

# **Bridgend County Borough Council**

## **Corporate Risk Management Policy**

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# **Bridgend County Borough Council** **Corporate Risk Management Policy**

## **Introduction**

Good corporate governance structures are essential if the Council is to achieve its vision of being “One Council working together to improve lives” within the County Borough. An essential part of governance is the mechanisms for the control and management of risk. There must be a clear focus on the significant risks that could prevent the Council achieving its corporate improvement priorities and this policy seeks to address those risks.

Good governance requires that risk management is embedded into the culture of the Council with Members, managers and staff at all levels recognising that risk management is part of their job. It is important that the changing nature of how we deliver services is acknowledged. In particular, the increasing use of partnerships, shared services and business transformation programmes provide fresh risks to manage.

This policy facilitates the management of corporate risk within the Council; it focuses attention on key areas and its outcomes will inform the budget process and the Medium Term Financial Strategy.

## **Definition of Risk**

The definition of risk the Council uses is:

Any potential development or occurrence which, if it came to fruition, would jeopardise the Council’s ability to:

- achieve its corporate improvement priorities
- provide services as planned
- fulfil its statutory duties, including the duty to make arrangements to secure continuous improvement.

## **Aims and Objectives**

The aim of the policy is to facilitate effective corporate risk management throughout the Council so that risks are identified, evaluated, managed and monitored to enable the Council to achieve its corporate improvement priorities.

This will be done by:

- Managing corporate risk via a process that is integrated into usual business planning and is aligned to budget setting and the Medium Term Financial Strategy.
- Monitoring key corporate risks at the highest level within the Council, including:
  - Cabinet
  - Senior Management Team
  - Corporate Performance Assessment meetings, which are part of the 'informal' management arrangements involving Corporate Management Board/Heads of Service/Cabinet and Scrutiny
  - Overview and Scrutiny Committees
  - Audit Committee.
- Working closely with partner organisations and other bodies such as the Wales Audit Office and external auditors.
- Managing corporate risk via a process that is compatible with any guidance provided by regulatory bodies.

## **Strategy**

Risk will be managed by:

- Providing for risk identification within the business planning process
- Assessing risks against a common understanding of the Council's risk appetite set by Cabinet and Senior Management Team
- Establishing appropriate control measures or other actions to manage risks to appropriate levels
- Maintaining a register of corporate risks which enables them to be recorded and regularly reviewed
- Establishing clear accountabilities and roles
- Ensuring that the risk assessment is considered within the budget setting process and the Medium Term Financial Strategy

- Making the link to corporate improvement priorities
- Learning from incidents and near misses
- Having arrangements to monitor risks involving elected Members and senior management. (Corporate Performance Assessment Meetings and Corporate Working Groups are examples of these)

## **Accountabilities and Roles**

A key part of the strategy is to establish clear roles, responsibilities and reporting lines within the Council.

### **Audit Committee**

The Audit Committee will monitor the effective development and operation of risk management and corporate governance within the Council. The Committee will consider the report on the annual risk assessment in January and a further interim report in September detailing changes in the course of the year.

### **Cabinet**

Together with the Senior Management Team the Cabinet will set the Council's risk appetite. They will also work with Senior Management Team and Heads of Service to provide oversight and information on the management of risk and opportunities arising from the various options facing the Council.

### **Cabinet Members**

Cabinet Members provide risk management oversight of service provision in the Directorates aligned with their portfolio.

They must be made aware of the key risks within their portfolio of services and within any projects or partnerships related to these.

### **Chief Executive**

The Chief Executive leads the Corporate Management Board, Senior Management Team and the wider corporate governance agenda of which risk management is a part. The Chief Executive will review an annual governance statement and together with the Leader consider this and sign it off as appropriate.

### **Corporate Directors**

Together with the Chief Executive they are integral to the risk management process providing leadership to achieve cultural and organisational change. They are involved in the management of risks arising from corporate initiatives, business transformation, major projects, external environment, and partnership working, and

assessing the wider implications of risk assessments and incidents and near misses associated with service provision.

They also need to make arrangements to embed risk management within the services that they have responsibility for, in order to provide assurance to the Chief Executive. They have responsibility for the delivery of Directorate plans, including service improvements and efficiencies and the delivery of corporate priorities.

### **Corporate Performance Assessment Meetings**

Led by the Chief Executive; Cabinet, Corporate Management Board and Overview and Scrutiny Chairs will consider the extent to which business plans are being delivered and challenge senior officers about progress towards the achievement of improvement priorities. This will include review of the risks which are relevant to each priority.

### **Directorate and Service Management Teams**

Managers and management teams have responsibility for delivering services. For successful delivery, many factors such as objectives, people, budget etc must be considered. Risk management is just one aspect of the overall management task. Risks which threaten the successful delivery of services must be identified through the business planning process. Managers will put in place actions to reduce the risks. These will be monitored and reviewed to ascertain the effectiveness of actions taken.

### **Heads of Service**

Heads of Service develop and implement service plans to deliver agreed objectives. They should ensure that risks and the management of those risks has been explicitly considered in framing these plans. They must also receive reports of incidents and near misses and manage the response for those where they have responsibility.

### **Internal Audit**

Internal Audit is an assurance function that primarily provides an independent opinion on the control environment comprising risk management, internal control and governance by evaluating its effectiveness in achieving the Council's improvement priorities. It examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper economic and effective use of resources.

### **Members**

Members collectively are the ultimate policy makers. They will represent their communities and bring their views into the Council decision making process being advocates of and for their communities. They contribute to the continual improvement of Council services and directly to risk management via membership of the Audit and Overview and Scrutiny Committees.

## **Overview and Scrutiny Committees**

Overview and Scrutiny Committees develop a forward work programme having regard to the Council's corporate priorities and risk management framework. They review and scrutinise the decisions made by and the performance of Cabinet and Council officers. They scrutinise the performance of the Council in relation to its policy objectives and performance targets. They make recommendations to the Cabinet and Council arising from the outcome of the scrutiny process. They consider a report of incidents and near misses on an annual basis and ensure that they are satisfied with the actions taken to prevent a reoccurrence.

## **Insurance and Risk Officer**

The Insurance and Risk Officer will co-ordinate work on the annual risk assessment and subsequent reviews and act as a point of reference and support. The Insurance and Risk Officer will also maintain a database of the incidents and near misses and a report will be provided on an annual basis to the Audit Committee.

## **Section 151 Officer**

The Section 151 Officer is responsible for the proper administration of the Council's financial affairs and oversees the production of the risk register prior to its consideration by Senior Management Team. They must ensure that risks are fully considered and aligned with the Council's Medium Term Financial Strategy.

## **Senior Management Team**

Together with the Cabinet the Senior Management Team will set the Council's risk appetite. They will also "scan the horizon" for new risks to the Council and the County Borough. They will provide a view of the medium to long term impacts of Government policy, financing, business transformation and partnership working.

Senior Management Team will work with Cabinet to produce an annual risk assessment. They will review the effectiveness of actions put in place by Corporate Directors and Heads of Service to mitigate risk at other meetings throughout the year.

Senior Management Team will endeavour to ensure that the resources of the Council are utilised efficiently so that the objectives of the Council are delivered.

## **Staff**

All staff have responsibility for identifying opportunities as well as risks in performing their day to day duties, and for taking appropriate action to take advantage of opportunities or limit the likelihood and impact of risks. They also have a responsibility to report incidents and near misses to their line manager and contribute to any subsequent investigation.

## **Risk Management Methodology**

The risk management methodology describes the way in which risks are managed within the Council.

### **Part 1 – Setting the Council’s Risk Appetite**

Risks must be assessed against the Council’s risk appetite. Risk appetite can be defined as the amount of risk that an organisation is prepared to accept, tolerate or be exposed to before it takes protective action. Setting a risk appetite helps the Council to view risks in a consistent way across all service areas. The Council’s risk appetite is a residual risk score of 10.

### **Part 2 - Identifying Risk**

Risk identification is not a stand alone activity which is completed in isolation from the management of service delivery. It is part of the strategic business planning and performance management processes.

It is concerned with identifying events and their consequences which could impact on the Council’s corporate improvement priorities. Consequently, the starting point is understanding what these are; they are set out within the Corporate Plan.

It can help to use prompts which identify different sources of risk. These include:

- Customer/citizens: Failure to deliver services of a required standard or misunderstanding their needs
- Strategic: doing the wrong things as an organisation; missing opportunities
- Finance: losing monetary resources or incurring unacceptable liabilities
- Reputation: the Council’s image, loss of public confidence
- Legal and regulatory: claims against the Council, non-compliance, new regulations resulting in new or more severe risks
- Information: loss or inaccuracy of data, systems or reported information
- Environmental: things outside of our control; environmental impact
- People: risks associated with employees, management and Members
- Political: political embarrassment, not delivering local or national policies
- Partnerships: the risks the Council is exposed to as a result of partnerships

These categories can be used in discussion to identify events that could prevent or hinder the council from achieving its objectives.

The ideas from these discussions need to be grouped into common themes and developed into the actual risk.

The risk description should have an event which leads to a consequence which then has an impact. Eg. A loss of xxxxxxx, will lead to xxxxxxx, resulting in xxxxxxx.

## When will risks be identified?

Risk identification is not a stand alone activity. It forms part of good governance, business planning, decision making and performance management. A key opportunity to identify risk is during the budget process, when the Medium Term Financial Strategy is being agreed and when Directorate business plans are considered.

## Part 3 - Assessing the raw risk

Once the risks that threaten the achievement of the Council's corporate improvement priorities have been identified, the next step is to assess them in terms of the likelihood that they will occur and the impact if they do. This information will then be used as a tool to inform professional judgements as to the significance of the risks to the Council.

The Council has agreed criteria for the levels of likelihood and impact. These are shown in Tables 1 and 2 below. 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.

When considering likelihood and impact you should not take into consideration any existing controls that are in place. The risk score you have will be a raw, inherent or uncontrolled score.

When both the likelihood and impact have been considered, multiply the likelihood by the impact to get the overall risk score. This should be mapped on to the matrix in Table 3. The colours of the matrix are a traffic light system. Those which exceed the Council's risk appetite are in the high risk **red zone** and the **amber zone medium zone**. Low risks are the **green zone**.

The risk score should be used to inform your judgement, rather than dictate how risks compare and what the priorities should be. The scores help you to identify the most serious threats and to make decisions about the significance of those risks to the Council and how, or whether, they should be treated.

**Table 1: Description and definitions of LIKELIHOOD of the RISK occurring**

Score	Description
5	Highly likely to happen - More than a 80% chance
4	Likely to happen – 60% to 79% chance
3	Will possibly happen – 40% to 59%
2	Unlikely to happen – 20% to 39%
1	Highly unlikely to happen – Less than 20%

**Table 2: Description and definitions of IMPACT of the RISK**

Impact	Example Detail Description
5	Long term loss of service capability Long term negative perception of council Litigation is certain and impossible to defend Significant corporate budget realignment Breaches of law punishable by imprisonment
4	Medium term loss of service capability Adverse UK wide publicity Litigation almost certain and difficult to defend Some corporate budget realignment Breaches of law punishable by fines
3	Short term loss of service capability Adverse Wales wide publicity Litigation to be expected Budget adjusted across service areas Breaches of major statutory duty
2	Short term disruption to service capability Adverse local publicity High potential for complaint, litigation possible Financial implications contained within the Directorate Breaches of statutory regulations/standards
1	No significant disruption to service capability Unlikely to cause any adverse publicity Unlikely to cause complaint or litigation Financial implications contained within service area Breaches of local procedures or standards.

Now that the raw risk score has been calculated, you can plot the risks on to the risk prioritisation matrix in Table 3. This will be a guide of their relative significance to the Council, and how they will be managed.

**Table 3: Risk Prioritisation Matrix**

	Impact				
Likelihood	5	10	15	20	25
	4	8	12	16	20
	3	6	9	12	15
	2	4	6	8	10
	1	2	3	4	5

## Part 4 - Managing and controlling risks

Having considered how corporate risks should be identified and assessed for likelihood and impact, it is necessary to consider how risks can be managed and controlled. The risk score should not dictate the level of management required, however it should be taken into consideration as it does point to matters that will require managing.

This involves:

### Assessing the raw risk against the Council's risk appetite

The degree to which a raw risk is tolerable should be considered against the Council's risk appetite score of 10. Table 3 identifies which risks are high (**red zone**), medium (**amber zone**) or low (**green zone**).

### Assigning ownership to manage the raw risk to specific officers

The following is a guide to the correct level of ownership.

**Red Risks** – These are high risks that exceed the Council's risk appetite. They require active management by senior officers. The risk owner will be a member of and report to the Corporate Management Board

**Amber Risks** – These are medium risks that exceed the Council's risk appetite. These should be closely monitored by the risk owner who will be a Director or Head of Service

**Green Risks** – These risks are within the Council's risk appetite and will be managed and monitored within the service.

### Assessing the method of control

The Council could tolerate the risk, treat it, terminate it or transfer it to a third party.

The cost and effectiveness of controls is a key consideration and needs to be balanced against the potential consequences (reputational, financial or otherwise) if the event occurred. The cost of implementing and operating the control should not normally exceed the maximum potential benefit.

Depending on the circumstances controls will probably fall under one of four basic approaches

- **Tolerate the risk.** The risks arising from an activity will be scored as part of a risk assessment process. If the score is low, the correct response might be to recognise that the activity brings risk, but still continue with it. You would typically take this approach when it is not cost effective to take action, because the likely impact of the risk, should it occur, is minimal. When a decision is made to tolerate a risk, the reason should be documented. In

addition, you should continue to monitor the risk so that you can ensure that your decision remains sound.

- **Treat the risk.** This is the most widely used approach. The purpose of treating a risk is to continue with the activity, but at the same time take action to bring the risk to an acceptable level. This is done through either:

containment actions. These lessen the likelihood or consequences and are applied before the risk materialises

or

contingent actions. These are pre planned responses that will reduce the impact after the risk has happened.

- **Terminate the risk.** This involves stopping an activity altogether, or doing things differently so that the risk is removed.
- **Transfer some aspects of the risk to a third party.** The transfer of risk to another organisation can be used to reduce the financial exposure of the Council and/or pass the risk to another organisation which is more capable of effectively managing it. An example would be the transfer of a risk through the terms of a legal contract, such as an insurance policy. The Council has an Insurance Strategy which is shown in Appendix 1.

The cost of management and control should be understood and be proportionate to the risk being addressed. Resources should be expended on the higher level risks that need active management.

The reasons why a particular course of action has been taken should be documented and the decision implemented by the risk owner.

## **Part 5 – Assessing the residual risk**

By this stage the risks have been identified and analysed and each has a raw or uncontrolled risk score. In addition you have assessed the available controls and made decisions about which are appropriate and will be put in place. These controls will either make the likelihood that the risk will come to fruition less or they will reduce the impact of the risk in the event that it takes place.

As the likelihood or impact of the risk has changed you now need to rescore the risk, taking these changes into consideration. The resulting number is the residual risk score.

The mapping of the score on to the matrix in Table 3 should be repeated to record the residual risk. This will show what influence the controls have had. The residual risk score should be lower than the raw risk score. If it isn't, the mitigation measures are just having the effect of stopping the risk from deteriorating. The residual risk score needs to be at an acceptable level when considered against the Council's risk appetite. If the score does not reduce the risk to an acceptable level you should consider the effectiveness and adequacy of the controls.

## Part 6 - Recording and Reviewing Risks

It is necessary to monitor action plans to regularly report on the progress being made in managing risk. Alternative action will be needed if those actions initially taken prove ineffective.

All the information relating to the identified risks should be recorded in a risk register. This information should, as a minimum, include: the link to the corporate improvement priorities, a description of the risk; its impact; the raw risk score, the controls in place or being put in place; the residual risk score and the risk owner. This document needs to be formally approved by the Council and this will be done by the Audit Committee in January each year following prior review by Senior Management Team and Cabinet in December.

Circumstances and business priorities can change, and therefore risks need to be regularly reviewed. The higher the risk, the more frequent the review. The corporate risk register will be reviewed quarterly by Senior Management Team and at Corporate Performance Assessment meetings. This is required because:

- Previously identified risks will change over time.
- New risks arising will need to be added.
- It might be appropriate to delete risks. However, when this is done a record of the reasons for this should be kept.

Prior to review at Senior Management Team, the Insurance & Risk Officer will contact the Directorate Business Managers and ascertain what changes to the risk assessment are proposed by the Directorate. These proposals will be included within the report to Senior Management Team for their consideration.

A timeline for the review process is shown as Appendix 2.

Whilst there is no prescribed process for review, the following is an example of how it could be approached.

Go through the risks listed in the register to consider:

- Are the risks still relevant?
- Have circumstances surrounding the risks changed?
- What progress has been made in managing the risk?
- Given the progress made, do the risk scores need revising?
- Are any further controls needed? If so, what should these be?
- Have any new risks arisen. Perhaps arising out of an adverse event or a new partnership or legislation.

The risk register should then be updated to reflect these changes. A report will be made to the Audit Committee each September.

## **Appendix 1 - Insurance Strategy**

### **What is Insurance?**

All activities involve a certain degree of risk, for example of fire or accident. If these risks come to fruition they will have a financial impact. Insurance is a risk mitigation measure whereby one organisation can transfer the financial impact of the risk to another.

This transfer is achieved when a business which provides insurance agrees to take on some of the risks of another organisation in exchange for a fee, known as a premium. It does this by providing an insurance policy, which is a legally binding contract. The premium, and the terms and conditions of the policy are based on the likelihood of the risk happening and its value. The insurer collects premiums on a number of policies and pools these funds, which it then invests to increase the amount of money held. Should the insured make a claim on a policy; the insurer will meet the claim from the pool of funds. The insurer will seek to make a profit and will be planning for the total premiums it receives in any one year, together with any money it can make through investments, to exceed the total claims it has to pay out.

### **The benefits of Insurance to Bridgend County Borough Council**

Insurance provides the council with many benefits:

- 1) It protects it against the financial consequences of unexpected incidents.
- 2) It encourages the council to undertake activities, and invest with confidence, knowing that losses will be shared with the Insurer. This will benefit the local economy and the community.
- 3) Insurance companies provide expert advice about how the council can prevent or control losses.
- 4) The council does not need to maintain such significant sums of money in reserve to fund future possible losses. Funds can be released for more productive use.
- 5) There are social benefits. If someone is injured and it is as a result of the council's negligence, insurance provides them with compensation for their injuries.
- 6) We have access to external claims handling expertise.

However, Insurance does not provide a panacea to all issues around risk of loss. This is because it rarely provides full financial compensation for the loss, it may be considered uneconomic, there are exclusions and there will be some delays in the restoration of assets to full use.

## **What risks can be insured?**

Not all risks are insurable. To be insurable, the risk must have certain characteristics:

- 1) The loss must be fortuitous. It can't be inevitable and must be unexpected.
- 2) It must be possible to allocate a financial value against the results of the incident.
- 3) The council must have an "insurable interest". This exists if the council would suffer a loss if an event happened. Typically, insurable interest is established by ownership, possession, or a direct relationship.
- 4) The only possible result of the event happening must be a loss rather than a profit.
- 5) The loss must be tied in to a specific identifiable event having happened.

## **What risks will the council insure?**

The council's activities result in a certain amount of predictable financial loss. There is no point in insuring these losses because the Insurance Company will want a pound in premium for each pound it anticipates it will pay in claims. In addition it will charge a further amount for its administrative expenses, profit and insurance premium tax. In these circumstances the purchase of insurance is uneconomic.

The council will insure losses which would have a significant impact on budgets and the provision of services. This is generally achieved by purchasing insurance with a deductible. The overall exposure to financial loss is controlled by an aggregate deductible. This caps losses incurred in any one year to a certain amount.

The council will also buy insurance when it has to by law or where the provision of the insurance provides additional benefits which enable the activity to take place.

## **What information should be provided to Insurers?**

The Insurance Act 2015 puts a duty on policy holders to make a "fair presentation" of the risk. This means that it must disclose to its Insurers all information, facts and circumstances which are, or ought to be, known to it, which are material to the risk. This is an ongoing duty and so if anything changes during the term of the Insurance this should be disclosed during the policy period. A "material" circumstance is one which would influence the judgement of a prudent underwriter in considering whether to provide insurance and, if so, on what basis and cost. This means that the Council is required to ascertain and disclose every material circumstance which is known by its "senior management" and by the individuals who are responsible for arranging its insurance.

The Council is also required to conduct a "reasonable search" for material information it ought to know that is available to it, which includes material information held by others outside the organisation, and by those to be covered by the insurance.

## **How will the council maintain the insurance arrangements?**

The council will seek to keep its insurance arrangements in order so that if a loss occurs they respond in the way intended. In particular the council will:

- 1) Undertake a quinquennial review of its buildings sums insured. Between reviews sums insured will be amended in line with indices provided by the Royal Institute of Chartered Surveyors.
- 2) Be aware of the policy wordings and understand what they mean.
- 3) Keep insurers apprised of changing risk features which will have a material impact on the way Insurers perceive risk.
- 4) Maintain comprehensive records of insurance including Insurance Policy documentation.
- 5) Employ the services of a professional insurance broking company who can provide expert advice
- 6) Only transfer risks to Insurance Companies which are financially strong.

## Appendix 2 - Risk Management Timeline 2019 - 20

Timeline	Responsibility	Action
January 2019	Audit Committee	Considers the 2019-20 risk assessment and agree proposed changes to the Risk Management Policy
February 2019	Cabinet/Council	Considers the 2019-20 risk assessment in conjunction with the Medium Term Financial Strategy
March 2019	CPA	Risk assessment considered at quarter 3 2018-19 CPA
April 2019		
May 2019		
June 2019	CPA	Risk assessment considered at quarter 4 2018-19 CPA
July 2019	SMT	Review of the 2019-20 risk assessment
August 2019	Audit Committee	Audit Committee considers the changes made to the 2019-20 risk assessment
September 2019		
October 2019	SMT	Review of the 2019-20 risk assessment
November 2019	CPA	Risk assessment considered at quarter 2 2019-20 CPA
December 2019	Cabinet	Consider draft 2020-21 risk assessment
January 2020	SMT Audit Committee	Consider draft 2020-21 risk assessment and agree proposed changes to the Risk Management Policy Considers the 2020-21 risk assessment
February 2020	Cabinet/Council	Considers the 2020-21 risk assessment in conjunction with the Medium Term Financial Strategy
March 2020	CPA	Risk assessment considered at quarter 3 2019/20 CPA