MONMOUTHSHIRE COUNTY COUNCIL RISK MANAGEMENT GUIDANCE

1. INRODUCTION

Risk Management is the planned and systematic process by which key risks are identified, evaluated and managed in order to maximise benefits and minimise potentially negative consequences to the Council and its partners.

The Council is committed to the effective management of risk. As a large public sector organisation, it is exposed to a wide range of risks and threats in delivering key services to communities.

The Council recognises it has a responsibility to identify, evaluate and manage those risks that threaten:

- the achievement of its defined well-being objectives and delivery of services to the community
- the health and safety of its service users, employees, partners and the public at large

This document sets out guidance on the Council's approach to strategic risk management. The council's policy on strategic risk management can be found on the Hub.

2. APPROACH TO RISK MANAGEMENT

The Council's aim and intention is to anticipate and manage risks pro-actively rather than deal with the consequences of actual occurrences. Some risks involving key services are best managed through the Monmouthshire County Council Emergency Management Plan and the Business Continuity Strategy.

Risk management must be proactive so that the whole authority strategic and operational risks are identified, and the impact and likelihood of occurrences are assessed and actively managed.
(See also paragraph 4 below - Recording Risks)

Risk management consists of four basic processes[1]:

- Risk identification and assessment to determine and prioritise how risks should be managed;
- risk response (treatment) options that support achievement of intended outcomes and manage risks;
- risk monitoring to ensure treatments identified are being implemented;
- timely and accurate risk reporting.

3. RISK IDENTIFICATION AND ASSESSMENT

3.1 Types of risk

Strategic risks impact on the ability of the Council to achieve its strategic objectives. For example these risks could be; Political; Economic; Social; Technological; Legislative; Environmental

Operational risks impact on the resources required to deliver services and meet operational objectives: People; Physical assets, Finance; Data and information; legislative or regulatory; Suppliers or Third party.

The council uses the UK Government Orange Book risk category definitions, as set out below:

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[1] HM Government Orange book, Management of Risk & principles.

Risk category	Description
Political	Risks arising from instability in the political landscape of the organisation or a lack of political direction, leading to uncertainty.
Economic	Risks arising from changes in the macroeconomic landscape which could negatively affect the organisation, both directly including through decreases in real term funds, and indirectly through a negative effect on residents causing increased reliance on assistance from the organisation.
Social	Risks arising from the potential negative consequences from the impact of an organisation's operations on society. These risks can include issues such as social inequality, labour disputes, and negative impacts on local communities.
Technology	Risks arising from technology not delivering the expected services due to inadequate or deficient system/ process development and performance or inadequate resilience.
Information	Risks arising from a failure to produce robust, suitable and appropriate data/ information and to exploit data/information to its full potential.
Legal and regulatory	Risks arising from a defective transaction, a claim being made (including a defence to a claim or a counterclaim) or some other legal event occurring that results in a liability or other loss, or a failure to take appropriate measures to meet legal or regulatory requirements.
Environmental	Risks arising from the potential negative impact that human activities, natural disasters, or other events can have on the environment. These risks can include pollution, habitat destruction, climate change, and depletion of natural resources.
People	Risks arising from ineffective leadership and engagement, suboptimal culture, inappropriate behaviours, the unavailability of sufficient capacity and capability, industrial action and/or non-compliance with relevant employment legislation/HR policies resulting in negative impact on performance.
Finance	Risks arising from not managing finances in accordance with requirements and financial constraints resulting in poor returns from investments, failure to manage assets/liabilities or to obtain value for money from the resources deployed, and/or non-compliant financial reporting.
Reputational	Risks arising from adverse events, including ethical violations, a lack of sustainability, systemic or repeated failures or poor quality or a lack of innovation, leading to damages to reputation and or destruction of trust and relations.
Governance	Risks arising from unclear plans, priorities, authorities and accountabilities, and/or ineffective or disproportionate oversight of decision-making and/or performance.
Commercial	Risks arising from weaknesses in the management of commercial partnerships, supply chains and contractual requirements, resulting in poor performance, inefficiency, poor value for money, fraud, and/or failure to meet business requirements/objectives.

3.2 Horizon scanning

Horizon scanning is used as an overall term for analysing the future: considering how emerging trends and developments might potentially affect current policy and practice. This could help identify potential threats, risks, emerging issues and opportunities. This helps to take a longer-term strategic approach. Some of the main uses of horizon scanning include[2]:

1. To deepen the understanding of the driving forces affecting future development of a policy or strategy area
2. To identify gaps in understanding and bring into focus new areas of research required to understand driving forces better
3. To build consensus amongst a range of stakeholders about the issues and how to tackle them
4. To identify and make explicit some of the difficult policy choices and trade-offs that may need to be made in the future
5. To create a new strategy that is resilient because it is adaptable to changing external conditions
6. To mobilise stakeholders to action

One of the most prominent sources of horizon scanning is the World Economic Forum (WEF) global risks report, which provides an annual assessment of the most significant global risks that the world may face over the next decade, based on the views of experts and decision-makers from various fields and regions. The Welsh Government produce a similar Future Trends Report, which brings together likely economic, social, environmental, and cultural trends, focusing on the intergenerational challenges that Wales will need to respond to, and the areas it can shape for a more sustainable future. Reports such as these can help inform risk management by highlighting the key uncertainties and challenges that may affect our organisation's objectives and operations.

3.3 External risk arrangements

The Council also has to take into account risks identified from both a UK National and Wales Regional perspective. The UK government undertake a National Security Risk Assessment which assesses the most serious risks facing the UK, including threats to health, society, critical infrastructure and economy. A Pan Wales version of the National Risk Register is also produced. The responsibility for managing these risks at a local level sits with local resilience forums; for Monmouthshire, this responsibility sits with the Gwent Local Resilience Forum (GLRF), of which the council is a member.

The GLRF also publishes a Community Risk Register, which is reviewed annually. This assesses the likelihood and impacts of a range of hazards that have the potential to cause significant disruption to the residents, communities, and environment of Gwent. Risks that may result in significant impact in Monmouthshire will be recorded on the Strategic Risk Register, where appropriate. The GLRF Community Risk Register can be found here.

3.4 Risk assessment

Risks are assessed by the level of:

- likelihood of occurrence
- impact/consequence

Both factors need to be assessed to decide the seriousness of risks. Managers will assess each element of the judgement and determine the appropriate levels. The tables below give the indicative definitions for each element:

Likelihood	Threat/Risk
Almost certain	Is expected to occur in most circumstances Will undoubtedly happen, possibly annually or more frequently Imminent/near miss

[2] Horizon Scanning: A Practitioner's Guide, Institute of Risk Management horizon-scanning_final2-1.pdf (theirm.org)

Likely	Will probably occur in many circumstances Will probably happen but not a persistent issue e.g. once every three years Has happened in the past
Possible	Could occur in certain circumstances May happen occasionally e.g. once in ten years Has happened elsewhere
Unlikely	May occur only in exceptional circumstances Not expected to happen but is possible e.g. once every 25 years Not known in this activity

Impact	Threat/Risk
Major	Risks that can have a major effect on the operation of the council or service. This may result in significant financial loss, service loss, service disruption or severe impact on the public. Examples: Inability to fulfil obligations Medium to long term damage to service capability Severe financial loss which will have a major impact on the council's financial plan Death Adverse national publicity –damage resulting in a loss of public confidence Litigation certain and difficult to defend Breaches to law punishable by significant fine or imprisonment
Substantial	Risks that can have a substantial effect on the operation of the council or service. This may result in a financial loss, major service disruption or significant impact on the public: Examples: Substantial impact on service objectives Short to Medium Term impairment of service capability Financial loss which will have an impact on the council's financial plan adverse local publicity, major loss of confidence Litigation likely, may be difficult to defend Breaches of law punishable by fines
Moderate	Risks that have a noticeable effect on the services provided. Each one will cause a degree of disruption to service provision and impinge on the budget. Examples: Services objectives partly achievable No significant to service capability, where occurs is only short term Moderate financial loss that can be accommodated at Head of Service level Some adverse publicity May result in complaints Breaches of regulations/standards
Minor	Risks where the consequences will not be severe and any associated losses will be relatively small. As individual occurrences, they will have a negligible effect on service provision. However if action is not taken then such risks may have a more significant cumulative effect. Examples: Minor impact on service objectives No significant disruption to service quality Minimal financial loss – can be accommodated at team level Unlikely to cause adverse publicity, no damage to reputation Breaches of local procedures / standards only

Risks need to be recorded in a structured format covering the cause, event and effect. Some examples are below:

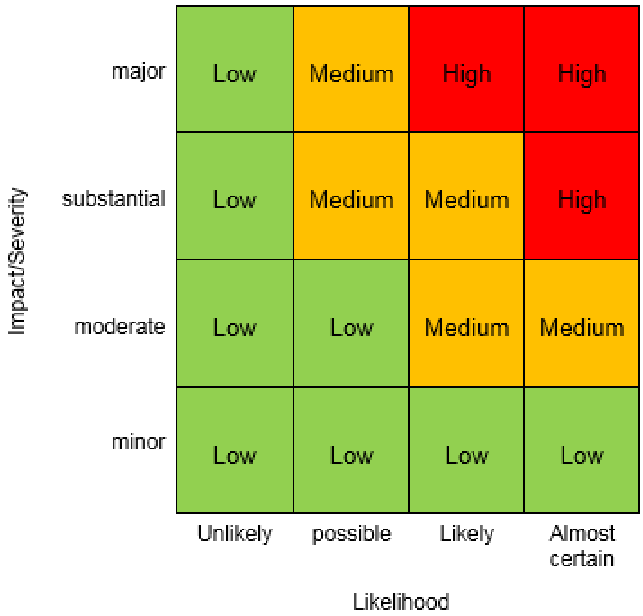
Event	Cause	Effect

Risk of…Failure to…Lack of…Loss of…Uncertainty of…Inability to…Delay in…	Because of…Due to…As a result of…	Leads to…and/or…result in…

Cause	Event	Effect
Because of…As a result of…Due to…	An uncertain event may occur	Which would lead to [effect on objective]

3.3.1 Risk matrix

Once the likelihood and impact of a risk has been determined, a risk matrix is used to determine the risk level and score. The Council uses a ‘traffic light’ system of Red/Amber/Green associated with High/Medium/Low and a notional numerical scale from 1 to 4 to assess risks. Generally it is clear what the assessment should be. However, there will be cases where assessment of “How much risk” is not straightforward (such as when the effect of controls and countermeasures is uncertain).



Major (4)	**Low (4)**	**Medium (8)**	**High (12)**	**High (16)**
Substantial (3)	**Low (3)**	**Medium (6)**	**Medium (9)**	**High (12)**
Moderate (2)	**Low (2)**	**Low (4)**	**Medium (6)**	**Medium (8)**
Minor (1)	**Low (1)**	**Low (2)**	**Low (3)**	**Low (4)**
	Unlikely (1)	Possible (2)	Likely (3)	Almost certain (4)

Risks with a score of 1-4 are considered to be low risk; a score of 6-9 is considered medium risk; and a score of 12-16 is considered to be high risk. Assigning a ‘score’ or numerical value to risks allows a greater deal of flexibility when rating a risk; for example, the movement of likelihood or impact may result in the same level of risk (low, medium, high) but a different score. Scoring risks also allows risk owners to rank risks, helping to identify which risks may need to be prioritised, and allows them to identify where a risk may sit outside of the organisation’s risk appetite; for example, high level risks will tend to sit outside of risk appetite and may require more immediate attention.

4. RISK TREATMENT

In considering how best to deal with risks classified under the ‘traffic light’ system, managers will need to take account of four fundamental ways of addressing risk. These are:

- **terminate** deciding where possible not to continue or proceed with activity in view of the level of risks involved
- **treat** ensuring the effectiveness of existing controls and implementing new controls where considered necessary

- **transfer** involving another party in bearing or sharing the risk (typically by the use of insurance)

- **tolerate** applying to instances where a risk cannot be entirely or fully mitigated by the options listed above. In such cases, the residual risks, i.e. the element of remaining risks, will need to be accepted or accounted for

Consideration must be given to the best approach to be adopted along with any potential consequences of the choices made. This must be in line with the council's risk appetite, which can be found on the Hub.

5. RISK MONITORING

Risk monitoring and review is embedded as part of the authority's performance management framework. Ongoing monitoring aims to support an understanding of whether and how the risk profile of the Council is changing and the extent to which mitigating actions are managing risks as planned. The key mechanisms for monitoring and reviewing risks are:

Service Business plans: In line with the strategic risk management policy, Heads of Service and service managers must assess key risks that may affect them achieving their business objectives for three years in advance and review these quarterly as part of their Service Business Plans.

Directorate risk register: Each directorate will manage and regularly review a directorate risk register, in line with the risk policy. This will contain any medium and high strategic risks that have been identified within service business plans. Directorate risk registers are reviewed quarterly by directorate management teams to ensure risks identified are appropriate and to assess progress of mitigating actions. Risks identified in directorate risk registers may be escalated to the strategic risk register, if necessary.

The Strategic Risk Register: The strategic risk management policy provides definitions of strategic risks and how the risk management process is integrated. Typically, high and medium strategic risks identified in directorate risk registers will also be recorded and monitored in the Strategic Risk Register, although this may vary depending on the nature of the risk identified. The Strategic risk register will identify:

- the nature of the risk, the consequences and impact with appropriate evidence
- the overall risk levels and scores (high & medium only) before controls (Gross risk)
- The current risk levels and scores with current controls and assessment of nature of risk
- The target risk score for the following two years – the targeted risk level assessed in line with the Council's risk appetite.
- planned/existing actions in place to mitigate the risks
- relevant timescales for actions and the officers responsible (the risk owner)
- update information – direction of travel in controlling the risk and evidence

4. RISK REPORTING

Risk reporting is embedded as part of the authority's performance management framework. Risk reporting should provide a balanced assessment of the principal risks and the effectiveness of risk management actions. Reporting provides assurance on the effectiveness of the risk management approach, and highlights areas where intervention is required.

The starting point for reporting risk is within **service business plans**, where risks are regularly monitored and updated. Risks are also reported within **directorate risk registers** which are discussed by DMTs at least quarterly.

The **strategic risk register** is where strategic risks to the council are reported. This register is regularly presented to governance groups and committees within the organisation who provide an objective assessment of the effectiveness of the arrangements in place. The arrangements for reporting on strategic risks to the council is as follows:

Governance group/committee	Reporting arrangements
Cabinet	The strategic risk register is presented to Cabinet six-monthly to allow cabinet members to assure themselves that the risks identified are accurate and that the controls in place are appropriate.
Strategic Leadership Team	The strategic risk register is presented to SLT six-monthly. This provides SLT with an opportunity to verify the levels and proportionality of the risks, and to assess whether the previously agreed mitigating actions have been delivered in accordance with expectations and that further proposed actions are credible and likely to improve the risk position.
Performance & Overview Scrutiny Committee	The strategic risk register is reported to this committee six-monthly. This is in line with the committee's responsibility to ensure that strategic risks have been appropriately identified and are being managed proportionately.
Governance and Audit Committee	An assessment of the effectiveness of risk management arrangements accompanied by a summary of the strategic risk register is presented to this committee six-monthly. This is in line with the committee's responsibility to ensure that a robust risk management framework is in place.