# Risk Management Framework

DRAFT  V2.2

**Working for a brighter future together**

**Cheshire East** Council

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## Foreword

Risk management within Cheshire East Council is about managing our threats and opportunities and striving to create an environment of 'no surprises'. By managing our threats we will be in a stronger position to deliver business objectives and outcomes to our residents. By managing our opportunities we will be in a better position to demonstrate improved services and better value for money.

The Risk Management Policy Statement sets out Cabinet and the Corporate Leadership Team's commitment to managing risks effectively across the Council, and the standard of risk management we expect across the Council.

It seeks to demonstrate the explicit commitment to effective risk management from the top of our organisation and is inclusive to the rest of the organisation, with the expectation of increasing the likelihood that the management of risk will be given appropriate recognition, consideration and treatment.

Cheshire East is a learning organisation and as such seeks to benefit from previous experiences and review risks across the organisation to develop the Council's risk maturity in the treatment of risks.

The Cabinet and Corporate Leadership Team are fully committed to effective risk management and see it as part of our responsibility to deliver an effective public service to the residents of Cheshire East.


Cllr Jill Rhodes                    Jane Burns
Portfolio Holder                    Executive Director of Corporate Services

**Policy Statement**

The Policy Statement summarises the Council's approach to risk

**Policy**

The Policy communicates how and why risk management will be implemented throughout the Council to support the realisation of its objectives.

**Appetite Statement**

Risk appetites set out the organisations agreed capacity for risk exposure and inform how risks will be managed and tolerated.

**Practioner Guidance**

Detailed practioner guidelines are available to support the operation of the risk management framework in practice.

**Risk Management Framework**

**Risk Maturity**

Assessing the Council's risk maturity against a recognised framework helps to understand how well risk management practices are embedded within the organisation.

Establishing a target for risk maturity helps direct resource to the objective in the Risk Management Strategy

**Reporting and Monitoring Arrangements**

Risk Registers are used across the organisation to ensure risks to achieving objectives are recognised and managed.

The effectiveness of these arrangements is monitored regularly and reported on in a variety of ways.

**Strategy 2020/2022**

This sets out the objectives which are needed to improve the Council's Risk Maturity over the next 24 months

## Risk Management Policy Statement

In delivering the Council's Corporate Plan outcomes, the Council recognises it has a duty of care to its stakeholders, residents, employees, Members and partners. Key to ensuring our governance arrangements support the effective identification and management of opportunities and risks is fundamental in delivering this duty of care.

The Council seeks to adopt recognised best practice in the identification and evaluation of risks and opportunities and to ensure that these are managed to acceptable levels in a proportionate and cost effective way. We recognise that risks are inherent within our service delivery, and some are unavoidable. As an organisation it can impact in many ways, whether financially, politically, on our reputation, environmentally, or to our service delivery.

Effective risk management is about ensuring there is an appropriate level of control in place to provide sufficient protection from harm, without stifling our development. This is challenging for an organisation with a range of stakeholders with differing needs and expectations, but we must ensure decisions taken as a Council include consideration of potential impacts for all of our stakeholders.

Overall, the Council's approach to risk is to operate in a culture of creativity and innovation, in which risks are identified, understood and pro-actively managed, rather than avoided.

Our risk management framework comprises the structures and processes in place to ensure that the risks and opportunities of Council activities, partnerships and other joint working arrangements are identified, assessed and managed in a consistent way.

**Our Risk Management Policy Statement is summarised with the following key objectives:**

**1) That Cheshire East Council develops implements and demonstrates an effective risk management framework and is reviewed annually.**

**2) That Cheshire East Council applies its risk management policy consistently across the Council.**

**3) That Cheshire East Council recognises risks and makes correct decisions to tolerate, treat, transfer or terminate threats or to exploit, share, enhance or ignore opportunities**

## 1.  Introduction

1.1.    The Council has a Risk Management Framework to ensure a focused and structured approach to the management of risk arising from Council activities. This will ensure that risk management is an integral part of good governance, recognising the importance of effective identification, evaluation and management of key corporate and operational risks.

1.2.    This is endorsed by the increased focus on the importance of corporate governance to public sector bodies. The Council also has a statutory responsibility to have in place arrangements for managing risks, as stated in the Accounts and Audit Regulations 2015:

> **'A relevant authority must ensure that it has a sound system of internal control which includes effective arrangements for the management of risk'.**

1.3.    The Council's Risk Management Framework comprises of the Risk Management Policy Statement, which includes the Risk Management Policy, Risk Appetite and Risk Maturity Statements and a two year Risk Management Strategy. It is supported by detailed practitioner guidance.

1.4.    The Risk Management Framework has the full support of the Council and the Corporate Leadership Team. All elected Members and employees have a responsibility for and contribution to make in terms of risk management.

## 2.  Risk Management Policy

2.1.    Risk Management is the process by which risks are identified, evaluated and managed, such that objectives are more likely to be achieved, damaging actions or events are avoided or minimised and opportunities maximised.

2.2.    Good risk management increases the probability of success, and reduces the probability of failure and uncertainty of achieving the Council's overall objectives.

2.3.    Risk can describe threats or opportunities;

2.3.1. A threat is a possible future event or action which will adversely affect the Council's ability to achieve its stated objectives and to successfully deliver approved strategies.

2.3.2. An opportunity is an event or action that will enhance the Council Council's ability to achieve its objectives and deliver approved strategies.

2.4. As acknowledged in the risk management policy statement, risk is part of everything we do. Risks and opportunities need to be considered in the impact they have on the Council's corporate objectives, whether positive or negative and be reflected in the relevant risk register.

2.5. There are a host of factors which influence the nature of the Council's relationships with its residents, businesses, communities, neighbouring authorities, and other key partners. These factors challenge the Council to continually review its systems and approaches, and to experiment with new ideas supporting mixed and flexible use of its resources.

2.6. This constantly evolving environment creates a need to continually adapt our internal governance arrangements to meet legal requirements, economic challenges, urban, demographic and social changes, and in adapting, our managers and decision makers will need to identify and manage risks.

2.7. Consideration and response to existing and new threats, and the ability to recognise and seize new opportunities, is fundamental to achieving the Council's desired corporate objectives and outcomes outlined in the Corporate Plan. Underlying this is a commitment from the Council to transparency and good governance. Decisions of the Council can be subject to challenge. Effective risk management is a key principle of corporate governance and a key contributor to a sound control environment.

**Recognising, scoring and managing risk**

2.8. Recognising and managing risk is part of good corporate stewardship and provides a basis for making informed decisions with an understanding of the impact those decisions will have organisationally.

2.9. Risk management will strengthen the ability of the Council to achieve its objectives and enhance the value of services by;

   i. Increasing the chances of success and reducing the chances of failure;

   ii. Assisting the delivery of creative and innovative projects;

   iii. Reducing unexpected and costly surprises;

   iv. Ensuring a more efficient use of resources.

2.10.   The Council recognised that identification and accurate scoring of a risk provides an opportunity for improvement and success.

2.11.   The Council uses a "4 x 4" scoring methodology, measuring impact and likelihood. Consistency of use and the way in which risks are scored will provide a way of managing risk across the whole of the organisation. This will move to a "5 x 5" scoring methodology when the Risk Management System is implemented.

2.12.   It is typically assessed using two dimensions, one of which is the impact of the threat or the opportunity, representing the consequences to the Council's intended outcomes. The second dimension is the frequency or likelihood of the risk occurring, representing the probability of the threat or opportunity happening.

2.13.   Once a risk has been identified and accurately articulated it should be included on an appropriate risk register, whether project, programme, service, department, directorate or strategic corporate risk register.

2.14.   The risk is then scored, existing controls considered, what time of response or treatment of the risk is required (mitigate, accept, transfer, etc.) what the risk status is (for example enduring) and after the treatment of the risk, what the net score is.

2.15.   Direction of travel is important as this demonstrates whether a risk treatment is working and reducing the risk or other factors are impacting, making the risk rating rise and requires more attention or escalation.

**Risk Management Responsibilities**

2.16.   In "Delivering Good Governance in Local Government", CIPFA Solace states:

> "*good governance requires that risk management is embedded into the culture of the organisation, with members and managers at all levels recognising that risk management is part of their job. At the highest level, risk management must be closely aligned to the organisation's strategic objectives, ensuring that there is a clear focus, at the top of the organisation, on those significant risks that would prevent the organisation achieving its key business objectives.*"

2.17.   The Cabinet is responsible for advising Council on an appropriate risk management policy statement and strategy including risk appetite/tolerance levels and for reviewing the effectiveness of risk

management.

2.18. The Audit and Governance Committee has an assurance role to monitor the effective operation of risk management in the Council and in monitoring progress on risk related issues reported to the Committee.

2.19. The Council's Corporate Leadership Team has a key role in reviewing and testing that risk management is implemented, working effectively and ensuring that the full risk management cycle operates within their services. Individual members of the Corporate Leadership Team are also allocated as owners of corporate risks and collectively own the corporate risk register.

2.20. The Head of Audit and Risk Management is responsible for the preparation of the Council's Risk Management Policy Statement and for the promotion of this throughout the Council. This includes providing and maintaining the format and structure for risk scoring and recording.

2.21. Heads of Service are responsible for ensuring risk management is carried out at both an operational and strategic level in accordance with the agreed guidance and procedures.

2.22. Individual managers remain responsible for the identification and management of risks within their service areas, projects, partnership activities and cross-cutting service activities.

2.23. Embedding risk management into the Council is critical to achieving a consistency of approach and ensuring that risk management is an integral part of people's day jobs - not an add on. Staff engaging in the process will proactively aid improvement in risk maturity for the Council. Getting the balance right in terms of not being too risk adverse, but being risk aware, is key to whether something is a risk or an opportunity.

**Identification, review and reporting of risks**

2.24. Risks should be managed at a number of levels within the Council and should be considered at the initiation of projects, partnerships, service developments and during the business case phase.

2.25. There is a clear escalation process to follow to ensure risks are proactively considered and managed throughout the organisation.

2.26. If a risk is scored high (above 12), then this should be reviewed by the next tier of management. Service level risks should be considered by department and department by directorate, directorate by corporate.

2.27.    The Council has a top down, bottom up approach which ensures strong alignment to its corporate objectives.

2.28.    The risk management framework will be reviewed annually. Compliance with, and the effectiveness of the Policy and guidance in operation will be reported to the Audit and Governance Committee. Any changes required will be considered by the Audit and Governance Committee and recommended for approval by Cabinet.

## 3.    Risk Appetite

3.1.    A risk appetite is an organisation's agreed capacity for risk exposure. This needs to be set and reviewed regularly taking into account transformational change, new programmes and projects.

3.2.    Understanding and setting a clear risk appetite level is essential to achieving an effective risk management framework and should be done before managers consider how to treat risks.

3.3.    Establishing and articulating the risk appetite level helps to ensure that consideration in the way management, Cabinet and Council respond to risk is consistent and that there is a shared vision for managing risk. There are risks for which the Council is the custodian on behalf of the public and the environment, where risk appetite may be very low, and there may be risks with choices about investment in projects, research and delivery roles, where risk taking may be encouraged.

3.4.    This overarching risk appetite statement sets out how the Council balances threats and opportunities in pursuit of achieving its objectives and forms a key element of the Council's assurance and governance framework set by Cabinet.

3.5.    In determining the statement, it is recognised that risk appetite is subject to change and needs to flex in line with the organisation's strategic environment and business conditions; and as such the statement will be reviewed periodically, every two years. The operation of the risk appetite in practice will be monitored and used to inform reviews of the overall and individual appetite statements.

**Overarching Risk Appetite Statement**

3.6.    The Council recognises that in pursuit of its objectives and outcomes it may choose to accept an increased degree of risk. The Council will establish and articulate risk appetite for the differing areas of its business. Where the Council chooses to accept an increased level of

risk it will do so, subject always to ensuring that the potential benefits and threats are fully understood before developments are authorised, that it has sufficient risk capacity and that sensible measures to mitigate risk are established.

3.7.     The Council is **not averse** to taking risks; our approach is based on judgement and the circumstances of each potential action, and an assessment of its impact. This means we will not seek to intervene in all risk situations, rather we prioritise in terms of the risk, cost and perceived benefits in a consistent and transparent way, choosing the most appropriate course of action from our risk management tools.

3.8.     In determining the risk appetite for an activity, we take account of anticipated outcomes and benefits, internal and external drivers for the activity, risk exposure, and the Council's risk capability and capacity to manage risk. This includes key questions around financial and reputation capability; sufficiency of infrastructure, knowledge, people and skills; and political and stakeholders views.

### *Statutory / External Regulatory*

3.9.     The public sector is undergoing reform, involving new legal frameworks, the creation of new delivery models, and new entities for the Council to engage with, for example, likely changes due to Brexit, reform of the Health and Social Care Act.    We are regulated and we are also regulators. We are **averse** to risks to our statutory obligations and to our objectives relating to those we regulate that must meet standards required by law.

3.10.   We have an **open** appetite for taking well managed risks where innovation and change creates opportunities for discernible benefits and clear improvement in our ability to achieve our objectives.

### *Operational*

3.11.   In acknowledgement of the maturity of our multiple service areas, we maintain a **cautious** risk appetite towards sustaining appropriate operational processes, systems and controls to support delivery but adopt a more **open** appetite for the development and enhancement of these systems.

3.12.   Individual projects and programmes should be risk assessed and have a risk appetite defined, which reflects the project objectives and other dependencies such as the source of funding.  These should be defined at the outset of the programme or project and be reviewed as it progresses.

3.13. We are heavily reliant upon information and data to be able to operate effectively and we therefore have a **minimalist** appetite for risks to information and data objectives. The accidental or deliberate wrongful disclosure of sensitive or restricted information has the potential to result in financial penalties, erode trust, damage our reputation and ultimately prevent us from being able to function.

### *Countering Fraud and Corruption*

3.14. We are **averse** to the risks of internal fraud and corruption and will maintain appropriately robust controls and sanctions to maximise prevention, detection and deterrence of this type of act or behaviour.

### *Legal*

3.15. Where we are working with relatively untested legislation we are willing to adopt an **open** risk appetite to achieve our statutory objectives and to determine the extent of the Council's powers and our jurisdiction. We retain an **averse** risk appetite to behaving in an illegal, unreasonable or irrational way or any other way which would likely give rise to a successful challenge.

### *Reputational*

3.16. We rely on our reputation in order to secure the engagement of our key stakeholders, businesses, partners, communities and residents. The support of these parties is essential to achieving the Council's Corporate Plan objectives and we have a strong commitment to being seen as a responsible, efficient and effective organisation and retain an overall **cautious** risk appetite with regard to our reputation.

3.17. We are however prepared to take a stance which may be opposed to some of our audience where we believe it is necessary for the achievement of one or all of our statutory objectives.

### Risk Capacity

3.18. The Council's risk capacity is determined through understanding and assessment of the following areas:-

- Reputation – can the Council withstand pressures as they arise as a result of the activity?
- Financial – is there sufficient financial contingency for the activity?
- Political – what political tolerance is there for any adverse risk events materialising?
- Infrastructure – is there sufficient infrastructure to manage risk?

- People – is there sufficient trained and skilled individuals?
- Knowledge - is sufficient knowledge available to the Council?

**Risk Tolerance and Thresholds**

3.19.    Tolerance levels will be established for organisational activities at different levels across the Council and a risk contingency will be determined and defined for different business areas. As part of the quarterly performance monitoring cycle, delivery is compared to the established tolerance and actions identified to ensure continued performance, or to improve performance further.

3.20.    Access to contingency resource has to be approved in line with delegated authority. Where analysis indicates that the returns or outcomes will deviate by more than acceptable limits these will have to be referred as soon as the deviation is forecast. This includes forecasts that may enhance objectives as well as those that may erode objectives.

**Definitions**

3.21.    Defining an organisation's risk appetite enables both staff and members be clear on the Council's capacity for risk (financially and operationally) and achieving a risk exposure it is comfortable with. It also provides clarity of vision for the Council in ensuring that it has the resources to achieve its corporate objectives.

3.22.    Definitions for risk appetites are set out in the following table.

**Risk Appetite Definitions**

| Appetite | Description |
|---|---|
| **Hungry** / High Risk Appetite 5 | Eager to be innovative and choose activities that focus on maximising opportunities to achieve objectives (with additional benefits and goals) and offering potentially very high reward, even if these activities carry a very high residual risk that may result in reputation damage, financial loss or exposure. |
| **Open** / Moderate Risk Appetite 4 | Willing to undertake activities seeking to achieve a balance between a high likelihood of successful delivery and a high degree of reward and value for money. Activities themselves may potentially carry, or contribute to, a high degree of residual risk. |
| **Cautious** / Modest Risk Appetite 3 | Willing to accept / tolerate a degree of risk in certain circumstances when selecting which activities to undertake to achieve key objectives, deliverables or initiatives, where we have identified scope to achieve significant reward and/or opportunity. Activities undertaken may carry a high degree of inherent risk that is deemed controllable to a large extent. |
| **Minimalist** / Low Risk Appetite 2 | Preference to undertake activities considered to be very safe in the achievement of key deliverables or initiatives. Activities will only be taken where they have a low degree of inherent risk. The associated potential for reward / pursuit of opportunity is not a key driver in selecting activities. |
| **Averse** / Zero Risk Appetite 1 | Avoidance of risk and uncertainty in achievement of key deliverables or initiatives is paramount. The Council is not willing to accept risks under any circumstances and activities undertaken will only be those considered to carry virtually no inherent risk. |

## 4.   Risk Management Maturity

4.1.   Cabinet previously assessed the risk maturity of the Council as between risk aware and risk defined with a target minimum standard of risk managed, which is defined as:

**'An enterprise approach to risk management developed and communicated, risk embedded in key processes. Active engagement and risk based decision making'.**

4.2.   The following table sets out definitions of risk maturity.

**Risk Maturity**

| Risk Maturity | | |
|---|---|---|
| | **Risk Naïve** | No formal approach to processes developed for risk management, avoidance and lack of engagement |
| → | **Risk Aware** | Scattered silo based approach to risk management using stand alone processes, reactive approach. |
| | **Risk Defined** | Risk appetite defined. Strategy and policies in place and communicated. Some understanding and application but passive acceptance and compliance with reliance on risk registers. |
| | **Risk Managed** | Enterprise approach to risk management developed and communicated, risk embedded in key processes. Active engagement in risk based decision making. ← |
| | **Risk Enabled** | Risk management and internal controls fully embedded into the operations. Regular review and improvement of risk processes, fully committed to risk management and confident risk taking. |

*Where we are* (left side) — *Where we want to be* (right side)

4.3. The priorities for 2020-2022 detailed in the Risk Management Strategy set out how we intend to work towards the risk maturity target of "risk aware".

## 5. Risk Strategy 2020-2022

5.1. In order to move towards the Council's target risk maturity, the following actions are priorities for the next 24 months.

i. The detailed methodology for risk management including risk identification, evaluation, treatment and monitoring including a more refined, granular scoring matrix which is used as best practice by other local authorities and recommended by the public sector risk management association ALARM.

ii. Introduction of risk management software which will enable the review of risks in different cross sections such as thematic, risk types, hierarchy of

risks. It will enable better monitoring of risk and risk profiling. This will greatly improve risk management across the Council.

iii. Move to a "5 x 5" risk scoring matrix which will provide greater granularity which will aid the management of risk and improve our risk maturity.

iv. To critically examine and challenge commissioning plans so that risk is being considered appropriately at the business planning stage to ensure risk activity is focused on the delivery of the key organisational objectives

v. To review the Corporate strategic risks facing the Council, examining, challenging and supporting the risk assessment process to ensure consistency and gain assurance that strategic risks are being actively managed and monitored; including comprehensively revisiting and updating the Corporate Risk Register

vi. Work with finance colleagues to develop the recognition of "total" risk exposure to the Council and quantify our likely risk exposure should several strategic risks occur at any one time.

## 6. Reporting and monitoring arrangements

6.1. Detailed guidance on the identification, evaluation, management and review of risks is set out in the Risk Management Practitioner guidance available on Centranet.

6.2. The regular monitoring of risks, and the recording and reporting of progress and change in the management and scoring of risks is a key stage in an effective risk management process. This includes establishing the points at which risks need to be either escalated or demoted between risk registers to ensure visibility of the risk and that ownership of the risk is sitting at the right level in the organisation.

6.3. Risk reporting is important to provide assurance to management, Members, and stakeholders, that the organisation understands its risk profile and responds to risk in an efficient manner that facilitates the effective, well managed achievement of objectives. It is integral to performance management. Risk reporting can guide positive behaviour as successes are recognised and lessons learnt, thus encouraging continuous improvement.

6.4. The Council's Corporate Risk Register is reviewed regularly by the individual risk owners and the Corporate Leadership Team collectively.

6.5. The minimum reporting arrangements for corporate risks for assurance

purposes through the Council's Corporate Leadership Team, Audit and Governance Committee, and Cabinet will be:

- An annual report on risk management activity;

- Interim update reports on risk management activity in line with the budget reporting cycle;

- An annual review and report on the overall effectiveness of risk management and internal control by the Head of Audit and Risk Management as Chief Audit Executive.

6.6.   On a regular basis, risks on departmental, project or partnership registers should be monitored and progress reviewed by the relevant risk owners and teams to ensure they remain relevant. Team and directorate, department and service meetings will need to include regular monitoring of the status of risks and the treatment plans put in place to manage the risk. This risk tracking process is essential to managing risks effectively.

6.7.   Risk monitoring is not just about practitioners convening on a monthly or quarterly basis to discuss their risks and risk registers, amending records and filing outcomes until the next meeting. Risk monitoring is about constantly applying the risk management techniques to drive performance on a 'business as usual' basis. The management of risk should be an enabling process focused on the achievement of objectives.

## 7.   Update of the Strategy and Policy Statement

7.1.   The Policy Statement and Strategy will be reviewed on an annual basis commencing March 2021.