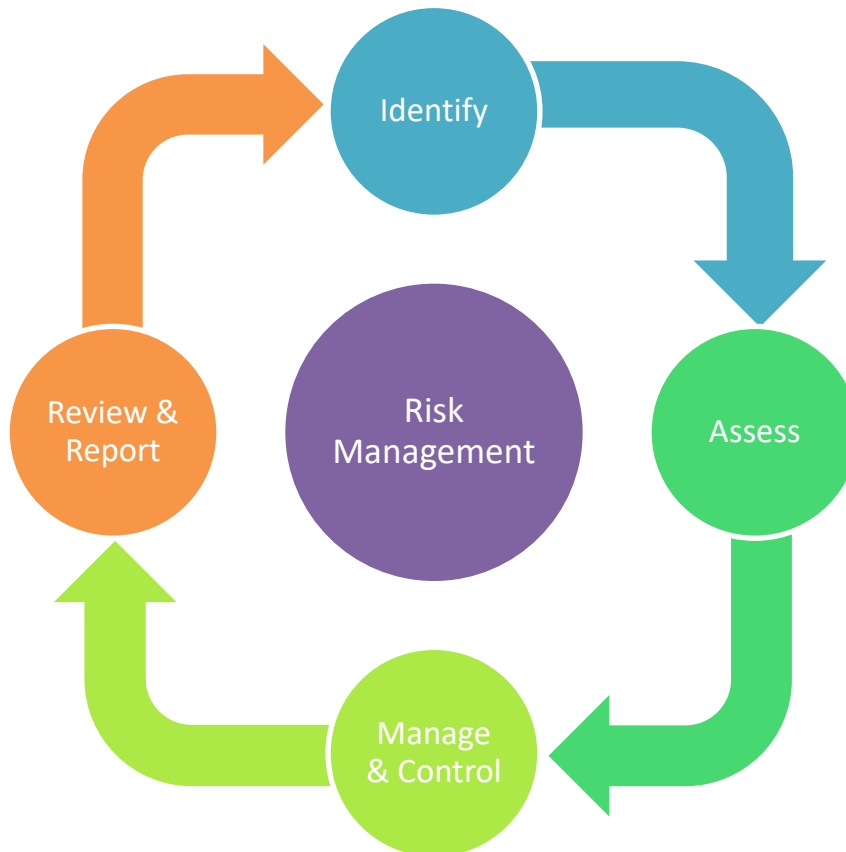


Argyll and Bute Council

Risk Management Manual

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Contents

Introduction	3
What are risks?	4
What is risk management?	4
Our approach to managing risk	4
Risk appetite statement	4
Roles and responsibilities	5
Risk management cycle	6
Introduction	6
Step 1 – Identify	6
Step 2 - Assess Risks	7
Step 3 - Managing and Controlling Risks	9
Step 4 – Review and Report Risks	9
Appendix 1 - Example / Template Risk Register	11

Introduction

1. Like every business, Argyll and Bute Council (the Council) faces numerous uncertainties. Risks are significant uncertainties that may affect the Council's ability to achieve its strategic and operational objectives. Risk management is the planned and systematic process by which key risks are identified, evaluated and managed so as to maximise benefits and minimise potentially negative consequences to the Council and its partners.
2. Local government has seen and will continue to see unprecedented changes. This will lead to significant new risks, as the Council reviews its services and how they are delivered. The Council will respond to such uncertainty through its risk management arrangements. Nothing is achieved without some element of risk, although good risk management often goes unnoticed. Good risk management will support and enhance the decision making process, increase the likelihood of the council meeting its objectives and enable it to respond quickly to new pressures and opportunities.
3. The purpose of this manual is to provide an overview of the risk management processes within the Council and gives practical guidance for the management of risk within departments and teams.



Pippa Milne
Chief Executive, Argyll and Bute Council

What are risks?

4. A risk can be defined as *'An uncertain event or set of events which, should it occur, will have an effect on the achievement of objectives.'* A risk can be an opportunity or a threat.
5. Risks consist of a combination of the probability of a perceived threat or opportunity and the magnitude of impact this perceived threat or opportunity would have upon the Council's objectives. To link the cause and consequences of a potential event it can be useful to define a risk in the format:

'There is a risk of X, due to Y, which may result in Z'

What is risk management?

6. Risk management is the *"systematic application of principles, approach and processes to the identification, assessment and monitoring of risks."* By managing our risk process effectively we will be in a better position to safeguard against potential threats and exploit potential opportunities to improve services and provide better value for money.
7. It must be stressed that risk management is about being risk aware and making the most of opportunities rather than avoiding risk altogether. In order to meet our objectives it is appreciated that some risks must be taken. It is important, however, that these risks are actively controlled.

Our approach to managing risk

8. The Council's approach to risk management has been developed to support the key requirements of good corporate governance. In particular:
 - **Open and Transparent:** Our approach to managing risks will be open and transparent and blame will not be attributed if decisions made in good faith turn out to be wrong. Staff, councillors, members of the public, partners and outside organisations should have access to information on our current risks and how we are managing them. Our risks will be open to regular internal and external audit inspection.
 - **Consistent:** There will be consistency in our approach to identifying, assessing and managing risks across the organisation. Our risk management processes will ensure that the risks are reviewed regularly and that any changes in circumstances are recorded and acted upon.
 - **Proportionate:** When managing and controlling our risks, our actions will be proportionate - the cost and time of our efforts should be in balance with the potential impact and likelihood of the risk.
 - **Accountable:** There will be clear accountability for our risks. This will include a public statement on risk as part of our decision making process; an annual governance statement of internal control signed by the Chief Executive, approved by the Audit and Scrutiny Committee and included in the Council's Annual Finance Statements; and assignation of owners to all risks.

Risk appetite statement

9. Risk appetite is best summarised as "the amount of risk an organisation is willing to accept" and is about looking at both the propensity to take risk and the propensity to exercise control.

10. The Council is involved in a wide range of activities so it is not possible to define risk appetite in absolute terms. We aim to be risk aware, but not overly risk averse and to actively manage our risks to protect and grow the organisation. To deliver our priorities, we recognise the need to manage certain business risks. Intolerable risks are those that could:

- negatively affect the safety of employees or the residents of Argyll and Bute
- have a material detrimental impact on the Council’s reputation
- result in breaches of laws and regulations
- endanger the future operations of the Council.

Roles and responsibilities

11. Risk management must be an integral part of the way we work throughout the Council. It is the responsibility of all employees to ensure that they consider risk as an integral part of the Council’s operations. Specific roles in relation to risk management are set out in exhibit 1.

Exhibit 1– Risk management roles and responsibilities

	Responsibility
Strategic Management Team (SMT)	Promote the importance placed on risk management to create an environment and structure which allows risk management to operate effectively throughout the Council. This includes overseeing the implementation of the Council’s approach to risk management and ensuring the risks to the delivery of the Council’s strategic objectives are managed effectively. Executive Directors and the Head of Financial Services are also responsible for overseeing the management of the operational risk registers for their areas of responsibility.
Elected Members	All Members have strategic responsibility for risk management as part of their responsibility for governing the delivery of local services. They should promote a culture of risk management throughout the council and have regard to risk management implications in their decision making.
Heads of Service	Raise awareness and manage the risk management process within their service areas. Actively involved in the production, review and management of operational risk registers.
Managers	Manage risk effectively in their particular service or operational area and where required, update the operational risk register.
Employees	All employees should be involved in the risk identification and management process. All officers are responsible for bringing to the attention of the relevant person key areas of concern or risks to their or their team’s objectives.
Audit and Scrutiny Committee	Review the effectiveness of risk management arrangements and provide comment and challenge on risk management activity and progress.
Internal Audit	Provides an independent appraisal of the adequacy and effectiveness of risk management arrangements within the Council. Considers the Council’s identified risks when constructing the annual audit plan and specific audit programmes.

Risk management cycle

Introduction

12. The risk management cycle is broken down into four steps as illustrated in exhibit 2. It is a series of logical steps which are carried out in sequence to progress through each stage of managing a risk. The process is cyclical as it is often necessary to revisit earlier steps and carry them out again to ensure you have a complete picture of the risks to the activity/outcome you are assessing.

Exhibit 2 – Risk management cycle



Step 1 – Identify

13. In the risk identification stage we are concerned with identifying events that could impact on the business objectives – i.e. ‘what could happen’. We need to look at both the positive and the negative effect and so should also ask ourselves ‘what could happen if we don’t...’.
14. It may help to use prompts to identify the areas of risk. Some common areas are set out in exhibit 3.
15. Expressing the risks as a statement is often harder than it first seems. It may require rethinking some basic assumptions about a situation and re-evaluating the elements that are most important. A risk needs to tell you what could happen and what the consequences and impact will be if it does.
16. For example, the Fire and Rescue Service identified the difficulty recruiting retained fire-fighters as an issue. This was developed around event, consequence, impact to:
*“Failure to respond with fully crewed appliances (**the event**) could lead to either unacceptable delays in arrival or reduced crew (**the consequence**) resulting in undue loss of life or possessions (**the impact**)”.*
17. Try to include those three parts when documenting your risk (**Event – Consequence – Impact**).

Exhibit 3– Risk identification prompts

Type of Risk	Prompt
Strategic	Doing the wrong things as an organisation; missing opportunities
Financial	Losing monetary resources or incurring unacceptable liabilities
Reputational	Impact on Council’s image, loss of public confidence
Political	Political embarrassment, not delivering local or national policies
Partnership	Risks/opportunities Council is exposed to as part of partnership working
Legal / regulatory	Claims against the council, non-compliance
Operational	Doing the right things in the wrong way (service delivery failure, targets missed); missing business opportunities
Information	Loss or inaccuracy of data, systems or reported information
Environmental	Things outside of the Council’s control; environmental impact
People	Risks associated with employees, management and councillors

Step 2 - Assess Risks

18. The next step is to assess identified risks in terms of the likelihood that they will occur and the impact if they do. This will allow risk prioritisation and facilitate decisions on how the risks should be managed.
19. The Council has agreed factors to consider when assessing the levels of likelihood and impact for risks. These are illustrated in exhibits 4 and 5. The definitions for likelihood of occurrence are quite short. However, because the impact of the risk, should it occur, can be much wider, there is a more comprehensive set of definitions.

Exhibit 4 – Factors to consider when assessing likelihood

	Score	Probability of Occurrence	Timescale
Almost Certain	5	>75%	Occur < 6 months
Likely	4	51%-75%	Occur 6 months - 1 year
Possible	3	31% - 50%	Occur 1-2 years
Unlikely	2	10% - 30%	Occur 2-3 years
Remote	1	<10%	Occur > 3 years

20. When you have assessed both the risk likelihood and impact, multiply the likelihood score by the impact score to get the overall risk score. This is the score that we use to compare and prioritise our risks. The overall risk score can be plotted on a risk prioritisation matrix (exhibit 6) which will help identify those risks which require active management.
21. The likelihood and impact of risks also need to be considered after existing controls have been evaluated as to their effectiveness. Existing controls refers to controls actually in place not those we plan to put in place. For each control identified it is important to review its effectiveness in managing the risk and that the residual risk assessment accurately reflects this.
 - **Inherent risk:** The risk that an activity would pose if no controls or other mitigating actions were in place.
 - **Residual risk:** The risk that remains after controls are taken into account.

Exhibit 5 – Factors to consider when assessing impact

Impact	Score	Service	Financial	People / Duty of Care	Project	Reputational	Legal
Catastrophic	5	Serious failure affecting vulnerable groups	Severe loss > 50% of budget	Fatality	Project fails to deliver thus impacting on Council performance	Sustained negative national media attention - loss of public confidence	Legal action certain or government intervention or criminal charges
Major	4	Serious failure but not affecting vulnerable groups	Major loss 30% - 50% of budget	Extensive injury, major permanent harm	Project delay (1-2 years)	Sustained negative local and/or national media attention	Major civil litigation and/or national public enquiry
Moderate	3	Significant failure affecting customers	Significant loss 10% - 30% of budget	Medical treatment - semi -permanent harm < 1 year	Project delay (3 months - 1 year)	Significant negative local media attention	Major civil litigation and/or local public enquiry
Minor	2	Short term disruption	Minor loss 1% - 10% of budget	First aid treatment - non-permanent harm	Project delay (1-3 months)	Short term negative local media attention	Minor civil litigation
None	1	Negligible disruption	Negligible loss	No obvious harm / injury	Negligible delay	No media interest	No legal action

Exhibit 6 – Risk prioritisation matrix

		Likelihood				
		Remote (1)	Unlikely (2)	Possible (3)	Likely (4)	Almost Certain (5)
Impact	Catastrophic (5)	5	10	15	20	25
	Major (4)	4	8	12	16	20
	Moderate (3)	3	6	9	12	15
	Minor (2)	2	4	6	8	10
	None (1)	1	2	3	4	5

Step 3 - Managing and Controlling Risks

22. Now that the risks and opportunities have been identified and assessed for likelihood and impact, there needs to be agreement on who will own and manage the risk and how it will be managed. Exhibit 7 provides guidance on how the overall risk score can help identify how the risk should be managed. Following these guidelines will help ensure risks are not over managed.

Exhibit 7 – Risk management consideration

Risk Level	Management
High (15-25)	Active Management These are the risks that could severely threaten the ability of the Council or a service to deliver agreed outcomes or objectives. These are the most important risks and demand the most attention, resources and management. 'Red' risks are regularly reviewed in detail to help assist in the reduction of risk to an acceptable and/or manageable level.
Medium (7-14)	Management Required These are considered to be of medium importance; requiring less management attention than the red risks, but which are still reviewed regularly to ensure that the risk exposure is not growing. Requires management to prevent increase, and possibly reduce, risk score.
Low (1-6)	Periodic Review Unlikely to require action but periodic review of situation should be in place.

23. The Council have adopted five options for managing risks as detailed in exhibit 8.

Exhibit 8 – Options for managing risks

Action	Definition
Tolerate	Decision taken to accept that existing actions sufficiently reduce the likelihood and impact of a risk and there is no added value in doing more.
Treat	Implement further action(s) to reduce overall risk by either reducing the likelihood and/or the impact. Further actions, with associated timescales, should be recorded in the risk register and regularly monitored.
Terminate	Decision taken to remove the risk entirely. Where the risks outweigh the possible benefits, avoid the risk by doing things differently e.g. revise strategy, revisit objectives or cease the activity.
Transfer	Transfer all or part of the risk through insurance or to a third party who is better able to manage the risk.
Exploit	Whilst taking action to mitigate risks, a decision is made to exploit a resulting opportunity.

Step 4 – Review and Report Risks

24. Steps 1 to 3 are then monitored, reported upon and repeated on an ongoing and cyclical basis to ensure that new risks, or changes to existing risks are managed. All information relating to the identified risks should be recorded in a risk register. Appendix 1 to this guidance provides a template risk register which should be used for all registers. It can be downloaded in excel format by clicking on the icon below.



ABC Template Risk Register.xlsx

25. All fields should be completed for every risk including key actions and deadlines for all risks where the chosen approach is 'Treat.'
26. Circumstances and business priorities can, and do, change, and therefore risks, opportunities and their circumstances need to be regularly reviewed. This review should include the following questions:
 - Are the risks still relevant?
 - What progress has been made in managing the risk?
 - Given the progress made, do the risk scores need revising?
 - Are any further actions needed? If so, then what should these be?
27. It is recognised that there should be some flexibility in terms of the process to be followed at DMT or Head of Service level to review and update risk registers. For example Financial Services may wish to operate with a single operational risk register which is reviewed and updated at Financial Services Management Team meetings whereas Customer Services and Development and Infrastructure may wish to operate risk registers at Head of Service level which are then consolidated into a departmental level risk register.
28. However there should be an overarching principle that the most current versions of operational risk registers should be approved on a quarterly basis at DMT and the strategic risk register should be approved biannually at SMT. The minutes of these meetings will evidence the review has taken place and the approval of the risk register updates.
29. Exhibit 9 provides summary guidance on how risks should be reported and/or escalated within the Council at the point they are identified or their risk profile changed.

Exhibit 9 – Risk reporting

Risk Level	Reporting
High (15-25)	Risk should be reported to SMT and Chief Internal Auditor (CIA).
Medium (7-14)	DMT to determine whether risk requires to be reported to SMT and CIA. Risks scored between 7 and 11 would not usually be reported. Consideration should be given to reporting risks with scores between 12 and 14.
Low (1-6)	Risks are managed at DMT level.

30. The Chief Executive presents the Strategic Risk Register formally to the Audit and Scrutiny Committee on an annual basis (normally June). In addition the CIA will perform a strategic risk assurance mapping exercise on an annual basis and report its conclusions to the Audit and Scrutiny Committee (normally September). Formal audits of the Council's risk management arrangements will be performed at least once every three years.

Appendix 1 – Example / Template Risk Register

												NEXT REVIEW DATE		01/06/2018	
No	Risk	Service Plan Challenge	Consequences	Gross Risk			Current Mitigation	Residual Risk			Approach	Key Actions and Deadlines	Last Reviewed	Risk Owner	
				Imp	Lik	Sc		Imp	Lik	Sc					
1	Capacity/Act Aligned to Priorities Strategic finance capacity and activity not aligned to council's key strategic priorities	Ensuring medium to longer term financial planning supports Council priorities in a sustainable manner	Revenue expenditure / budgets not properly aligned to council's key priorities. Decision making not supported by robust financial advice.	4	4	16	1. Medium to long term financial strategy 2. Council wide efficiency planning / savings identification 3. Effective management of financial reserves 4. Strong budget setting and monitoring controls/procedures 5. Audit coverage of fundamental systems 6. Service planning 7. Review of fees & charges 8. Medium term budget outlook reported to P&R Committee	4	3	12	Treat	1. Consider findings in 2018/19 IA review of financial planning once completed (Sept 2018) 2. Complete annual review of financial strategy (Nov 2018) 3. Address IA action plan from 2017/18 review of fees & charges (Jun 2018) 4. Reconstructing budget exercise (July 2018)	SF Mgt Team Mar 2018	Head of Strategic Finance	
2	Resource Availability Service provision and performance affected by difficulties recruiting/retaining suitably qualified staff, organisational change, and/or staff sickness.	All strategic finance challenges	Failure to develop effective financial mgt across all departments. Awareness of and reporting of variances against budgets not managed preventing early intervention Members/managers not able to obtain financial advice when exploring options.	4	4	16	1. Working environment / organisational culture 2. Flexible working 3. Established suite of policies & procedures 4. Growing our Own 5. Provision of training 6. Staff development and appraisals	4	3	12	Treat	1. SF Service restructure (Sept 2018) 2. Use of earmarked reserved to deliver training within service (June 2018)	SF Mgt Team Mar 2018	Head of Strategic Finance	
3	Staff Skills Staff skills mix not aligned to service requirements	Ensuring service delivery is aligned to stakeholders needs within the available resources	Service delivery not adequately supported by strategic finance resulting in lost opportunities to identify and deliver efficiencies/savings.	4	4	16	1. Financial regulations 2. Appropriate staff training 3. Workload planning focused on aligning available resource to priority activity/services. 4. Service review and monitoring of customer feedback	3	4	12	Treat	1. SF Service restructure (Sept 2018) will provide greater support (Sept 2018) 2. 2. Use of earmarked reserved to deliver training within service (June 2018)	SF Mgt Team Mar 2018	Head of Strategic Finance	
4	Failure of external investment institutions affecting availability of funds or return on investment reducing cash flow and resource availability	Managing Council's Treasury Mgt function to ensure we safeguard the Council's money and get best possible return.	1. Reduced availability of funds 2. Reduction in returns on investments 3. Cash flow issues	4	3	12	1. Policy for maximum investment/ borrowing levels limits liability 2. Consideration of credit ratings (including external TM advice) 3. Management of council reserves 4. Medium to long term financial strategy 5. Treasury management strategy 6. Low appetite for treasury risk	3	2	6	Tolerate	N/A	SF Mgt Team Mar 2018	Head of Strategic Finance	
5	Capital programme is not effectively managed	Ensuring medium to longer term financial planning supports Council priorities in a sustainable manner	Significant underspends on capital programme means that priorities are not addressed, leading to reduced service capacity and damaged reputation. Loss of investment income because of capital resources tied up in delayed capital programmes.	4	4	16	1. Ongoing monitoring of capital programmes and capital budget monitoring 2. Close alignment between capital programme management and treasury management 3. Limited options/returns for investment	4	3	12	Treat	1. Capital prioritisation process to be reviewed - update to full Council to be provided (June 2018)	SF Mgt Team Mar 2018	Head of Strategic Finance	
6	Risk Management not embedded as integral part of decision making process.	Ensuring medium to longer term financial planning supports Council priorities in a sustainable manner	Strategic and operational decisions within Strategic Finance do not adequately consider the identified risks within the department and the associated service challenges identified in the service plan.	3	3	9	1. Annual review of risk mgt arrangements by internal audit 2. Formal review of SF Risk Register on a quarterly basis at SF mgt team meetings	3	2	6	Tolerate		SF Mgt Team Mar 2018	Chief Internal Auditor	
7	Internal Audit Plan Failure to ensure appropriate Audit coverage through risk based assessment and failure to complete annual audit plan	Ensuring audit coverage provides appropriate assurance in respect of governance, risk and control.	1. Weakness in controls and governance go undetected leading to financial loss/inefficiencies 2. Reduced assurance via annual governance statement 3. Reputational damage 4. Increase in external audit fee	3	3	9	1. Independence of Chief Internal Auditor 2. Draft audit plan circulated to SMT and A&S Committee for review and feedback 3. Annual audit plan is risk based and provides coverage across all Council directorates and associated ALEOS 4. Delivery of audit plan monitored by Chief Internal Auditor and reported to A&S Committee	2	2	4	Tolerate	N/A	SF Mgt Team Mar 2018	Chief Internal Auditor	