DACORUM BOROUGH COUNCIL

GUIDE TO MANAGING RISK

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Date of Publication	February 2023	**Date of Last Version**	February 2023
Version No.	1.0	**Date of Expiry**	February 2024
Associated Documents DBC Strategic Risk Policy		DBC Risk Management Strategy 2023-24	

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1. Guidance

Introduction

This guide is intended to help you carry out a risk assessment for your service or for your projects. Further information concerning the Council's approach to Risk Management can be found in the Risk Management Strategy on DBC Intranet, Document centre.

Risk Management is defined as:

'The process of identifying risks, evaluating their probability, impact and potential consequences and determining the most cost effective methods of controlling and /or responding to them. It is not an end in itself. Rather, risk management is a means of maximising opportunities and minimising the costs and disruption to an organisation caused by undesired events.'

Traditionally 'risk' is viewed as a negative thing. However, opportunities for improving services and efficiency can flow from a carefully considered approach to risk taking.

Risk Management is not about eliminating risk – this is simply not possible. Rather it is concerned with encouraging innovation but in an environment where due consideration has been given to all aspects of risks: both opportunities and threats. In this way, good risk management assists the decision making process, encouraging a more informed approach to risk taking and strengthens considerably the chances of objectives being achieved.

Operational or service based risk assessments are usually developed as part of the annual Service and Financial Planning process. The information from these assessments is held within a risk register. The risk register needs to be reviewed frequently and amendments made as appropriate.

Risk Assessment exercise

A risk assessment can be broken down into four stages:

1. Identify the risks that may prevent the achievement of your objectives
2. Assess the risk in terms of impact and likelihood
3. Complete a Risk Assessment template
4. Manage the risk as appropriate

1.1 Identifying risk

- Look at your key aims and objectives – think about what could prevent you from successfully achieving them.
- In addition consider whether your objectives present any opportunities
- List all the risks/opportunities you identify and, using the examples in this section to guide you, identify which category each risk falls into, It is useful to give each risk a unique number – e.g. F1 = First financial risk identified

- It is important to get the wording of the risk right – remember risk registers may be looked at by people who were not involved in the risk assessment exercise. The wording needs to be clear and concise. It may be useful to use the following tip:

Tip: Complete a sentence describing the risk –

Loss/failure of ………leads to ……… resulting in … = risk
Lack of ……………….leads to ……… resulting in… = risk
Partnership with …….leads to ……….resulting in… = opportunity
Development of …… leads to ……….resulting in…. =opportunity

If you require assistance with this, please contact Linda Dargue, Lead Officer Insurance & Risk

1.2 Assessing risk

Next, you will need to assess the identified risks in terms of impact and likelihood

- Consider the consequences of the risk occurring and list them
- Using the attached impact and likelihood charts (3.1 and 3.2) to guide you, calculate the risk score (3.3). This is done as if there are no controls in place – giving an inherent risk score – the level of risk that exists before any action is taken to manage it.

Tip: Try to achieve a broad consensus It does not matter whether a significant risk is scored 12 or 16 – the action you may need to take will be the same.

- Identify the person responsible for managing the risk

- List the control procedures that currently exist. Controls are those things that can reduce the likelihood of the risk occurring and they can sometimes reduce the impact as well.

- Control measures can include policies, procedures, please see examples given at Annex A. **Please remember that you must be very clear what the measure is and how it acts as a control.**

- Recalculate the impact and likelihood, taking into account the effect of the control measures. This figure represents the residual risk – the risk score.

1.3 Managing risk

Once the risks have been identified and assessed consideration needs to be given as to the best way to manage them.

Level of Risk / (Inherent Risk Score)	**How the risk should be managed**
High Risk (12-16)	High impact / High likelihood: risk requires urgent attention - consider whether it is possible to take preventative action, or introduce new controls to reduce the risk. If this is not possible then a contingency plan should be considered, to mitigate the effects of the risk if it should occur.
Medium Risk (6-10)	Consider whether any further risk mitigations can be put in place to further reduce the risk score. Any such mitigation must be cost effective.

	Reassess at regular intervals to ensure conditions remain same. Consider whether a contingency plan is required.
Low Risk (1-4)	Review periodically. Only put mitigations in place if it is cost effective to do so.

Concentrate on the highest scoring risks first and ask the following questions:

- Can we reduce the likelihood?
- Can we reduce the impact?
- Can we change the consequences?

The answers to these questions enable you to identify options for additional controls/procedures. Again, you must be very clear what the measure is and how it acts as a control.

Where an additional control is identified, the risk score should be recalculated as if the additional control is already in place – does the risk score reduce with this additional control in place? Additional controls should be scored on an individual basis, as this will show whether they are cost effective.

Consideration should be given to the cost/resource implications of any additional controls. Any benefit must be considered in the light of potential cost – there is no point spending £10 to save £1.

Note: Where it is not possible to reduce the risk rating by additional controls or by transferring the risk, then the reason for this must be recorded in the Risk Register under "Options for additional controls/replacement control procedures". The entry should include the name of the responsible person together with the date the decision was made and the reason.
For example:

- For low rated risks where the risk score is 4 and below then the entry would read – 'No further controls required – review periodically.'

- For medium and high rated risks with a score of 6 and above then the entry could read – 'Not possible to implement additional cost effective controls –review periodically.' In addition, you should consider whether a contingency plan is required to mitigate the effects of the risk should it occur.

Changes to risk scores must be recorded on InPhase and reported through the quarterly performance management reports. When updating risks on InPhase details of any relevant reports or documents should be added to the Assurance Column. Similarly, the Risk Owner comments box should be updated to explain any changes in risk score.

Tip: Include a risk review slot into your regular meetings

Use it to assess the progress of any risk improvement Plans and to consider any new risks.

There are 4 ways of dealing with risk:

- Tolerating the risk
- Treating the risk
- Transferring the risk
- Terminating the activity from which the risk arises.

- **Tolerating the risk –** live with it – take an informed decision to retain the risk and monitor the situation. Record this decision in the risk register. Remember to include the reason, the responsible officer and the date of the decision.

  The Council will tolerate risks that it considers acceptable, for example:

  - Where the overall benefits afforded by taking the risk outweigh the potential threat
  - Where the risk is effectively mitigated by an internal control, even if the risk rating is high
  - Where it is not possible to cost effectively mitigate the risk

  These risks should be monitored and contingency plans put in place as per the chart on page 5.

- **Terminating the risk –** stop doing the activity or find another way of doing it and introduce alternative systems/practices

- **Treating the risk –** take action, put procedures in place to reduce the chance, the frequency or the impact of an event occurring

- **Transfer –** by insurance, indemnity clauses in contracts, outsourcing – please note it may not be possible to transfer all the risk – some residual risk may remain.

Complete the relevant column on the risk register confirming whether you are tolerating, terminating, treating or transferring the risk.

2. Risk Categories

The risks facing the Council can come from both inside and outside the organisation. Very often risks do not appear in isolation but rather as the result of a combination of internal and external factors.

The following chart gives examples of key risks that may face the Council – these have been classified into 4 risk categories. The classification will enable the identification of accumulations of similar risks.

Risk Category	Externally driven	Internally Driven
Financial Risks	Accounting standards	Internal Control
	Interest rates	Fraud
	Funds & Credit	Historical liabilities
		Investments

		Liquidity and Cash flow
Infrastructure Risks	Communications	Recruitment
	Transport Links	People Skills
	Supply chain	Health & Safety
	Terrorism	Premises
	Natural Disasters	ICT systems
	Pandemic	
	Economic Environment	Shared Services
Commercial Risks	Technology Developments	Intellectual Property
	Competition	Contracts
	Customer Demand	Partnership working
	Regulatory requirements	
Reputational Risks	Public Perception	Internal regulations
	Government intervention	Organisational culture
	Customer Service Relationship	Composition of Council
		Delivery of the Council's priorities

3. Scoring the Risk

3.1Impact Score

The following descriptions and definitions of impact are indicative and not exhaustive. They are a guide to assist you in assessing the impact of the risk should it occur.

Description	**Factor**	**Score**
• Brief disruption of service area – up to 1 day • No or insignificant environmental damage • Financial loss < £5,000 • Minor injury (first aid treatment) to an individual or several people • Complaint from member of public • Litigation/claims/fines up to £5,000 • No reputational damage – little or no local press interest	Minor	1
• Service disruption 2-3 days • Adverse effect on services in one or more areas for a period of several weeks • Financial loss < £25,000	Significant	2

• Adverse local publicity • Significant injury to an individual or several people – medical treatment required • Litigation/claims/fines up to £25,000		
• Service disruption 3-5 days • Complete loss of service area for 3-5 days • Financial loss up to £50,000 • Adverse publicity in professional/municipal press • Adverse local publicity of a persistent nature • Major injury to an individual or several people • Litigation/claims/fines up to £50,000	Serious	3
• Service disruption 5+ days • Major loss of service, including several important areas, and/or for a protracted period • Financial loss >£50,000 • Adverse and persistent national media coverage • Adverse central government response, involving (threat of) removal of delegated powers • Officers and/or Members forced to resign • Loss of life • Litigation/claims/fines >£50,000	Major	4

3.2 Likelihood Score

The following descriptions and definitions of likelihood of the risk occurring are intended as a guide to assist you in arriving at your risk score.

Description	Indicators	Factor	Score
Less than 10% chance of occurrence	Has happened rarely/never before	Very unlikely	1
10 – 40% chance of occurrence	Only likely to happen every 3 or more years	Unlikely	2
40-75% chance of occurrence	Likely to happen at some point within the next 1–2 years. Circumstances occasionally encountered – few times a year	Likely	3
More than 75% chance of occurrence	Regular occurrence Circumstances frequently encountered – daily, weekly, monthly	Very likely	4

3.3 Scoring the risk

The charts at 3.1 and 3.2 are designed to help you score the risks in terms of likelihood and impact. This is carried out in two stages:

- Multiply the likelihood and impact scores together, as if there were **no** controls in place. This will give you an inherent risk score.
- With the list of controls that are currently in place, re-score the risk, taking into account the effect of these controls. **Try not to become too bogged down in detail – you should try to reach a consensus on the final risk score**.

These final scores will give you a risk profile of those risks that need more immediate attention.

Risk Score	**Overall Rating**
12 - 16	HIGH
6 - 10	MEDIUM
1 - 4	LOW

Level of Risk / (Inherent Risk Score)	**How the risk should be managed**
High Risk (12-16)	**Requires active management** High impact / High likelihood: risk requires active management to manage down and maintain exposure at an acceptable level **Contingency Plans** A robust contingency plan may suffice together with early warning mechanisms to detect any deviation from profile
Medium Risk (6-10)	**Good Housekeeping** May require some risk mitigation to reduce likelihood if this can be done cost effectively, but good housekeeping to ensure the impact remains low should be adequate. Reassess frequently to ensure conditions remain same **Contingency Plans** A robust contingency plan may suffice together with early warning mechanisms to detect any deviation from profile
Low Risk (1-4)	**Review Periodically** Only put mitigations in place if it’s cost effective to do so

4. Opportunity Risk Management

Opportunity risk is defined as ‘The risk of missing chances to improve on achievement of objectives or delivery of services. Opportunity risk is the chance of something happening that will have a **positive** impact on objectives – the upside of risk. This means that risk also includes the potential for better than expected outcomes. An opportunity is likely to involve doing something new or working in a different way. Opportunity risk management is therefore the process of identifying and considering how to take full advantage of unplanned/unexpected options or benefits.

The same principles that are used to identify risks (negatives) are used to identify opportunities. Charts are provided on page 13 and 14 to assist in the scoring in terms of likelihood and impact.

Look for opportunities when:

- Setting strategic aims
- Setting business objectives
- Early stages of project planning and key stages thereafter
- Service planning

Ask:

- Can we do it - is it legal (ultra vires)?
- Should we do it – can we deliver?

The assessment should clearly indicate the possible benefits of seizing the opportunity and what is required to achieve it – this could be plans or resources or a combination of the two. These requirements should form the basis of an action plan that will be used to monitor and review progress.

Remember:

- Concentrate on those opportunities that offer the best outcome for the effort needed to deliver – the most cost effective option.
-
- Is there anything else that can be done to improve the likelihood of success, maximise the impact or expand on the consequences to increase the benefits?

It would be helpful if a note was placed on the risk register template just to identify an opportunity risk.

4.1Scoring the opportunity – Criteria for Impact score

Factor	Score	Effect on service	Financial Risks	Infrastructure	Marketplace	Reputational	Effect on objectives/scheduled deadlines
Exceptional	4	Extensive or wide ranging improvement to services generally , or across a broad range (eg quality , level speed, cost) & /or delivery of corporate priorities National partnership initiative/arrangement	Producing more than £50,000 savings or increase in revenue generation	Extensive improvement to service delivery with benefits to the community Extensive benefits to staff in the workplace	DBC supports new development which results in investment into the area by an extensive amount over a period of years	Extensive positive national press& /or TV coverage National award from a professional body or recognition by national government	Successfully completed more than 3 months ahead of schedule
Substantial	3	Noticeable improvement to service (s) or large improvement to a critical service area, (eg quality, level , speed ,cost) & /or delivery of corporate priority Regional partnership initiative /arrangement	Producing up to £50,000 savings or increase in revenue generation	Significant improvement to service delivery with benefits to the community Significant benefits to staff in the workplace	DBC supports plan to attract more businesses to the area resulting in increased occupation rates and additional commercial revenue generation Major improvement to local environment	Recognition of a successful initiative by an external organisation or central government body Sustained positive recognition in national press &/or low coverage on national TV	Successfully completed up to 3 months ahead of schedule

4.2 Opportunities – Likelihood scoring

Likelihood Score	1	2	3	4
Descriptor	**Very unlikely**	**Unlikely**	**Likely**	**Very likely**
Frequency	Has happened rarely/never before Less than 10% chance of occurrence	Only likely to happen every 3 or more years Opportunity for which the likelihood is low on the basis of management resources currently being applied 10% - 40% chance of occurrence	Possible opportunity which has yet to be fully investigated by management Opportunities that may be achievable but which require careful management	Clear opportunity that can be relied on with reasonable certainty.

5. Performance monitoring of Risk Registers

Progress on risk/ opportunity management action plans will be reported through the quarterly performance management process using the InPhase system.

Scrutiny of the Strategic Risk Register will be undertaken by Audit Committee

Cabinet will receive a quarterly report on the Strategic Risk Register

In addition, Operational Risk Registers will be reported to the relevant Overview and Scrutiny committee on a quarterly basis alongside the Performance Management reports

An annual review of the Strategic Risk Register with the focus on risk identification for the future, to involve Cabinet, Leader of the Opposition and the Chief Officer Group

6. Risk Review

The management of risk is an ongoing process; as such current risk registers should be reviewed on a quarterly basis and updated as required. Where amendments are made, the date of the amendment should be recorded on the risk register, providing a clear audit trail.

When reviewing risk registers, you may find it helpful to consider the following:

- Have the target dates on the Risk Improvement Action Plans been met? If not, why not?
- Have any of the previously identified risks changed?
- Are the controls still effective?
- Are there any new risks that should be recorded?

These reviews could take place within Departmental Team Meetings, and be noted within the minutes.

7. Risk Registers

All risk registers, together with associated documents will now be stored on InPhase.

ANNEX A

EXAMPLES OF CONTROL MEASURES

Typical measures to reduce the likelihood of risk occurring

- Audit & compliance programmes
- Contract Terms
- Process controls and inspections
- Project Management
- Preventative Maintenance
- Effective Internal Control
- Supervision
- Quality Assurance & Controls

Typical measures to reduce impact

- Contingency/continuity plans
- Contract Terms
- Design Features, including engineering & structural barriers
- Fraud Control
- Good public relations
- Money Laundering controls
- Structured training and other development programmes