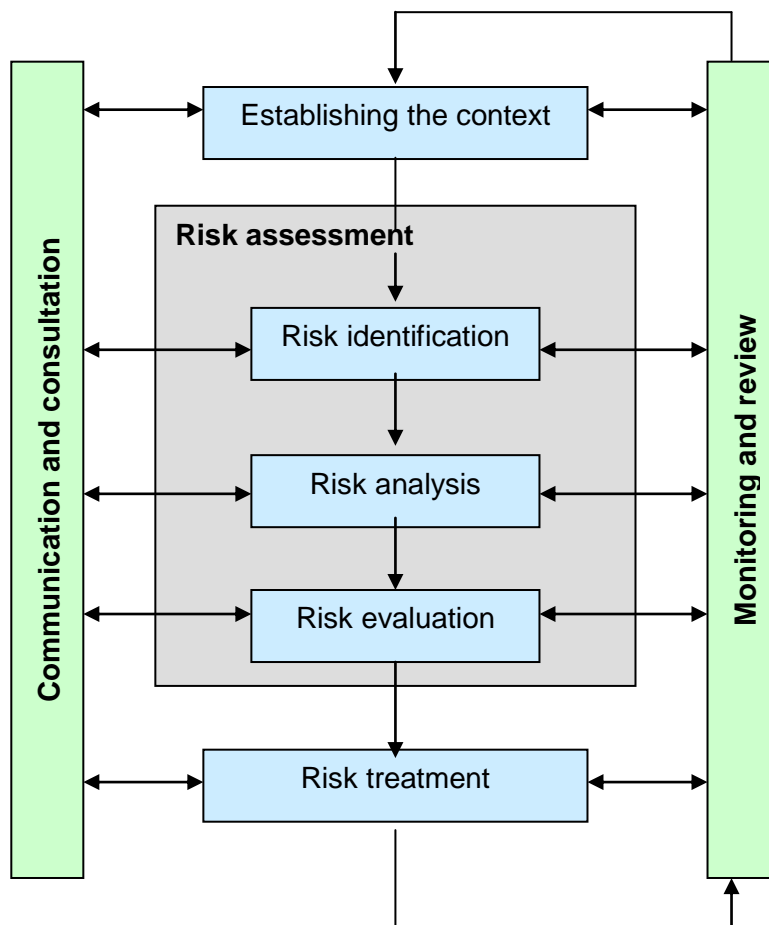
ISO 31000:2009

Fig. 2

3.4   The spine of the process is set out as follows:

- **Establish the context:** Defining the context (external and internal), setting the scope and agreeing the risk criteria.

- **Identify risks:** Identifying and describing the risks. Risk description includes understanding the causes, consequences and control measures for each risk.

- **Analyse risk:** Developing and understanding of the risk under different control scenarios. Key questions are:
  o   What is the consequence of the risk?
  o   What is the likelihood of the risk?

- **Evaluate risks:** This is the "so what?" question. With a given consequence and likelihood, is the risk tolerable to the organisation, given the risk criteria? The purpose of this stage is to support decision-making.

- **Treat risks:** One or more options are selected to manage risk. This stage incorporates both decision making and implementation. It also includes the decision to take no further action to manage the risk.

3.5   This process is continuous, with 'monitoring and review' at each stage (i.e. at any stage it is not too late to update or redefine an earlier stage).

3.6   'Communication and consultation' with external and internal stakeholders should take place during all stages of the risk management process. Communication and consultation is required to ensure that stakeholders can input into the process, be engaged and help support the treatment of risk.

3.7   Medway Council already has a well defined financial and performance management structure including reporting arrangements via 'the Golden thread'. Figure 4 on page 14 demonstrates how the risk management process should be embedded within this structure.

4.   Risk ranking

4.1   Risks need to be understood in relation to the level of controls applied:

4.1.1   Assuming there are no control measures in place. This is usually referred to as '**inherent risk**'. It is a useful indication of the total exposure that the Council may have to a particular risk, if no control measures are applied or if current controls are ineffective.

4.1.2   With control measures that are currently in place, taking into account their effectiveness. This gives the level of risk actually faced. This is usually referred to as '**residual**' risk.

4.1.3   Assuming possible additional actions are implemented (such as adding control measures or gathering more information). This is the '**target'** level of risk that might arise. Target risk is used to determine whether the level of risk will be acceptable in the future and whether sufficient actions are being taken

4.2   Strategic v Operation risks

Strategic risks: Those which have been identified as potentially damaging to the achievement of the Council's objectives and departmental/ service business plans.   Hypothetical examples might be the Council not being able to meet statutory duties i.e. provision of Special Educational Needs or the Council fails to bid successfully for any European funds.

Operational risks: Risks which managers and staff are likely to encounter in the day-to-day work situations. Hypothetical examples might be health and safety risk for instance if it was deemed our highways were unsafe or waste collection arrangements were exposing the public (and staff) to life threatening risks i.e. chemical spills/asbestos etc.

5.   Risk identification

5.1   Risk is a condition, an act, situation or event with the ability or potential to impact on customers, service/departments by either enhancing or inhibiting corporate/departmental performance, attainment of corporate/ departmental objectives or meeting customers and stakeholders' expectations.   The Scope of Business Risk model below shows the number of areas that can be affected and can be used to help identify risk.
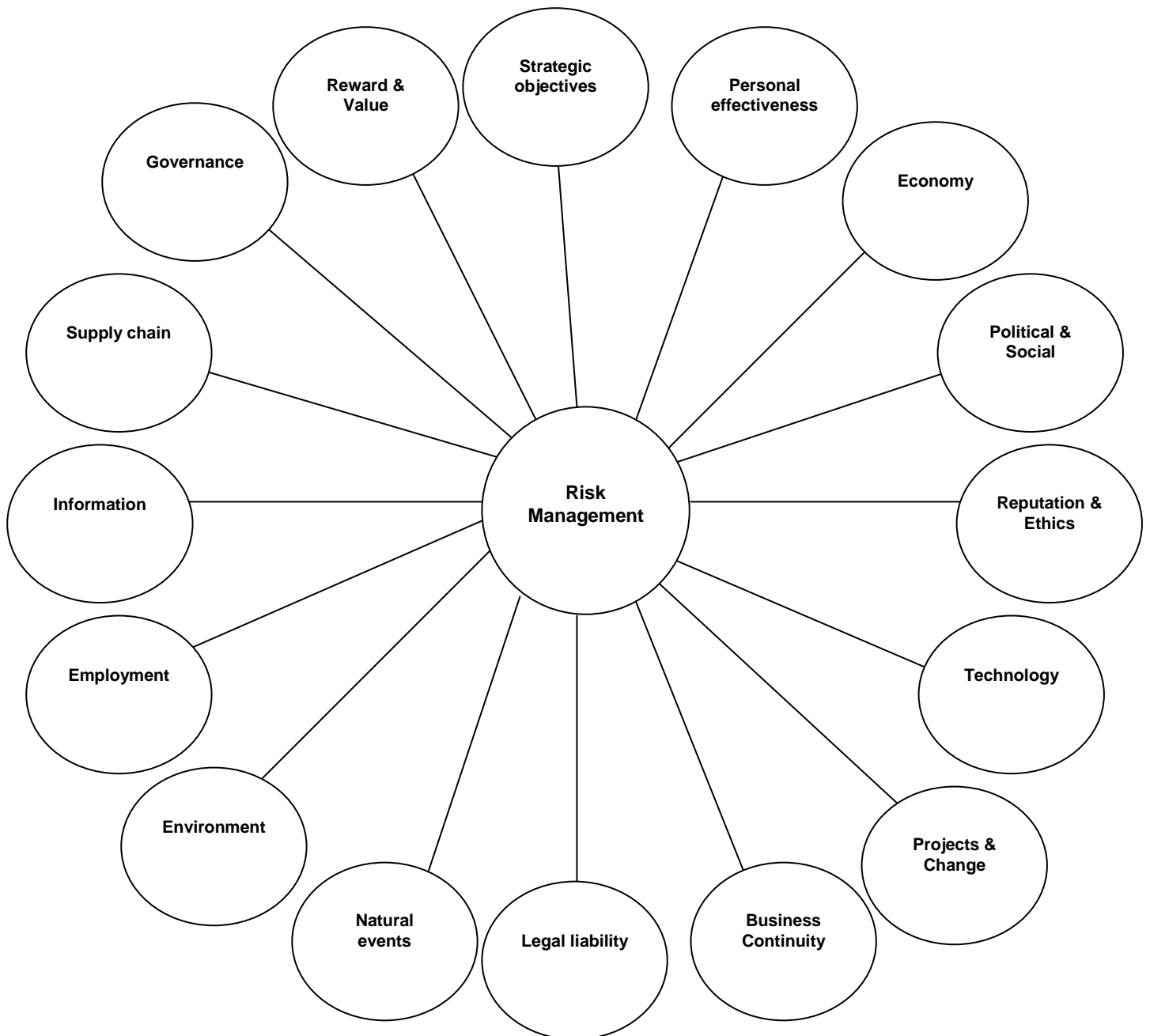
Risk identification tool (A holistic model)

Fig. 3

6. Risk analysis

6.1 Risks are benchmarked against corporate priorities and are prioritised by using a risk scoring calculation for both the downside of risk and the opportunities that can be seized with a desirable outcome:

a) **Impact:** To what extent 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, aims and priorities? These are measured on two axis opportunity and threat:

Opportunity	Threat
I Transformative	I Catastrophic (Showstopper)
II Major	II Major
III Moderate	III Moderate
IV Minor	IV Minor

b) **Likelihood: (resource allocation**): Taking into account existing measures to manage issues (not those planned or not yet in operation), how likely is the 'impact' to occur within the timeframe of the corporate plan. These are measured as:

A   Very high
B   High
C   Significant
D   Low
E   Very low
F   Almost impossible

6.2 It may not be cost-effective to manage all risks – even significant ones. In these circumstances the Council may decide to tolerate the risk.

6.3 To help the Council make that decision, all risks will be categorised using the measures detailed at 3.6 and plotted against the Council's Strategic Risk matrix shown above.

6.4 The Council have agreed the tolerance line be drawn at C2 (Significant & Moderate). The Council will then decide what action to take to monitor such risks.

The Risk Matrix

Likelihood				
A Very high 1:2 probability				
B High 1:10 possible				
C Significant 1:50 possible				
D Low 1:80 possible				
E Very low 1:100 possible				
F Almost impossible 1:1000 possible				
	IV - Minor	III - Moderate	II - Major	I - Catastrophic
Negative impact				
Objective driven (Customer, people, society or key performance	Slippage and minor deviation	Failure to meet an objective	Failure to meet several objectives	Severe damage to the Council and its services
100% £500m	**Unforeseen expenditure**			
Budget driven (income, expenditure, contractors and budget allocation)	0.25%	2.50%	10%	25%
	£1.25m	£12.5m	£50m	£125m

6.5 Risks will be regularly monitored using service planning and Deputy / Assistant Directors Quarterly Reports and the Council's performance management system (Covalent). Risks above the tolerance line (C2) will be escalated to the next management level as detailed in Appendix B.

6.6 Effective risk management includes regularly reviewing our emergency planning programmes and service continuity management to maintain a high standard in our response to potential crises. This means developing, implementing and maintaining an action oriented process for responding to any emergency, managing major incidents and recovering the service level to the local community.

7.   Roles & Responsibilities

7.1   The following details the roles and responsibilities for delivering risk management.

Who	Roles & Responsibilities
Members	• commit to the Risk Management Framework. • review risks through the 6 monthly reports on key strategic risks and information contained in the Council Plan, Cabinet reports and AD Quarterly Reports.
Portfolio holders	• Agree and review risks treatments and escalation with Assistant Directors quarterly
Corporate Management Team (CMT)	• identify, review and manage the Council's key strategic risks above the tolerance level every 6 months. • provide leadership and support to promote a culture in which risks are managed with confidence at the lowest appropriate level. • Agree the risk management framework for the Council
Strategic Risk Management Group (Membership shall be: A chair who is a nominated Director and appropriate representation from each Directorate with an overall responsibility for risk issues.)	• chair of group to sponsor risk management at CMT (Director of Regeneration, Community and Culture). • ensure the Council's key strategic risks are reviewed, updated and presented to CMT every 6 months. • regularly review the risk management and control process employed across the Council including the risk management framework. • review findings and recommendations of external auditors, internal audit or other relevant third parties in relation to risk management. • review the impact of any changes in the organisation on the risk management process and the response to these changes including the update of the risk register. • champion risk management, the practice, awareness, buy-in across the organisation and identify training needs. • provide strategic support to the development of service continuity plans and the emergency planning service

Who	Roles & Responsibilities
Directorate Management Teams (DMT)	• Ensure appropriate representation on the Strategic Risk Management Group • ultimate responsibility for the management of all directorate risks and maintenance of a sound system of internal control within the directorate and across partnership working • identify, review and monitor the effectiveness of the risk management actions relative to the risks to the directorate in the directorate risk register on a quarterly basis • reflect significant changes to business objectives and related risks and, where relevant, address them in the Directorate Business Plan
Deputy / Assistant Directors	• oversee the effective implementation of risk management within their service area within the agreed principles and framework • discuss significant key risks and risk management actions with their portfolio holders and report on progress through the AD Quarterly Reports • alert Directorate Management Team (DMT) if impact, opportunity or likelihood of the risk increases • Agree and review risks treatments and escalation with Portfolio Holders quarterly
Service Managers	• identify risks for their service areas, assess them for opportunity, likelihood and impact, propose actions to treat them and allocate responsibility for the controls treating the risk within the service risk register • record risk treatment into service plans • discuss risks and risk treatment actions with AD and report progress through the service managers quarterly update i.e SMQ • alert their Assistant Director if impact, opportunity or likelihood of the risk increases
Staff at all levels within the Council	• identify, assess and report risks within their service areas • practice risk management in their day to day activities • alert their line manager if impact, opportunity or likelihood of the risk increases

8.   Linking Risk Management to the 'Golden thread' and reporting

Information used

Project updates

Contracts

Performance information

Financial information

Demographic information

Economic information

Assets including workforce, ICT and buildings etc

Audit and legal findings

Competitors

Establishing the context

CMT & Member event
Desktop research

DMT & portfolio holder event
Desktop research

Service event
Desktop research

Team event / 1:1's
Desktop research

Communication and consultation

Risk treatment

Council Plan

Directorate Plan

Service Plan

Team Plan

Risk assessment

Strategic Risk Register

Directorate Risk Register

Service Risk Register

Monitoring and review by Members, Corporate Management Team, Directorate Management Teams, Deputy / Assistant Director Quarterly Report, Service Manager Quarterly Reports

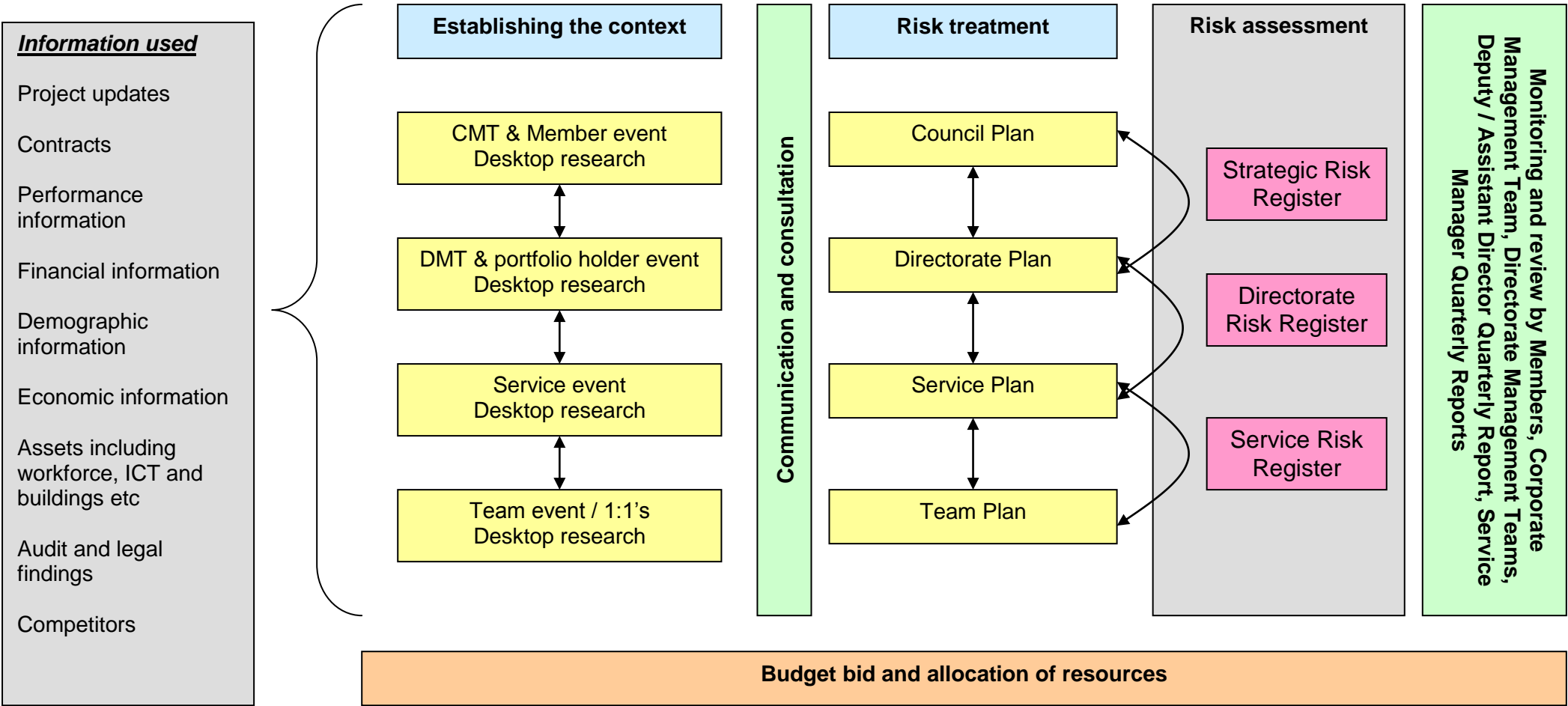**Budget bid and allocation of resources**

Fig. 4

Medway Council Risk Management Strategy
9. Monitoring and Escalation of Risk

AD*s Risks agreed with portfolio-holders

Record and rate risks in **service plans** and into **Covalent ****

Risks above the tolerance line*** are reported to ADs. Risk below the tolerance line are managed within the service and recorded in the service risk register

for inclusion in Divisional Business Plans

Service Managers

Record Risks in **Directorate Risk Register**

Risks reviewed and those above the tolerance line reported and discussed

Directorate Management Team (DMT)

Risks assessed and those above the tolerance line reported to

Risks reviewed and those above the tolerance line reported to

Strategic Risk Management Group

Risks reviewed and those above the tolerance line reported to

Corporate Management Team

Risk Reviewed and recorded in **Corporate Risk Register**

Corporate Risk Register reported to

Members

* Deputy / Assistant Director
** reports will be produced from Covalent quarterly.
*** tolerance line is currently C2

Fig. 5

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