

Appendix 2

OLDHAM METROPOLITAN BOROUGH COUNCIL

Risk Management Framework

November 2019



Oldham
Council

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1 Introduction

- 1.1 The purpose of the risk management framework is to define how risks and opportunities will be handled within Oldham Council. The framework provides information on roles and responsibilities, processes and procedures. It sets the context for the management of risks and defines how they will be identified, assessed, managed and reviewed.
- 1.2 The Council has a clear framework and process for identifying, assessing, managing/controlling, reviewing and reporting of its risks. The leadership, roles and responsibilities are defined for managing those risks.
- 1.3 The Council expects all of its employees, officers and Councillors to have a level of understanding of how risks and opportunities could affect the performance of the Council and to acknowledge the management of those risks / opportunities as part of their everyday activities. This could be the management of strategic risks (those risks that need to be considered when making judgements about medium and long terms goals), or operational risks that managers and staff will encounter in the daily course of their work.
- 1.4 The Council has a four-step process for identifying, assessing, managing and controlling and reviewing the risk (See Figure 1, page 5). This is a continuous process and integrates with performance management. The Council has agreed criteria by which to judge the likelihood and impact of risks, effectiveness of control measures and required level of management of residual risks.

2 Leadership roles and responsibilities

- 2.1 The respective roles and responsibilities within the Council for the Risk Management Framework are set out below:

Cabinet

The Cabinet will:

- Approve the Council's Risk Management Strategy and Framework
- Consider risk management implications when making decisions

Audit Committee

The Audit Committee will:

- Maintain an independent oversight of the risk register and risk management issues
- Undertake reviews of specific areas of risk management activity or initiatives where required
- Review and approve the Council's Annual Governance Statement

Head of Corporate Governance

The Head of Corporate Governance will:

- Be responsible for the oversight of risk management activities of the Council
- Provide the Cabinet and Audit Committee with assurance that the Councils corporate business risks are being actively and appropriately managed
- Review and keep up to date the strategic risk register

- Ensure that the most appropriate and cost-effective measures are adopted to avoid, minimise and control those risks in accordance with 'Best Value' principles
- Encourage the development of contingency plans

Senior Management Team

The Senior Management Team will:

- Oversee the corporate approach to risk management
- Identify, assess and capture improved performance and value for money through risk and opportunity management
- Identify, monitor and manage the Council's strategic risks and opportunities
- Demonstrate commitment to the embedding of risk management across the organisation

Heads of Service

Heads of Service will:

- Identify and assess new risks and opportunities
- Maintain the Council's operational risk registers in relation to their areas of responsibility, identifying and reporting any significant risk management issues affecting their service area.
- Ensure that an effective process is in place to manage risks faced by the service.
- Identify and analyse risks for impact and likelihood and introduce risk control measures
- Identify initiatives that could reduce the impact and/or likelihood of risks occurring.
- Identify initiatives that could increase the likelihood of an opportunity being realised.
- Ensure that risk register entries and controls are accurate and up to date.
- Monitor the progress of planned actions on a quarterly basis to ensure that aims are achieved.

Risk and Insurance Team

The Risk and Insurance Team will:

- Ensure that risk management records and procedures are properly maintained and that clear audit trails exist in order to ensure openness and accountability.
- Provide the Head of Corporate Governance with progress of delivery of risk register timescales and any other risk issues as appropriate.
- Ensure the timely purchase of adequate insurance for the transfer of risk, where appropriate.

All employees

All employees, within their given areas of responsibility and work, will:

- Understand risks and regard their management as part of their everyday activities, including the identification and reporting of risks and opportunities which could affect the Council.
- Assist with risk assessments for their areas of work
- Support and participate in risk management activities.

Internal Audit

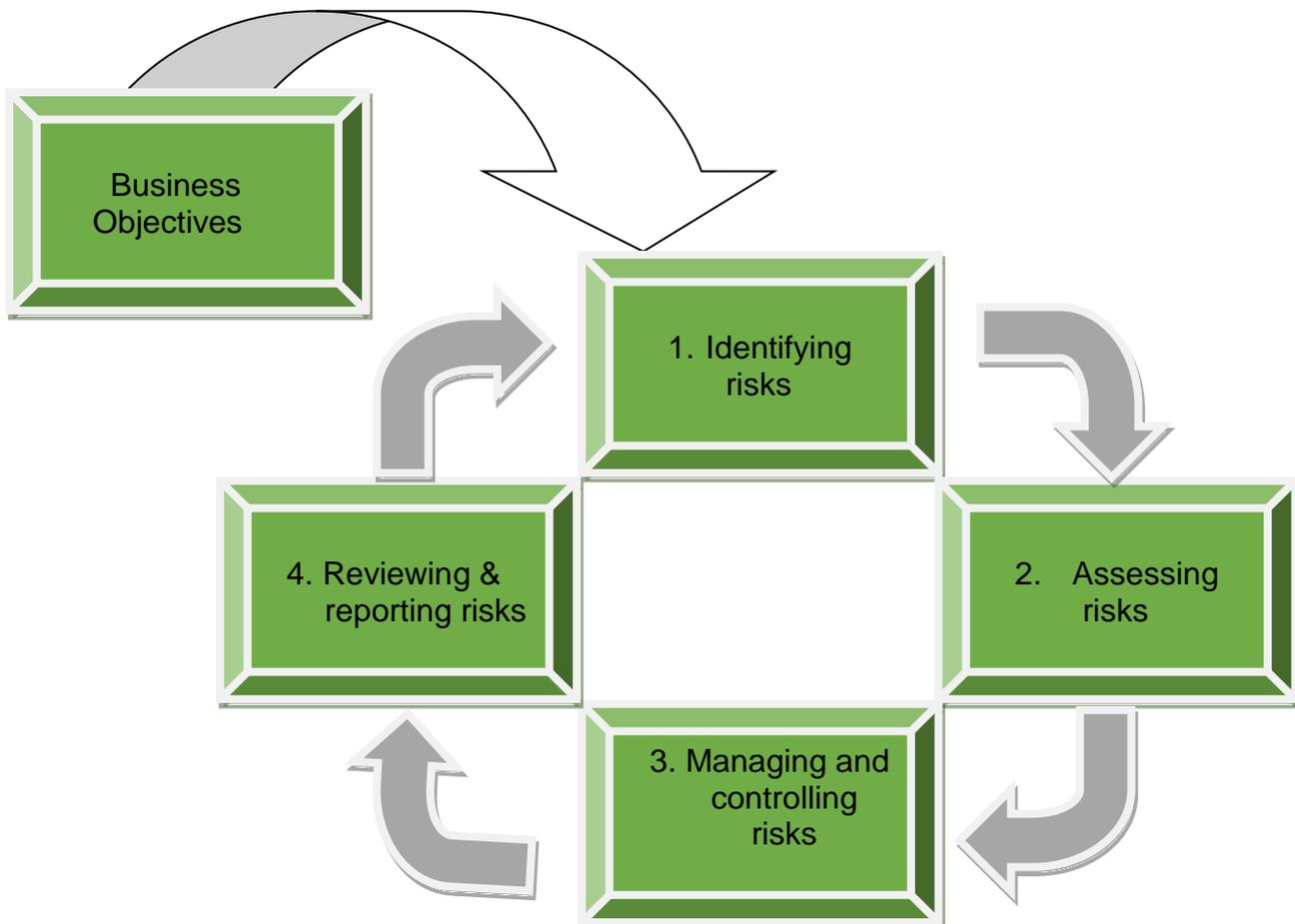
The Internal Audit team will:

- Independently assess the Council's risk management arrangements
- Review the adequacy of procedures by departments to assess, review and respond to risks
- Review the effectiveness of the Council's system of internal control
- Consider the content of the risk registers when preparing the Annual Audit Plan

3 Risk Management Process

The following four step process is fundamental to good risk management. Figure 1 below shows the four steps and the link to business objectives.

Figure 1: the four steps of the risk management cycle



Step 1 - Identifying Risks

The working definition of a risk is:

“Risk is something that may have an impact on the achievement of our objectives. This could be an opportunity as well as a threat”

Drivers of risk

The Council faces risks from both internal and external factors. Understanding this helps us to assess the level of influence we may have over the risk.

There are three main parts to a risk – an **event** that has a **consequence** that leads to an **impact** on the Council objectives – and it can be measured by estimating the **likelihood** of the event happening and **impact** it may have on the objectives if it does.

It also helps to think of risk being driven by two basic categories **Strategic** and **Operational**. At Strategic levels, the focus is on identifying the key risks to successful achievements of the Councils overall objectives. Operational risks are the risks (or opportunities) that are most likely to affect the performance and delivery of business services.

Strategic and operational risk are not mutually exclusive, and a risk may escalate from one to another. They can all be driven by either external or internal factors, or a combination of both.

When identifying the risk, both positive and negative effects need to be considered. This will help with risk taking and exploiting opportunities. Insignificant risks can be ignored, significant risks can be planned for and the costs of taking action can be compared with the price to be paid if adverse events occur.

It will help to use prompts to identify the areas of risk e.g.

Risk	Consequence
Strategic	Doing the wrong things as an organisation, missing opportunities
Operational	Doing the right things in a wrong way (service delivery failure, targets missed)
Financial	Losing monetary resources or incurring unacceptable liabilities
Reputational	The Council’s image, loss of public confidence
Political	Political embarrassment, not delivering local or national policies
Partnerships	The risks/opportunities the Council is exposed to as part of a partnership
Project	The risks/opportunities the Council is exposed to as part of a project
Legal/Regulatory	Claims against the Council, non-compliance
Information	Loss of inaccuracy of data, systems or reported information
Customer/residents	Understanding their needs, delivery of services
Environmental	Things outside control, environmental impact
People	Risks associated with employees, management

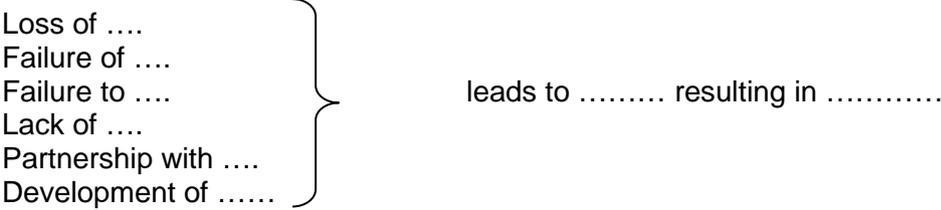
Using the categories above, it is important to consider the things that could prevent or hinder a team from achieving its business objectives. There should not be too much focus on the categories, or what risk fits under which category, they are just a general guide to assist.

The thoughts and ideas then need to be grouped into common themes and developed into the actual risk.

There should be, where possible, three parts to the risks **Event – Consequence – Impact**

This will ensure that focus and action is placed on the event.

Typical risk phrasing could be



For example, Environmental Services may identify the failure of the waste collection service e.g. due to bad weather conditions, as a risk. Developed around event, consequence, impact to;

Failure of the waste collection service due to inclement weather (**the event**) could lead to unacceptable delays in collecting refuse (**the consequence**) resulting in public health issue and loss of reputation (**the impact**).

Step 2 – Assessing Risks

Once a list of risks has been established, the next step is to assess those risks in terms of the likelihood that they will occur and the impact if they do. This provides an inherent risk score that will help identify the most serious risks before any controls have been applied. Decisions can then be made about the significance of those risks and how or whether they should be addressed.

The Council has agreed criteria for the levels of likelihood and impact for risks and criteria for opportunities should in tables 1 and 2 below.

Consideration should be given to each of the identified risks, from Step 1, and using the criteria in the table, assess the risk in terms of **likelihood** that it will occur and **impact** on the Council if it should occur.

There should be a focus on the description when assessing the level of likelihood and impact and the number rating should be used to summarise the descriptive information.

When both the risk likelihood and impact have been assessed, the likelihood score should be multiplied by the impact score – this will give the inherent risk score. This is the score used to identify which risks are the most serious, allowing decisions to be made about the significance of those risks to the Council and how, or whether they should be addressed.

Table 1 – Likelihood – Description and definitions

Rating	Score	Indicative Guideline	
		Threat	Opportunity
Very Likely	4	<ul style="list-style-type: none"> • Regular occurrence • Circumstances frequently encountered 	Favourable outcome is likely to be in short term (within 1 year)
Likely	3	<ul style="list-style-type: none"> • Likely to happen at some point in the next 3 years • Circumstance occasionally encountered 	Reasonable prospects of favourable outcome in short term (within 1 year)
Unlikely	2	<ul style="list-style-type: none"> • Only likely to happen once every 3 or more years • Circumstances rarely encountered 	Some chance of favourable outcome in medium term (up to 3 years)
Remote	1	<ul style="list-style-type: none"> • Has never happened before • Circumstance never encountered 	Little chance of a favourable outcome in short or medium term (up to 3 years)

Table 2 – Impact – Description and definitions

Rating	Score	Indicative Guideline	
		Threat	Opportunity
Major	4	<ul style="list-style-type: none"> • Major loss of service for more than 5 days • Severe disruption to the Council and its residents affecting the whole council • Major financial loss > £1,000,000 • Loss of life, intervention by HSE • National news coverage • Likely successful judicial review or legal challenge of Council decision • Major environmental damage 	<p>Major improvement in service delivery</p> <p>Income generation/savings >£1,000,000</p> <p>Positive national press, national award or recognition</p> <p>Noticeable widespread environmental improvements</p>
Serious	3	<ul style="list-style-type: none"> • Loss of service for 3 to 5 days • Serious disruption, ability to service residents affected across several service areas of the council • Serious financial loss £100,000 to £999,999 • Extensive/multiple injuries, intervention by HSE • Local adverse news item/ professional press item 	<p>Noticeable improvement to residents in service delivery, quality and cost</p> <p>Income generation/savings >£100,000</p> <p>Sustained positive recognition and support from local press</p> <p>Noticeable improvement to local</p>

		<ul style="list-style-type: none"> •Likely judicial review or legal challenge of service specific decision •Serious damage to local environment 	environment
Significant	2	<ul style="list-style-type: none"> • Loss of service for 1 -3 days • Noticeable disruption, some residents would be affected across a service area of the Council • High financial loss £10,000 - £100,000 • Severe injury to an individual / several people • Local news/minor professional press item • Moderate damage to local environment 	<p>Slight improvement in internal business processes. No noticeable change in service delivery or resident service.</p> <p>Income generation/savings > £10,000</p> <p>Positive support from local press</p> <p>Minor improvement to local environment</p>
Minor	1	<ul style="list-style-type: none"> • Brief disruption to service less than 1 day – minor or no loss of resident service • Low financial loss > £10,000 • Minor / no injuries • Minimal news/press impact • Affects single team only • Minor/ no damage to local environment 	<p>No noticeable improvement to service delivery or internal business processes</p> <p>Income generation/ savings up to £10,000</p> <p>No press coverage</p> <p>Insignificant/ no environmental improvements</p>

When the inherent risk score has been calculated, the next step is to plot the risks on a risk prioritisation matrix to show the level of the risks and make decisions about the significance of those risks to the Council and how they will be managed.

Figure 2 Risk Prioritisation Matrix and Risk Rating

Likelihood	Very Likely (4)	4	8	12	16
	Likely (3)	3	6	9	12
	Unlikely (2)	2	4	6	8
	Remote (1)	1	2	3	4
		Minor (1)	Significant (2)	Serious (3)	Major (4)
		Impact			
Overall Risk Rating					
12-16	High				
6-9	Moderate				
3-4	Low				
1-2	Very Low				

Risks need to be managed within the Council's risk appetite. Whatever the risk score, mitigating controls and actions need to be applied to manage the risk down.

Risks identified will often have risk factors that fall within more than one risk type, in these cases the risk type deemed to present the highest level of risk should be designated as the Primary Risk Type.

Step 3 Managing and Controlling Risks

When all the risk and opportunities have been identified and assessed for likelihood and impact, there needs to be agreement on who will own the risk and who the risk/ opportunity will be managed, controlled or exploited.

There are three questions that will help?

- Can the likelihood of occurrence be reduced?
- Can the impact be reduced?
- Can the consequences of the risk be changed?

Tolerating the risk. An organisation that recognises the value of risk management may accept that it might be appropriate to continue with an "at risk" activity because it will open up greater opportunities for the future, or perhaps limited things can be done to mitigate a risk.

These risks must be monitored, and contingency plans should be put in place in case the risks occur.

Treating the risk. This is the most widely used approach. The purpose of treating a risk is to continue with the activity which gives rise to the risk, but to bring the risk to an acceptable level by taking action to control it in some way through either:

- Containment actions, these lessen the likelihood of consequences of a risk and are applied before the risk materialises
- Contingency actions, these are put in action after the risk has happened, thus reducing the impact.

Terminating the risk. Doing things differently and therefore removing the risk. This is particularly important in terms of project risk.

Transferring the risk. Sometimes a risk can be transferred to a third party, for example via insurance or by arranging for a third party to take the risk in another way.

Taking the opportunity. This is not an alternative to any of the above, rather it is an option to be considered whenever tolerating, treating, or transferring a risk.

The cost of risk management and control of the risk should be proportionate to the risk that is being addressed. There is a need to;

- Identify existing controls and actions plans that are in place. Develop new controls and action plans where none exist.
- Identify and agree who will own the risk and who will manage the risks. The risk owner should have authority to implement and manage the controls.

When the existing controls and action plans have been identified, the risk can be re-assessed for likelihood and impact.

Step 4 Recording and Reporting Risks (see diagram section 3)

Risks should be recorded on a risk register. The risk register template is appended at Appendix A to this framework.

The Council maintains two levels of risk register, the Strategic Risk Register which is monitored by Internal Audit and presented to the Audit Committee and Operational Risk Registers which are maintained at a service level.

Circumstances and business priorities can, and do change, and therefore risks, opportunities and their circumstance need to be regularly reviewed. Some risks will move down the priority rating, some may leave, and new risks will be identified.

Conclusion

The risk management framework (the four steps of risk management) is a continuous cycle designed not only to identify, assess, manage and review risks, but also to support business objectives. The implementation of this framework will support the Council in recognising risk and minimising its impact through all areas of service provision.

APPENDIX A

Risk	Category of Risk	Risk Owner	Implications	Likelihood	Impact	Score	Mitigating Actions as at (input date)	Revised Score
Number the risk eg1 Describe the Risk	Eg Financial	Eg SMT	Why the risk has been identified	Pick a score from 1,2,3,4	Pick a score from 1,2,3,4	Times the likelihood by the Impact to obtain the score	Input Risk Mitigation Actions	New Score