DARTFORD
BOROUGH COUNCIL

Risk Management Guidance

DARTFORD BOROUGH COUNCIL

Author	Date	Date	Date of next review
Francesca Chivers, Audit Manager	October 2021	9 November 2021	October 2023

RISK MANAGEMENT GUIDANCE

Item	CONTENTS	PAGE No
1	Risk Management Guidance	2
2	Identify Risk	2
3	Analyse Risk	2
4	Evaluate Risk	4
5	Respond to Risk	4
6	Recording Risks	5
7	Monitor	5
8	Report	6
9	Natural Bias	6
10	Training and Guidance	7
11	Annex A Impact Matrix	8
12	Annex B – Likelihood Scales	10

1. RISK MANAGEMENT GUIDANCE

1.1 The following guidance describes the various stages of risk management in more detail. You can use the **risk assessment template** to help you identify, analyse and evaluate risk, prior to recording the outcome on the risk register. This template is not mandatory but is likely to be helpful for more complex risks.

2. IDENTIFY RISK

2.1 There are two stages to identifying risk: initial and continuous.

- The initial stage will generally happen at the outset of a project, or when there are no documented risk assessments, or when devising a new strategy / service plan.
- Responsible officers should subsequently continually review risks and add new ones as they arise. In this way, risks can be added to the risk register at any stage; it is not necessary to wait until a milestone review takes place.

2.2 Generally, risks are considered against objectives but a word of caution when using this approach: unless all service / corporate objectives are stated fully, it may be possible to miss risks purely by using this approach.

2.3 Risks can be identified in a variety of different ways. Particularly when undertaking an initial risk assessment, some of the following tools may be useful:

- PESTEL analysis (Political, Economic, Social, Technological, Environmental, Legal)
- SWOT analysis (strengths, weaknesses, opportunities, threats – the latter two are risks)
- Risk identification workshop with a cross-section of staff
- Brainstorming session
- Scenario analysis
- Past experience / lessons learned
- Sector or other research

2.4 The output of the risk identification should be a statement or series of statements that answers three questions:

- What might happen (the event)
- How might it happen (the cause)
- Why does it matter (the consequence)

3. ANALYSE RISK

3.1 Analysing the risk means determining both the likelihood and the impact of the risk occurring.

3.2 The Council uses a 5 x 5 scoring matrix for both impact and likelihood. The impact matrix at **Annex A** sets outs the Council's definitions for each of the ratings across a range of potential impacts and **Annex B** sets out the likelihood definitions. These matrices are not intended to be exhaustive and for both impact and likelihood, an element of professional judgment is likely to be necessary. (This is one reason why it is important for all risk registers to be periodically subject to review and challenge.)

3.3 It is also important for consistency that all sections of the Council use the same scoring grid. This will enable risks to be compared and analysed across the Council as a whole so that we have a clear picture of our total risk exposure.

3.4 The scoring grid is shown below:

		Impact				
		Minimal (1)	Minor (2)	Moderate (3)	Major (4)	Critical (5)
Likelihood	Very Likely (5)	**5**	**10**	**15**	**20**	**25**
	Likely (4)	**4**	**8**	**12**	**16**	**20**
	Possible (3)	**3**	**6**	**9**	**12**	**15**
	Unlikely (2)	**2**	**4**	**6**	**8**	**10**
	Very Unlikely (1)	**1**	**2**	**3**	**4**	**5**

3.5 Each risk should be assessed twice:

1) The risk should first be assessed as the **inherent** risk (ie, what is the impact and likelihood before any controls are applied).
2) Existing controls should then be identified and the risk should be scored again, with the effects of the controls considered. This is the **current** risk.

3.6 It is important to capture both scores so that the effects and the effectiveness of controls are understood and can be monitored. This exercise may also identify any controls that are surplus to requirements.

3.7 It may be helpful to think of controls in two different ways:

- Those that prevent an incident from occurring
- Those that mitigate the impact of an incident occurring.

4. EVALUATE RISK

4.1 Risk evaluation means comparing the existing level of risk against risk appetite and target risk levels.

4.2 The Council's risk appetite is set out in the Risk Strategy and is as follows:

4.3 The Council recognises that it is not possible or desirable to eliminate all risk. Some acceptance or exploitation of risk may be necessary in order to maximise opportunities; other risks may be outside the control of the Council or it may not be cost effective to reduce the risk further.

4.4 Any risks with a current score within the 'High' category will be considered outside the Council's risk appetite and further action to reduce the risk will be necessary.

4.5 Any 'Medium' risks currently scoring 10 or above are also likely to be outside the Council's risk appetite. Careful consideration should be given as to whether further, cost-effective action can further reduce impact or likelihood.

4.6 'Low' scoring risks will be considered within the organisation's risk appetite and no further action will be necessary.

4.7 Whether a risk is within or outside the Council's risk appetite will also be determined by the scoring applied to the risk. All risks must be given a target score as well as the inherent and current scores. The target score will provide the level of risk that the Council is prepared to accept for that particular risk; hence it is important that the target score is subject to regular scrutiny separate from the risk owner.

4.8 A target score should be set for each risk which is also determined in terms of impact and likelihood using the same scoring methodology and in line with the guidance above. The target score should be subject to regular review and group challenge to ensure that it remains appropriate.

5. RESPOND TO RISK

5.1 There are four possible options for responding to risk:

- *Transfer* – the risk could, for example, be insured against or the activity could be outsourced. This may work well for financial impacts however, reputational impacts are unlikely to be effectively managed in this way
- *Tolerate* – the current risk may be considered acceptable and no further action necessary. This will be the case if the current score is the same as the target score. It may, in exceptional circumstances, also be the case if the current score is higher than the target score but the Council deems that no further cost-effective controls or actions can be put into place. All such instances at service level should be discussed and agreed with the Director and those at Strategic level should be agreed by SMT as a whole.
- *Treat* – further controls or additional actions are put into place to reduce the risk closer to the target score. These actions can be recorded on the risk assessment

template and must be recorded on the risk register so that they can be monitored until completion.

- *Terminate* – stop the activity giving rise to the risk. This is unlikely to be a practical option for many Council services but may be relevant for projects / initiatives / contracts, where ongoing viability in relation to cost / benefits should be subject to continual challenge.

6. RECORDING RISKS

6.1 Risks at all levels must be recorded on a risk register. It is important that the same template is used across the organisation at all levels so that risks can be compared and aggregated.

6.2 It is not necessary to record on the risk register every control identified through the risk assessment process but key controls should be recorded. (see definition within the Risk Management Strategy)

6.3 Actions must be recorded on the risk register until they are closed; at this point they may be listed as a control.

6.4 All risks must also be allocated an owner. At Strategic level, this should be a Director / Chief Officer but a senior manager may be included as a joint owner. Service level risks will usually be owned by the service manager / Head of Service unless stated otherwise.

7. MONITOR

7.1 Risks must be regularly monitored to ensure that:

- Scores (gross, residual and target) remain appropriate
- Controls are in place and working as intended
- Actions (where appropriate) are progressing as planned

7.2 As part of the monitoring process, risk owners need to ensure that they have mechanisms in place to indicate whether or not controls are working and risks are being effectively managed to the desired level.

7.3 As such, the risk register provides for available sources of assurances on the risk and control to be considered and noted. This will allow any gaps in assurance to be identified and addressed. Possible sources of assurance are recent or planned internal audits, external audit, management quality checks, progress reports, relevant key performance indicators, any external or internal reviews or inspections etc.

7.4 It is the responsibility of the risk owner to monitor individual risks. However, as a collective, Leadership Team are responsible for monitoring the Strategic Risk Register.

7.5 Service Managers / Heads of Service monitor Service Risk Registers but Directors are responsible for ensuring that this happens regularly and effectively in their areas. As a minimum, service risk registers should be monitored and reviewed alongside the development of the service plan and the development of the budget.

8. REPORT

8.1 The Strategic Risk Register is reported quarterly to Leadership Team and six monthly to Audit Board.

8.2 The reporting process for Service Risk Registers is for individual Directors to determine within their Directorates. The Risk Strategy suggests that this could be achieved by:

- Review and discussion at service management team meetings
- Submission to the Director alongside Service Plans
- Review and discussion with the Director during regular 121s.

8.3 An aggregate report of all service risk registers will be presented annually to Leadership Team.

8.4 Project risks should be reported to each project board.

8.5 Risk reporting to Leadership Team and Audit Board will be co-ordinated by the Head of Finance with support from the Audit Manager.

9. NATURAL BIASES

9.1 Natural biases are a pitfall to be aware of at all stages in the risk management process and are a common cause for why risk management does not deliver the intended outcomes. These biases are one reason why group challenge / review / scrutiny is so important to the effectiveness of the risk management process. How many risk registers featured “pandemic” before 2020? Below are some possible biases to be aware of:

If something has already happened then it is less likely to happen again
Things will always happen in the way they do now
Over reliance on historical information or events to make judgements
Over estimation of highly visible or known occurrences at the expense of those that are less frequent
Too much focus on short term or immediate risk at the expense of those that are more long term (climate change for example)
Aversion to any risk
Ignoring data that doesn’t fit with the desired outcome, such as data that does not fit with a business case

10. TRAINING AND GUIDANCE

10.1 Risk Management Training will be provided to service managers and Heads of Service via Service Managers Workshops.

10.2 Further advice and guidance on any aspect can be sought from Internal Audit, your Director or the Head of Finance.

ANNEX A IMPACT MATRIX

	Financial	Service Delivery & Capability	Reputation	Legal & Regulatory	People & culture
Impact Headings	*Relating to uncontrolled expenditure or loss of income*	*Relating to operational delivery of services / objectives*	*May cause harm to public confidence or embarrassment*	*Related to breaches of law, rules or governance*	*May impact negatively on our workforce, culture or values*
Critical (5)	(Strategic) Uncontrolled financial losses in excess of multiple **£m's** (Operational) Over £250K	Failure to deliver *statutory* service / service disruption for **>14 days**	National adverse publicity perceived as failing in a significant area of responsibility	Breach of law, regulations leading to significant sanctions eg enforcement and penalties Breakdown of governance / internal control resulting in fraud, litigation and contractual risks	Significant staff dissatisfaction / increased long term absence & staff turnover Loss of culture and value framework
Major (4)	(Strategic) Uncontrolled financial losses in excess of **£1m+** overspend in budget by **>£1m+** (Operational) £100, 001 to £250K	Unable to deliver *discretionary* service / service disruption for **>14 days**	Sustained negative local media attention & damage to public confidence	Breach of law or statutory duty leading to some sanction Breakdown of internal controls open to abuse	Adverse staff dissatisfaction / likely increased absence and turnover of staff Negative impact on culture & value framework
Moderate (3)	(Strategic) Uncontrolled financial losses between **£500k - £1m** / overspend in budget by **>£500k** (Operational) £25, 001 to £100,000	Unsatisfactory service performance / service disruption of **>5 days**	Isolated negative local publicity	Breach of law or or internal standards (limited sanctions) Isolated internal control weaknesses	Declining staff dissatisfaction Isolated instances of behaviours outside of value framework
Minor (2)	(Strategic) Uncontrolled financial losses between **£100k - £500k** / overspend in budget by **>£100k** (Operational) £10, 001 to £25, 000	Reduced service delivery / service disruption for **7 hours**	Local publicity, but manageable through communication channels	Breach of internal policies Internal controls partially effective	Isolated areas of staff dissatisfaction / likely impact on absence and turnover

	Financial	Service Delivery & Capability	Reputation	Legal & Regulatory	People & culture
Impact Headings	*Relating to uncontrolled expenditure or loss of income*	*Relating to operational delivery of services / objectives*	*May cause harm to public confidence or embarrassment*	*Related to breaches of law, rules or governance*	*May impact negatively on our workforce, culture or values*
Minimal (1)	(Strategic) Uncontrolled financial losses less than **£100k** / overspend in budget less than **£100k** (Operational) £10, 000 or less	Disruption managed within normal day to day operations	Unlikely to cause adverse publicity	Breaches of internal procedures / working practices	Loss of staff morale but unlikely to result in absence or turnover of staff

ANNEX B – LIKELIHOOD SCALES

Very Likely = 5

The council is experience problems in this are or expects to in the next 12 months

No controls are in place.

Likely = 4

The council has experienced problems in this area in the past three years

Controls may be in place but are generally ignored.

Possible = 3

The council has in the past experienced problems in this area but not in the past three years.

Some controls are in place and generally work but there have been occasions when they have failed and problems have arisen.

Unlikely = 2

Previous experience discounts this risk as being likely but other orgs have experience problems in this area.

There are controls in place that whilst not tested, appear to be effective

Very Unlikely = 1

Previous experience at this and other orgs makes this outcome highly unlikely to occur.

There are effective, tested controls in place that prevent occurrence of this risk