



# RISK Management Strategy

“Your Risk – Your Responsibility”  
October 2020

## Foreword

This Strategy aims to improve the effectiveness of managing risks across the Council and constitutes a very important part of the Council's overall policy on risk. Effective management of risk allows us to:

- have increased confidence in achieving priorities and outcomes
- constrain threats to acceptable levels
- take informed decisions about exploiting opportunities
- ensure that we get the right balance between rewards and risks
- Improve partnership working arrangements and corporate governance.

Ultimately, effective management of risk will help the Council maximise its opportunities and minimise the impact of the risks it faces, thereby improving its ability to deliver priorities and improve outcomes for residents. There are clearly a wide range of risks internal to Hackney, but it's also important to acknowledge and monitor the external influences and risks.

This Strategy explains the Council's approach to risk management, and the framework that will operate to ensure that risks are effectively managed. Whilst the Policy sets out 'what' the Council is looking to accomplish in terms of its risk management, the Strategy expands on 'how' this will be achieved.

I encourage all officers to adopt the strategy and use as a template for approaching Risk across the Council.



Tim Shields, Chief Executive  
October 2020

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<b>Information Box</b>	
Title	<b>Risk Management Strategy</b> <b>“Your Risk – Your Responsibility”</b> version 9.0 revised October 2020
Description	Hackney Council Risk Management Strategy (which also serves as a toolkit)
Primary audience	Members, Chief Executive, Hackney Management Team, Heads of Service, Unit / Departmental Heads and all Hackney Staff
Contact	<b>Corporate Risk Team, Finance &amp; Corporate Resources</b> Tel: 020 8356 2624
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## 1. Introduction

- 1.1 Management of risk is both a statutory requirement (from the Accounts and Audit Regulations 2015), an indispensable element of good management, and not simply a compliance exercise. As such, its implementation is crucial to the Council and essential to its ability to

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discharge its various functions: as a partner within the Local Strategic Partnership, a deliverer of public services, a custodian of public funds and a significant employer.

- 1.2 This Risk Management Strategy provides a comprehensive framework and process designed to support Members and officers in ensuring that the Council is able to discharge its risk management responsibilities fully. The Strategy outlines the objectives and benefits of managing risk, describes the responsibilities for risk management and provides an overview of the process that we will implement to manage risk successfully. It also defines a practical approach to risk.
- 1.3 Management of risk in Hackney is about improving the ability to deliver strategic objectives by managing threats, enhancing opportunities and creating an environment that adds value to ongoing operational activities.
- 1.4 Risk management is a key part of corporate governance, which is essentially the systems by which the organisation manages its business, determines strategy and objectives and goes about achieving these objectives. Risk management will help identify and deal with the key risks facing the Council in the pursuit of its goals.
- 1.5 The benefits of successful risk management include:
- Improved service delivery**  
Enhanced corporate policies, fewer surprises, added value across service areas, more targets achieved, improved internal controls, consistent management of risk and opportunities resulting in improved service delivery.
  - Improved financial performance**  
Higher percentage of objectives achieved, lower level of fraud, increased capacity through reduction in the number of decisions that need reviewing or revising, decreased number of and impact of critical risks, better income generation and fewer alterations and losses. A clear overall picture of budgets is maintained, and work undertaken is mindful of potential financial limitations.
  - Improved human resources management**  
Potentially reduced staff turnover and absenteeism due to less stressful working environment. Fewer surprises occur, and change is managed in a more controlled and diligent manner.
  - Improved corporate governance and compliance systems**  
Fewer regulatory visits, fewer legal challenges, and an improved annual governance statement that is better substantiated and evidenced. Also increased assurance across the Council about the robustness of processes designed to achieve objectives.
  - Improved insurance management**  
Lower insurance premiums and number and level of claims, lower total of uninsured losses.
- 1.6 Further advice and assistance on risk management is available from the Corporate Risk Advisor within the Finance & Corporate Resources Group Directorate.

## 2. Aims and Objectives

### AIM

- 2.1 The aim of this Strategy is to improve the ability to deliver strategic priorities by managing our threats, enhancing our opportunities and creating an environment that adds value to

ongoing operational activities. This Strategy should also serve as a toolkit for officers looking to clearly acquaint themselves with Hackney's approach to risk.

## OBJECTIVES

2.2 The objectives of the Strategy are to:

- Set out the roles and responsibilities for risk management throughout the organisation
- Fully integrate the management of risk into the culture of the Council and into the Council's strategic planning processes
- Ensure that the framework for identifying, evaluating, controlling, reviewing, reporting and communicating risks across the Council is implemented and understood by all relevant staff (and partners)
- Communicate to stakeholders the Council's approach to risk management
- Improve co-ordination of risk management activity across the Council
- Ensure that the Executive, Hackney Management Team (HMT) and external regulators are provided with the necessary assurance that the Council is mitigating the risks of not achieving its objectives, and thus complying with good corporate governance practice.
- Ensure consistency throughout the Council in the management of risk.

## 3. Definitions

3.1. This section provides brief definitions of the terms used within this Strategy and the definitions that the Council is working to.

### RISK

3.2. Hackney's definition is:

***“Risk is the probability of an event occurring and its consequences”***

3.3. A brief explanation of the key words used in this definition is given below:

**Probability** – the likelihood of an event occurring

**Event** – the occurrence of a particular set of circumstances

**Consequences** – outcomes arising from the event. There may be more than one consequence from the same event and consequences can be both positive and negative.

**Issues** - can sometimes be confused with risks, however there is a distinct difference between these two concepts. An issue is something that is actually happening (or has occurred), whereas a risk is something that might happen. With an issue, one must figure out how to resolve something at the present time. A risk is something which needs mitigation plans which will hopefully eliminate the possibility of the risk occurring or reduce

the impact should it occur. So a risk is in the future, whilst an issue occurs at the current time. Therefore, when the risk materialises it becomes an issue.

## RISK MANAGEMENT

- 3.4. There are many slightly different definitions of risk management that cover essentially the same points. Hackney's approach to managing risk is based upon best practice and is defined as:

**“The process by which Hackney Council manages threats, enhances opportunities and creates an environment that adds value to its activities.”**

- 3.5. The focus of good risk management is the identification and treatment of such risks. Its objective is to add maximum sustainable value to all the activities of the organisation. It aids the understanding of the potential upside and downside of all the factors that can affect the organisation's ability to deliver its objectives. It increases the probability of success, and reduces both the probability of failure and the uncertainty that the organisation will achieve its overall objectives. Risk is one of life's few certainties. Nothing can be achieved without some element of risk. The essence of risk management is managing these potential opportunities and threats which could ultimately impact on objectives.
- 3.6. Risk management should support improved decision-making through a good understanding of the risks associated with decisions and their likely impact.
- 3.7. Risk management should be a continuous and developing process that runs throughout the organisation's corporate strategy and the implementation of that strategy, methodically addressing all risks surrounding the organisation's activities past, present and future.
- 3.8. Hackney, like all Councils, has a wide range of internal risks, but it is also essential to acknowledge and monitor the external influences and risks. Something like a change to government policy needs to be considered as this continues to test our strategies, financial position, and ability to deliver political priorities. Areas like this need to be managed as their potential can impact on the Council in so many ways

## 4. Risk Appetite

- 4.1 Risk Appetite refers to the level of risk that an organisation (and within that a service area) would be comfortable to accept in order to reach strategic objectives. If outside an appetite, it would be difficult to justify pursuing such a course of action. Even though an organisation admits to an appetite for risk, the risks still need to be managed and monitored very closely. Once out of the boundaries of the appetite, then serious consideration needs to be applied to whether the risk can be managed properly. Clearly, some risks are unavoidable (especially of an external nature) and will be managed extremely closely. Other risks which are comfortably beyond the appetite will simply not be taken. It is the risks where the organisation has a clear choice that appetite becomes especially relevant.
- 4.2 Risk tolerance is a similar principle to risk appetite but concerns the specific maximum risk (or exposure) an organisation would be (theoretically) capable of taking. Therefore, the

level of risk an organisation is comfortable in pursuing is their appetite but they may be able to tolerate or absorb a different level of risk without significant pain and impact on achieving their strategic objectives. This is their tolerance.

- 4.3 Theoretically there are some risks the Council may be able to tolerate within its resources but for other reasons (perhaps political or reputational) it might still not be within their appetite. Once outside of boundaries of appetite (red), a risk is a serious concern and must be reviewed and treated and such. This will be something that needs to be consistently reappraised.
- 4.4 Risk appetite can vary depending on a service area and the sensitivities of the work it undertakes. For example within Children's, Adults and Community Health, the potential for harm to any of Hackney's vulnerable stakeholders is something that would be guarded against with no appetite or tolerance for any example of this. Conversely, in a service concerned with regeneration and property, the Council is trying to capitalise on a buoyant market to achieve the appropriate rent for its property assets, here the appetite for slight uncertainty is greater because of the beneficial (financial) opportunities it can bring. Although recent fluctuations in the market make the appetite here even more important (and fragile?).
- 4.5 When the Council admits to an 'open' attitude to risk (as it does in the table below for major capital programmes and more commercial schemes), there is an acceptance that an element of financial risk is involved. However, within these risks, there are so many (break) clauses built into a project, and other options / mitigations, with stages to pull back, that the Council can provide clear assurance that it is well positioned to manage this more open approach to risk taking. There are considerable sums of investment involved, but careful planning should justify this open approach. With the numerous ongoing Regeneration programmes, innovative ways of working have been established and developers have ensured any financial risk on the Council can be dealt with safely, and even in the instance of a serious crash of the Property market, the Council would be able to temporarily rent property whilst waiting for the market to recover.
- 4.6 All risks identified should be managed in accordance with the Council's "risk appetite", and assessed within the particular appetite of that actual service area. **Table 4** (on the next page) contains a general **statement of the Council's Risk Appetite** – a high level guide as to how this should be approached.

*In order to achieve objectives and deliver beneficial outcomes to stakeholders, the Council does need to take some risks. However these risks will be taken in a considered and controlled manner.*

*Exposure to risks will be kept to a level of impact deemed acceptable according to parameters agreed by Senior Management (Directorate & Hackney Management Teams). The acceptable level may vary from time to time.*

*Some particular risks (above the generally agreed level) may be accepted because:*

- *The likelihood of the risk occurring is deemed to be sufficiently low*
- *They have the potential to enable realisation of a considerable reward/benefit which is too high to ignore*
- *They are considered too costly to control given other priorities*
- *The cost of controlling them would be greater than the cost of the impact should they materialise*
- *There is only a short period of exposure to them*
- *They are considered essential to the achievement of aims and objectives*



<b>Risk Appetite chart</b>	<b>FINANCE / COMMERCIAL</b>	<b>COMPLIANCE</b>	<b>SAFETY</b>	<b>SERVICE DELIVERY</b>	<b>REPUTATION</b>
<b>AVERSE</b> (safe / v low level exposure / very low reward / no empowerment beyond senior staff)	Minor loss < £1000 ( In pursuit of progressive, dynamic and effective services, most areas could tolerate this loss)	Trivial, v short term single non-compliance. In pursuit of an overall objective, this could usually be tolerated.	Insignificant Injury (no intervention) – CYPs maintain this approach.	Negligible impact, unnoticed by stakeholders – clearly this is accepted.	Insignificant damage (eg – vague online negativity) - can be tolerated.
<b>CAUTIOUS</b> (guarded, low reward, empowerment just to Senior / middle managers.)	Small loss £1000 - £10,000 (eg – services like Treasury, Revenues & Benefits / Cashiers will not tolerate such losses so very little appetite here in this respect. But accepted in other areas)	Small, single, short-term non-compliance. (eg Elections Services cannot afford non-compliances so have very cautious approach). Other services could be more flexible	Minor Injury (Local intervention) Adult Social Care would need to be cautious.	Small impact inconvenience (usually acceptable – if managed properly – in a project.)	Minor / v short term damage (Negative coverage from local media) – tolerable if backing a justified position.
<b>MODERATE</b> (balanced approach / medium reward / empowerment to frontline managers.)	Moderate loss £10,000 - £100,000 (Depending on a service, this could be countenanced in the context of a high level complex project, pensions / investment strategy.)	Sustained single or a few short term non compliances. (this could be tolerated in pursuit of the greater good – eg printing free paper / allowing flexibility within housing / events etc)	Moderate Injury (professional intervention) – this falls outside tolerance / appetite.	Medium level impact & inconvenience (Sometimes acceptable – if managed properly – in a project / programme)	Moderate or short to medium term damage – (damaging coverage London-wide) – if the Council are clear in a position, it is right to defend.
<b>OPEN</b> (creative, higher exposure & empowerment to wide selection of staff)	Significant loss £100,000 - £1,000,000 (The delivery of the overall capital programme / investment strategy permits appetite for this possibility – albeit with many layered controls and mitigations)	Multiple sustained non – compliances. This would not be an expected approach and would be very difficult to ever justify.	Major Injury (hospital stay) – a risk like this could not be pursued.	Significant impact / serious inconvenience – could only be accepted in exceptional circumstances.	Major / medium term damage (negative national exposure). Unlikely to be tolerable – unless exceptional circumstances.
<b>HUNGRY</b> (pioneering / substantial risk exposure & reward / empowerment to all with few controls)	Substantial loss - >£1,000,000. This is not an amount the Council would be comfortable in actively allowing in pursuit of objectives.	Multiple, long-term, significant non compliances. (This hungry appetite in compliance is just not conceivable in Local Government.)	Fatal injury – this will obviously be out of the tolerance of our organisation.	Substantial / complete service failure. Not tolerable.	Substantial or sustained damage. (International coverage). Not within appetite.

<b>Level of risk</b>	<b>Level of concern</b>	<b>Action required</b>
<b>High</b>	<b>Very concerned</b>	<b>Action is required immediately</b>
<b>Medium</b>	<b>Concerned</b>	<b>Action is required within three months</b>
<b>Low</b>	<b>Content</b>	<b>The Council is willing to accept this level of risk</b>

4.6 A risk may be considered acceptable if it is sufficiently low that treatment is not considered cost-effective; this applies if the risk scores 'low' on the Council's scoring matrix. The cost of mitigating the risk here is not proportionate to the benefit that treating it would provide.



Low risks do not require inclusion on either the Council's Corporate or a Directorate's risk register, but they should be entered onto the risk database and be reviewed annually as a minimum standard. The key is that risk conversations are taking place, with decisions backed up by discussions of varied appetites.

- 4.7 Risks that are 'unlikely' or 'rare' to occur, but would have a 'major' or 'catastrophic' impact will probably score either 'low' or 'medium' on the Council's scoring matrix. It is probable that many of these risks fall within the Council's Business Continuity Management Process (e.g. flooding).

## 5. Scope

- 5.1 Management of risk is something that everyone within the Council undertakes almost daily, to varying degrees. Although it is difficult to draw clear boundaries around risk management areas because of the cross-cutting nature of risk, management of risk within Hackney falls into five main areas:

- Health and Safety
- Insurance of risk: where some serious risks are mitigated within Insurance cover (eg – a fire on a Council property).
- Emergency / Business Continuity Planning
- Project: both physical (e.g. the Britannia project) and strategy-related. This area is closely aligned to and may overlap with business risk, although each have a separate matrix.
- Business: risks identified that could prevent the Council achieving its priorities – either top-level priorities (e.g. failure to deliver the Mayor's agenda) or operational-level priorities (e.g. failure to deliver actions within a team plan).

- 5.2 The risk management process outlined within this Strategy applies primarily to the business and project risk management areas but can, where appropriate, be used for any area. All risk areas identified above include high-level / long-term risks (strategic risks) through to low-level / day-to-day risks (operational risks), as well as both internal and external partnerships.

Lead responsibility for the development of the five areas of risk management identified is shared between directorates outlined below (see Table 1).

**Table 1 – Risk Areas**

Risk Area	Service Area with Lead Responsibility
Health and Safety	Strategic Property Services, Finance and Corporate Resources Directorate

Insurance of Risk	Insurance team within Finance and Corporate Resources.
Emergency / Business Continuity Planning	Emergency Planning Unit, Neighbourhoods and Housing – also overseen by the Corporate Resilience Group
Project	Lead officers based in the Chief Executive's Directorate
Business	All Chief Officers / Heads of Service

## HEALTH AND SAFETY

- 5.3 The Council has in place long-established and effective processes for the management of risks falling within health and safety. The established processes already in place in these areas should be followed; they are not superseded by this Strategy.

## BUSINESS CONTINUITY MANAGEMENT & EMERGENCY PLANNING

- 5.4 Business continuity management (BCM) and risk management have clear inter-dependencies and are closely aligned. However, BCM is concerned with events that typically have a very low probability of occurring but would have a catastrophic impact on the Council's ability to deliver services, and business continuity planning is based around time-critical activities. BCM tends to be concerned with the aftermath of an event occurring, whereas Risk deals with an event in advance of its potential occurrence. Consequently, any risk identified through the risk assessment process as likely to have a catastrophic impact upon the Council's ability to deliver its services will probably be mitigated through the Council's BCM Process. The Council's Emergency Planning Management Team, hold responsibilities for managing the external impacts of risks of this nature.
- 5.5 Hackney's approach to BCM is outlined in the Business Continuity Strategy. In summary, a Council-wide business impact analysis has been undertaken and Business Continuity Plans (BCPs) are now in place (at corporate and directorate levels), having all been updated in recent months. The Council has also ensured that Council-wide BCPs are in place covering activities in high-priority areas (e.g. customer services) and high-risk areas (e.g. IT). Regular testing also occurs in these areas. There is also an overall community wide Business Continuity/Emergency Planning Risk Register, which is updated annually.
- 5.6 The Council's approach to BCM is to ensure that a generic response is in place to deal with the likely impact of an incident, regardless of the cause of the incident. This means that the Council is able to produce one generic plan rather than a series of plans to deal with different scenarios. If BCPs aren't in place and properly prepared, this in itself will constitute a serious risk to the Council. There is an additional Corporate Resilience group currently in place chaired by the Director of ICT & Customer Services.

## PROJECT RISKS

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- 5.7 Project risks can be managed using one, or a combination, of the following risk management processes:
- the Capital Bid Programme risk assessment pro forma
  - Risk management techniques associated with the project management methodology used (e.g. Project Management Handbook and Prince2). A separate matrix has been developed specifically for project risks.
- 5.8 Management of risk is incorporated into project management right from the outset (e.g. initial risk assessment as part of the Project Brief). The size and scope of the project will dictate the best way of managing the attached risks. However, ALL projects must undertake full risk assessments. All formal project management training within the Council includes project risk management.

## BUSINESS RISKS

- 5.9 The risk management process outlined within this Strategy should be used to identify and manage all risks to the Council's ability to deliver its priorities. This should cover both strategic priorities (e.g. delivery of the community strategy themes) and operational activities (e.g. delivery of actions identified in team plans). The term 'business risks' relates to risks that might prevent objectives being achieved at all levels, including:
- strategic priorities - e.g. delivery of the Mayor's Priorities ( ie: cleaner, safer, greener Hackney)
  - planned actions identified in the Sustainable Communities Strategy (latest version is running from 2018-28)
  - service area priorities identified in service plans
  - priorities identified in team plans
  - individual objectives
  - partnerships and situations which might impact upon their successful operation.

Business risks are logged and regularly reviewed on Pentana, the Council's software application for risk and performance. Risks entered on Pentana are immediately assigned an owner, along with specific actions intended to mitigate the risk. Reports are run within this system to produce risk registers, the more high level ones of which get escalated to Audit Committee.

## 6. Roles and Responsibilities

- 6.1 Everyone in the Council is involved in the management of risk and must be aware of their responsibilities in identifying and managing risk. However, the ultimate responsibility for managing risk lies with: -

- the Mayor and Cabinet
- The Chief Executive and HMT

6.2 In order to ensure the successful implementation of this Strategy, responsibilities for management of risk are detailed in Table 2.

**Table 2 – Roles and responsibilities**

Role	Responsibilities
<b>Elected Members</b>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Ensuring that business risks are being identified and effectively managed.</li> <li><input type="checkbox"/> Scrutinising corporate decisions to ensure that they meet the requirements of effective risk management.</li> <li><input type="checkbox"/> Helping facilitate and support a risk management culture across the Council.</li> <li><input type="checkbox"/> Seeking assurance on the overall risk framework, and specifically the risk registers presented to Audit Committee</li> </ul>

<b>Audit Committee</b>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Supporting and monitoring the implementation and ongoing processes for identifying and managing key risks of the authority.</li> <li><input type="checkbox"/> Overseeing effective management of risk across the Council by agreeing the Council's Risk Management Policy / Strategy / statement of Risk Appetite.</li> <li><input type="checkbox"/> Ensuring that risk management is delivered by the Chief Executive and HMT on behalf of the overall Council.</li> <li><input type="checkbox"/> Ensuring that a Corporate Risk Register, including details of the actions taken to mitigate the risks identified, is established and regularly monitored (full version at every other meeting).</li> </ul>
<b>Chief Executive and HMT</b>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Leading / co-ordinating risk management across the Council, with the Chief Executive as the designated HMT lead on risk.</li> <li><input type="checkbox"/> Advising members on effective risk management and ensuring that they receive regular monitoring reports. Also helping define the overall risk appetite.</li> <li><input type="checkbox"/> Identifying and managing the business risks and opportunities facing the Council (including those highlighted within received reports). Also deciding to escalate these risks, sometimes to the Corporate Register, which they regularly review. Also ensuring the Council complies with all Corporate Governance requirements.</li> </ul>
<b>Chief Officers / Directorate Management Teams (DMT)</b>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Ensuring that risk management within their directorate is implemented in line with the Council's Risk Management Policy and Strategy and the Standard for Performance Management.</li> <li><input type="checkbox"/> Appointing a risk champion, ideally a senior officer, who is authorised to progress across their directorate effective risk management that adheres to corporate guidelines.</li> <li><input type="checkbox"/> Identifying and managing risks within their directorate and ensuring that mitigating actions are regularly reported.</li> </ul>
<b>Risk Champions</b>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Assist in ensuring effective risk management throughout particular Directorate, helping prepare Committee reports and acting as a conduit for the Corporate Risk Advisor to work on risk around the Council.</li> </ul>
<b>Heads of Service</b>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Ensuring that all employees within their Service understand and complies with the corporate risk management policy/strategy and procedures.</li> <li><input type="checkbox"/> Identifying, evaluating and managing operational risks and reporting any possible corporate risks to their Group Director and Departmental Management Team for consideration. Understanding the need to escalate certain risks.</li> <li><input type="checkbox"/> Ensuring that risk registers are established for their services and regularly reviewed to ensure that risks are adequately monitored and managed.</li> </ul>

<b>Corporate Risk Team</b>	<input type="checkbox"/> Providing strategic direction on the Council's approach to risk management. <input type="checkbox"/> Ensuring effective liaison between risk areas (see Table 1 on page ). <input type="checkbox"/> Co-ordinating the Council's approach to risk management <input type="checkbox"/> Ensure appropriate training is available to members and officers relevant to individual roles. All members of staff have access to training if required. The Intranet provides detailed libraries of information on risk management. Training has regularly been delivered to members to ensure the same approach is embedded throughout the Council.
<b>Staff</b>	<input type="checkbox"/> Understanding their accountability for individual risks. <input type="checkbox"/> Reporting systematically and promptly to their manager any perceived new risks or failures of existing control measures. <input type="checkbox"/> Making the effort to acquaint themselves with the basics of risk, as clearly outlined on the Council's intranet pages.
<b>Audit</b>	<input type="checkbox"/> Providing independent assurance of controls / risk, as well as promoting a risk aware culture through audits. There is a separate risk / audit protocol which clearly defines how the two areas exist together.

## 7. Risk Management Process

7.1 The approach to risk management in the Council is based on the best practice outlined in varied international risk management standards (eg – IRM, ALARM).

7.2 Hackney's risk management process consists of seven steps:

1	Knowing the strategic and operational priorities and overall objectives
2	Defining risks
3	Scoring risks
4	Treating risks
5	Compiling a risk database and register (on Pentana)
6	Monitoring and reporting risks
7	Reviewing risks

### KNOWING THE STRATEGIC AND OPERATIONAL PRIORITIES

7.3 The starting point for management of risk is a clear understanding of what the organisation is trying to achieve. Risk management is about managing the threats that may hinder delivery of our priorities and maximising the opportunities that will help to deliver them. Therefore, effective risk management should be clearly aligned to the business planning process and should take into account the environment within which the Council operates. Similarly, this needs to be applied to all activities and processes to ensure focus on achievement of priority objectives.

**DEFINING/DESCRIBING RISKS/OPPORTUNITIES**

7.4 Here, we are concerned with identifying events that can impact on business objectives – ‘what could happen’. This could have a positive effect on the objectives rather than a negative one. An initial overview can be achieved through a simple SWOT (strengths, weaknesses, opportunities & threats analysis) It is useful to bear in mind business objectives as these are what we consider when assessing impacts. As a minimum, a PESTLE(P) analysis should be undertaken. This helps establish the context of a situation where risks may occur. PESTLE(P) requires those involved in the risk management process to consider the risks that might prevent a priority or objective being achieved, under the following headings: -

- Political**
  - Economic**
  - Social**
- Technological**
  - Legislative**
  - Environmental**
  - Partnership**

7.5 It also helps to think of risks being driven by two basic categories – Strategic and Operational. These categories are not mutually exclusive, and one can move to the other. If we use a school as an example, at a strategic level, the school would consider threats to its long term objectives (e.g. issues such as expansion, raising standards, recruiting staff, attracting students and demographic factors). At an operational level, it would be more concerned with the day to day running of the school (e.g. physical hazards to the students / teachers, budget shortfalls, the performance of external contractor).

7.6 Expressing a risk as a clear and succinct statement is important to begin with, as scoping risks can often be difficult. For example, “no resources” is not in itself a complete description; you need to consider not only a symptom, but also a result. There essentially need to be three parts in the description of a risk.

**EVENT > CONSEQUENCE > IMPACT**

A typical phrasing could be: -

Loss of...	.....leads to.....resulting in...
Lack of...	
Partnership of...	
Development of...	

Opportunities are always important to consider. For example, one of the risks to a partnership arrangement may be that a partnership organisation is reluctant to share information. This could actually be expressed as an opportunity (e.g. improving communication between partnership organisations leads to more effective decision making and implementation of shared objectives). Considering opportunities can allow bolder and more creative or innovative solutions, essentially to take greater, but calculated risks.

## SCORING RISKS

- 7.7 In order to decide on the best treatment option and to prioritise the treatment of the risks identified, the risks must first be scored. Risks are scored by identifying the likelihood of the event occurring and multiplying this by a factor representing the impact or consequences of the event if it did occur.
- 7.8 Hackney uses a five-by-five matrix to determine the risk score. To differentiate between the significant changes in impact between “moderate”, “major” and “catastrophic” risks, the scoring has been weighted; see Table 3.

**Table 3 – Scoring risks**

<b>L I K E L I H O O D ( P R O B A B I L I T Y )</b>	<b>5</b>	<b>Almost certain: &gt; 80%</b>	<b>Low (5)</b>	<b>Medium (10)</b>	<b>High (15)</b>	<b>High (20)</b>	<b>High (25)</b>
	<b>4</b>	<b>Likely: 51% – 80%</b>	<b>Low (4)</b>	<b>Medium (8)</b>	<b>Medium (12)</b>	<b>High (16)</b>	<b>High (20)</b>
	<b>3</b>	<b>Possible: 21% – 50%</b>	<b>Low (3)</b>	<b>Low (6)</b>	<b>Medium (9)</b>	<b>Medium (12)</b>	<b>High (15)</b>
	<b>2</b>	<b>Unlikely: 6 – 20%</b>	<b>Low (2)</b>	<b>Low (4)</b>	<b>Low (6)</b>	<b>Medium (8)</b>	<b>Medium (10)</b>
	<b>1</b>	<b>Rare: &lt; 6%</b>	<b>Low (1)</b>	<b>Low (2)</b>	<b>Low (3)</b>	<b>Low (4)</b>	<b>Low (5)</b>
<b>SCORING SCALES</b> (each score for likelihood and impact is multiplied to attain overall score)			<b>1: Insignificant</b>	<b>2: Minor</b>	<b>3: Moderate</b>	<b>4: Major</b>	<b>5: Catastrophic</b>
<b>IMPACT (CONSEQUENCES)</b>							



**Consider the impact on the following when scoring: -**

- Achievement of strategic priorities
- Health and safety of employees, residents or service users
- Ability to deliver services (in particular key services)
- Financial – e.g. budgets, fraud, claims, fines and penalties
- Council's reputation

**TREATING AND MANAGING RISKS**

7.9 There are four general approaches to managing risk:-

- Terminate (Avoid)* – not undertaking the activity that is likely to trigger the risk.
- Treat (Reduce)* – controlling the likelihood of the risk occurring, or controlling the impact of the consequences if the risk does occur.
- Transfer* – handing the risk on elsewhere, either totally or in part – (e.g. insurance.)
- Tolerate (Accept)* – acknowledging that the ability to take effective action is limited or that the cost of taking action may be disproportionate to the potential benefits gained. Risks here will continue to be monitored.

7.10 Assessment of each response option is used to provide the basis for selecting the best option to manage each risk identified.

7.11 Risk treatment is concerned with actions taken to reduce the impact or likelihood of risks not wholly avoided or transferred (retained risks).

**COMPILING A RISK DATABASE AND REGISTER**

7.12 Any risk identified should be fully assessed and entered onto the risk management database, Pentana Risk.

7.13 Risks that could adversely impact upon the achievement of the Council's priorities and that score 'medium' or 'high' on the Council's risk scoring matrix could be classified as Corporate Risks.

7.14 Service-specific risks that score a 'medium' or 'high' rating must be included in the directorates' strategic risk registers, which should be incorporated in the relevant service plan. These will also be presented annually to Audit Committee. This would be agreed upon at the relevant Directorate Management Team meetings.

**MONITORING AND REPORTING RISKS**

- 7.15 All risks on the Corporate and Directorate Risk Registers are consistently monitored, and reports (from Pentana Risk) are considered twice a year by Hackney Management Team before reporting to Audit Committee for scrutiny. Low level risks are reviewed annually, and if they are perceived to no longer present a threat (or opportunity) to objectives, they will be deactivated. They are not deleted and so remain on the system, but will no longer be 'live' within the registers. Of course, if the risk does become more serious and likely once again, it can then be reactivated. The Risk Management process should be a continuous cycle for supporting objectives. It is also important to highlight risks that cut across services so a consistent approach can be taken across the organisation to managing these risks.
- 7.16 Service-specific business risks should be included within service risk registers and monitored through the directorate's performance management arrangements. This will include reporting, at least annually, to Audit Committee.
- 7.17 As a recent development, a new balanced Scorecard has been created to accompany the Corporate register each time it is presented to Committee. This includes the current score of the risk and well as a target score which the Management of each particular risk should strive towards. Also a direction of travel makes it clear how the risk is progressing which should provide Audit Committee with assurance that risks are being effectively managed.

## REVIEWING RISKS

- 7.18 All risks should be reviewed annually and assessed at management meetings as to whether they should be escalated to directorate or corporate level.

## RISK MATURITY

- 7.19 The concept of risk maturity is important to consider on a regular basis. The maturity level is essentially a well-defined evolutionary plateau towards achieving a mature process. In achieving this, five levels are often cited: -
- Initial** – Where an organisation undertakes the minimum risk identification and assessment to satisfy compliance requirements. There is no defined appetite, no formal risk process and management actions are primarily reactive, rather than proactive.
  - Repeatable** – Here, a risk framework has been established, including definitions of appetite, the risk management process, and when it will be applied. There will also be an understanding of the sources of risk facing the organisation and their impact. Risk roles and responsibilities will be defined and allocated.
  - Defined** - A central risk management function will have been created with a consistent approach. The board debate high level risks and risk management is used to improve business performance.
  - Managed** - The risk management culture is led by the Chief Executive and Senior Management Team, and the practice of managing risk is driven by more rigorous analysis. There is a stronger emphasis on measuring, aggregating and managing risks across the organisation.
  - Optimising** – This is the highest state of maturity with a culture of continual improvement. Here, the organisation fully aligns its risk management policies, process, framework and resources. Training programmes are available for all business unit heads, and risk management responsibilities are included in job descriptions, the staff induction process and performance appraisals.

To categorise an organisation's level of maturity, an assessment is required of numerous elements of its work practices. Questions are addressed towards how management of risk is conducted and what practices are already embedded within the organisation's approach. If there are areas where details are clearly lacking, the maturity of an organisation will be lower and it will perhaps only attain an 'initial' level of maturity status. If however, methodologies, strategies and frameworks are all comprehensive, reviewed and up to date, senior management and stakeholders all play an active role, then it is reasonable to credit an organisation with a more advanced level of maturity, e.g. - 'defined' or 'managed'. The Council consistently strives to move up the scales of maturity, and any deficiencies will be worked upon in order to satisfy maturity criteria.

## **8. Alignment of Risk Management and Performance Management**

### **INTER – DEPENDENCIES BETWEEN RISK MANAGEMENT AND PERFORMANCE MANAGEMENT**

- 8.1 Risk management and performance management can be viewed as two sides of the same coin. Whereas performance management identifies and monitors what is needed to achieve our priorities, risk management focuses on the things that may happen that might prevent the Council achieving its priorities/objectives. The upside of managing risk (identifying actions that will help achieve priorities) is in effect performance management.
- 8.2 The ultimate outcome that both systems support is the achievement of the Council's priorities. The interim steps in both systems include: -
- (for performance management) a list of actions required to achieve the priority; (for risk management) a list of actions to mitigate risks that could prevent the priority being achieved
  - SMART targets (Specific, Measurable, Achievable, Relative, Timely)
  - regular review of the actions and targets, and overall annual review.
- 8.3 The starting point for identifying both the actions required under the performance management framework and the mitigating actions required by the risk management framework is the same: the Council's priorities. Each year, the Council refreshes its overall corporate priorities. Therefore, the resulting actions and SMART targets from both the performance management framework and the risk management framework should be broadly similar and in some cases identical, albeit arrived at via different routes. Priorities underpin both disciplines, with performance being concerned with how to achieve something, and risk looking at what might impact on the priorities being achieved. A performance update is submitted to Audit Committee on a quarterly basis.

### **INTEGRATION OF PROCESSES**

- 8.4 Hackney has a well-established business planning cycle that includes setting priorities and ensuring that the Council's budget is aligned to the Council's priorities. The Council's performance management framework monitors the delivery of these priorities and ensures that they are achieved within budget. The performance management framework includes regular reporting to the Executive, Scrutiny and HMT.

- 8.5 The Council's priorities are also the starting point within the risk management process. The first step in risk management is 'understanding the Council's priorities' the second is 'identifying risks that might prevent the Council achieving its priorities'. It is essential that the risks identified and actions taken to mitigate them are regularly monitored and reported to the appropriate audience. A well-established and effective performance management framework is already in place and so has been expanded to integrate the risk management requirements. The cross Council completion of service plans has slowed in recent years (in the light of restructures) but services should strive to complete the plans with a detailed section on risk. It is also very useful within these plans to have clear objectives stated.

## **BENEFITS ARISING FROM INTEGRATING THE TWO PROCESSES**

- 8.6 There are many benefits to be realised by closely aligning the performance and risk management frameworks. These include: -
- strengthened actions - actions are identified through two different processes, which look at the Council's priorities from two different angles; a positive and a negative view. Consequently, the resulting actions are likely to be more comprehensive and robust.
  - reduced duplication
    - the use of a single computerised system for the management of both performance and risk management (Pentana)
    - performance and risk can be monitored together using existing processes
    - performance and risk can be reported once using existing processes
  - clear links established between performance and risk.

## **THE INTEGRATED PROCESS**

- 8.7 The integrated performance management and risk management processes are implemented in the following way:-
- Through the normal service planning processes, directorates identify their priorities and the actions required to achieve them.
  - While identifying priorities and actions, directorates also identify the risks that might prevent the priorities being achieved. In this way, opportunities and risks are considered at the same time. Headline examples of each are presented on a quarterly basis at Audit Committee.
  - Comprehensive details of the actions and the risks are entered into the performance and risk management database, and monitored regularly.
  - Planned actions are monitored quarterly through the performance management system.
  - Directorate actions are monitored via the directorates' performance management arrangements, which must include reporting to the relevant Member at least twice per year.

## **9. Links to Corporate Governance**

- 9.1 Governance is the system by which organisations direct and control their functions and relate to their communities. In other words, it is the way in which they manage their

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business, determine strategy and objectives, and go about achieving those objectives. The fundamental principles are openness, integrity and accountability.

- 9.2 This Risk Management Strategy forms part of Hackney Council's corporate governance arrangements.

### **INTERNAL CONTROL**

- 9.3 Internal controls are those elements of an organisation (including resources, systems, processes, culture, structure and tasks) that, taken together, support people in the achievement of objectives. Internal financial control systems form part of the wider system of internal controls.

- 9.4 A council's system of internal controls is part of its risk management process and has a key role to play in the management of significant risks to the fulfilment of its business objectives. For example, the Council's policy and decision-making processes require all executive reports to include an option appraisal/risk assessment.

### **HEALTH AND SAFETY**

- 9.5 The Council's Health and Safety Policy is also a key component of the Council's structure of controls contributing to the management and effective control of risk affecting staff, contractors, volunteers, service users and the general public.

### **INTERNAL AUDIT**

- 9.6 The Internal Audit function is a component of the Council's system of controls protecting its financial and other physical assets. The risk management process, in turn, serves the Internal Audit function by enabling it to identify areas of higher risk, and so target its resources more effectively.

- 9.7 Where controls are found to be non-existent or inadequate then this is reported to the Risk team and the Directorate risk champion can take appropriate action. Risk and Internal Audit are part of the same service area and are able to support each other work in an effective manner. A working protocol has also been drafted to illustrate the specifics of the working relationship and is available on the staff intranet.

- 9.8 Internal Audit produce an annual risk based Audit Plan which ensures that audit activity is focused in those areas where there are higher risks posed to the Council achieving its objectives.

## **10. Monitoring and Indicators of Success**

- 10.1 Hackney's Corporate Risk Register is reviewed every three months. Progress against the actions identified to mitigate risks will be monitored quarterly through the performance management process.

- 10.2 The ultimate measure of effective risk management is that the Council has the resilience to deliver its services and core objectives and is able to identify, and take maximum advantage of the occurrence of positive risk.

**For further information, contact**

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