

Somerset West and Taunton Council

Risk and Opportunity Management Strategy

1.0 Background

- 1.1 This combined Risk and Opportunity Management Strategy details the Council's framework for managing business risk and opportunity. The Risk and Opportunity Management framework is the culture, processes and structures that are directed towards effective management of potential risks and opportunities that the council faces in delivering its objectives.
- 1.2 The definition of risk and risk management varies. ALARM (the Association of Local Authority Risk Managers) and the IIA (Institute of Internal Auditors) define Risk Management as follows:

ALARM

"Risk Management is the culture, processes and structures that are directed towards effective management of potential opportunities and threats to the organisation achieving its objectives".

IIA

"Risk is the possibility of an event occurring that will have an impact on the achievement of objectives. Risk Management is concerned with positive and negative aspects of risk. So as well as managing things that could have an adverse impact (downside risk) it also looks at potential benefits (upside risk)."

- 1.3 In organisations, Risk Management is central to good governance. Enterprise risk management (ERM) describes what happens when organisations put in place a structured, continuous process to identify, manage and respond to risk.
- 1.4 The purpose of risk management is the creation and protection of value. It improves performance, encourages innovation and supports the achievement of objectives. The factors underpinning ISO31000 2018 is that Risk Management should be:
- Integrated
 - Structured and comprehensive
 - Customised
 - Inclusive
 - Dynamic
 - Based on the best available information
 - Inclusive of human and cultural factors
 - Continual improvement
- 1.5 Developing and improving public services in the current challenging climate requires opportunities to be taken whilst managing the risks involved. Therefore Somerset West and Taunton Council's definition of Risk and Opportunity Management is:

“The planned and systematic approach to identify, evaluate and manage the risks to, and opportunities for, to achievement of objectives”

- 1.6 The overall process of managing risk and opportunity can be divided into:
- The identification and analysis of risks and opportunities
 - Risk and opportunity management, which encompasses the planning, controlling and monitoring of the information derived from the risk and opportunity analysis.

2.0 Purpose, Aims and Objectives

- 2.1 The purpose of the strategy is to embed risk and opportunity management in the Authority by establishing a risk management framework, which provides:
- An efficient control environment
 - The overt allocation of accountability for risk and opportunity management throughout the organisation
 - A culture where officers and Members are able to be more creative and innovative in taking opportunities that benefit the Council and the District provided that there is clear analysis of the risks and a robust justification for the decision
 - A well-established risk and opportunity assessment process which ensures that risks and opportunities are considered and managed as part of the decision making process
 - Performance monitoring of risk and opportunity management activity
 - Communications process to support risk and opportunity management
 - A robust opinion for the Annual Governance Statement which comments of the adequacy of the Council's risk and opportunity management arrangements
- 2.2 The aim of the Somerset West and Taunton Council Risk and Opportunity Management Strategy is to adopt best practices in the identification and evaluation of risks and opportunities and the cost-effective control of risks to ensure that they are reduced to an acceptable level.
- 2.3 It is acknowledged that some risks will always exist and will never be eliminated. All employees must understand the nature of risk and accept responsibility for risks associated with their area of authority. The necessary support, assistance and commitment of senior management will be provided.
- 2.4 The risk and opportunity management objectives of the Council are to:
- Embed risk and opportunity management into the culture of the Council
 - Fully incorporate risk and opportunity management as an integral part of corporate planning, business planning, project management and performance management
 - Manage risk and opportunity in accordance with best practice and in particular in accordance with the requirements of the Annual Governance Statement
 - Consider legal compliance as a minimum

- Prevent injury and damage and reduce the cost of risk
- Raise awareness of the need for risk and opportunity management

2.5 These objectives will be achieved by:

- Establishing a clear risk and opportunity management process that is communicated to all officers and Members
- Clearly define roles and responsibilities for risk and opportunity management
- Developing an action plan for embedding risk and opportunity management with tasks and milestones for monitoring progress against targets
- Providing risk and opportunity management training to officers and members
- Completing corporate and operational risk and opportunity management workshops to identify risks
- Conducting risk and opportunity management workshops to identify the risks and opportunities of any major projects
- Maintaining and reviewing a register of corporate, operational and project risks and opportunities and assigning ownership for each risk
- Ensuring that reports to the Executive, Scrutiny Committee, Audit, Governance and Standards Committee and Regulatory Committees (Planning and Licensing) include a risk and opportunity assessment
- Identifying risks and opportunities in relation to working in partnerships
- Ensuring that the Executive, Audit, Governance and Standards Committee and Scrutiny Committee receive quarterly reports on the key business risks and opportunities and takes action to ensure that business risks and opportunities are being actively managed

2.6 The following sections consider how the Council will implement the above objectives.

3.0 Roles and Responsibilities

3.1 In order to ensure that risk management is adopted throughout the Council to facilitate the enterprising approach that the Council wishes to take, there needs to be a strong risk management culture from the top to the bottom to drive this change. The following groups and individuals have the following roles and responsibilities for risk and opportunity management within the Council.

3.2 The **Audit, Governance and Standards Committee** will approve this risk and opportunity management strategy and any subsequent revisions. They will also monitor the effective development and operation of risk and opportunity management within the Council, and will consider the adequacy of the Council's risk and opportunity management arrangements as part of the Annual Governance Statement.

3.3 The **Senior Management Team (SMT)** is primarily responsible for setting the organisations risk appetite, identifying corporate strategic risks and

opportunities, as well as being responsible for determining action on these risks and opportunities and delegating responsibility for the control of the risks and opportunities. SMT will also be responsible for monitoring the progress of managing risks and opportunities and will review quarterly reports which go to the Executive and Scrutiny Committee.

- 3.4 The **Executive** will also monitor the effective development and operation of risk and opportunity management within the Council by receiving quarterly progress reports on the Council's key business risks and opportunities through the performance and risk report.
- 3.5 The **Scrutiny Committee** will also receive quarterly progress reports on the risks and opportunities through the performance and risk report. Any concerns or issues will be reported to the Cabinet and/or the Audit, Governance and Standards Committee.
- 3.6 The **Portfolio Holder for Corporate Resources** will:
- Communicate the importance of risk and opportunity management to other Members
 - Act as a sounding board and provide a critical friend challenge to the risk and opportunity management process
- 3.7 **Directors/Assistant Directors/Service Managers** will be responsible for:
- Leading the risk and opportunity management process within their services and ensuring that business plans include an annual assessment of key risks and opportunities
 - Identifying and managing significant operational risks by carrying out risk assessments with their teams as and when this becomes appropriate i.e. if making a significant change to service or undertaking a project
 - Developing actions to mitigate the risks identified, assigning responsibility for implementing controls and set realistic target dates for implementation
 - Ensuring that all risks are on the corporate risk register
 - Regularly reviewing risks associated with their service area(s) ensuring that the agreed actions and deadlines have been met
 - Ensuring that any briefing papers/ reports that they produce to make changes to their services will consider the associated risks and opportunities of any proposed course of action
- 3.8 The **Director for Internal Operations** (or her nominated deputy) is responsible for providing assurance to the Council through monitoring the implementation and effectiveness of this risk and opportunity management strategy and for reviewing compliance with mitigating controls introduced by the Service Managers. The Director for Internal Operations (or her nominated deputy) will comment upon the effectiveness of the risk and opportunity management process in work undertaken to support the Annual Governance Statement. The Director for Internal Operations (or her nominated deputy) will also chair the Council's Health & Safety Committee to ensure that any risks arising from the work of this group will be incorporated into the Corporate Risk Register.

- 3.9 The **Health and Safety Committee** is responsible for reviewing the measures taken to ensure the health and safety of all those who work in and visit the Council or may be affected by its activities - ensuring that people are not exposed to risks and that the risks are mitigated effectively. Where concerns are raised these will be escalated to the Health and Safety Officer and SMT for action.
- 3.10 All **employees** need to have an awareness of risk and opportunity management and are responsible for ensuring that they manage risk effectively in their jobs and report hazards and risks to their Director/Assistant Director/Service Manager.
- 3.11 Anything relating to commercial investments will go to the Commercial Investment Board

4.0 Strategic, Operational and Project Risks

- 4.1 Broadly speaking risks can be divided into three categories:
- Strategic – risks which need to be taken into account in judgements about the medium to long term goals and objectives of the Council whilst at the same time considering the opportunities; and
 - Operational – risks and opportunities which managers will encounter in the daily course of their work.
 - Project - risks and opportunities which will be encountered during specific tasks/projects being undertaken
- 4.2 Strategic Risks
- 4.2.1 The management of strategic risks and opportunities is a core responsibility of the Leadership Team. Strategic risk and opportunity assessments should be factored in to corporate and service planning.
- 4.2.2 The major categories of strategic risk are:
- Political – associated with failure to deliver either local or central government policy. The Council could also potentially be at risk from the actions of other agencies, other Councils, partner organisations, etc.
 - Economic – affecting the ability of the council to meet its financial commitments. These include internal budgetary pressures as well as external factors affecting the economy as a whole.
 - Social – relating to the effects of changes in demographic, residential or socioeconomic trends on the council's ability to deliver its objectives.
 - Technological – associated with the capacity of the council to deal with the pace/scale of technological change, or its ability to use technology to address changing demands.

- Pandemics – such as Coronavirus, which have the potential to fundamentally change the way the Council operates and delivers services to the local community. Also Council would need to be agile in delivering local or central government policy.
- Data Protection/Information Security – this includes the consequences of data/information transfer between the Council and other Bodies i.e. Government Connect, Partnership working, data collection, processing of data and data storage, etc.
- Legislative – associated with current or potential changes in national or European Law, e.g. Brexit.
- Health and Safety – This includes all aspects of Health & Safety as well as the Corporate Manslaughter legislation
- Human Resource – Aging workforce
- Environmental – relating to the environmental consequences of progressing the council's strategic objectives (e.g. in terms of climate change including energy efficiency, pollution, recycling, landfill requirements, emissions, etc).
- Climate Change - affecting the ability of the council to meet its commitments in respect of climate change and meeting climate change targets
- Competitive – affecting the competitiveness of the service (in terms of cost or quality) and/or its ability to deliver Value for Money.
- Customer/Citizen – associated with failure to meet the current and changing needs and expectations of customers and citizens.
- Partnership – associated with working in partnership or sharing services with another local authority or partner
- Reputation – associated with the potential for negative publicity, public perception or uncontrollable events which have an adverse impact on the Council's reputation

4.3 Operational Risks

4.3.1 Risks which managers and staff will encounter in the daily course of their work. These may be:

- Professional – associated with the particular nature of each profession (e.g. housing service concerns as to the welfare of tenants).

- Financial – associated with financial planning and control and the adequacy of insurance cover.
- Legal – related to possible breaches of legislation.
- Personal Safety – related to lone working and the potential to encounter aggressive or confrontational people whilst carrying out their duties.
- Physical – related to fire, security, accident prevention and health and safety (e.g. hazards/risk associated with buildings, vehicles, plant and equipment, etc).
- Contractual – associated with the failure of contractors to deliver services or products to the agreed cost and specification.
- Technological – relating to reliance on operational equipment and the potential for technological failure (e.g. IT systems or equipment and machinery)

4.4 Project Risks

4.4.1 Risks which will be encountered during specific tasks/projects being undertaken. These may be:

- People – associated with whether we have the right people with the right skills involved in the task/project. This also concerns getting buy in from staff at all levels of the organisation, Members and potentially external stakeholders
- Technical – associated with the Councils reliance on the software provider to deliver what has been agreed in the contract and that they provide support for dealing with any systems problems or issues
- Cost – associated with the potential for the project to go over budget if the people and technical matters are not delivered as per the Business Case and PID
- Time – ensure that the right amount of time is allocated to the project as well as sufficient contingency as slippage can cause to project delay/failure and this can also have an impact on cost and quality
- Quality – depending on what goes into the project will determine the quality of the output

4.5 Opportunities

4.5.1 Opportunities are to be considered at the same time as the risks. Examples may include:

- Spend to save projects where the Council will benefit from reduced expenditure or increased income in the future
- Transformational change which will generate cost savings or an income stream
- Opportunities for great partnership working with our stakeholders or other local authorities
- Opportunities to streamline working processes
- Opportunities to boost the local economy
- Opportunities to deliver and improve housing within the District
- Opportunities to protect and enhance our environment and to reduce the impact of climate change
- Opportunities to make a difference to our communities and to empower them
- Delivery of the objectives in the Corporate Plan and Service Business Plans

4.6 The categories are neither prescriptive nor exhaustive. However, they should provide a framework for identifying and categorising a broad range of risks and opportunities for the Council as a whole, as well as service areas.

5.0 Risk Identification

There are numerous ways to identify risks. The Council will use a combination of these techniques.

Information Gathering Techniques

The standard practice to identify risks is reviewing relevant information such as:

- Corporate Strategy
- Directorate Plans
- Service Plans
- Project Plans
- Risk, Action, Issues and Decision (RAID) logs
- Annual Governance Statement
- Committee Reports
- Briefing papers
- Government and/or other guidance
- Legislation
- Internal/External Audit reports
- Health and Safety Committee
- Accident and incident reports
- Lessons learned from projects or tasks
- Best practice articles
- Reviews of organisational process

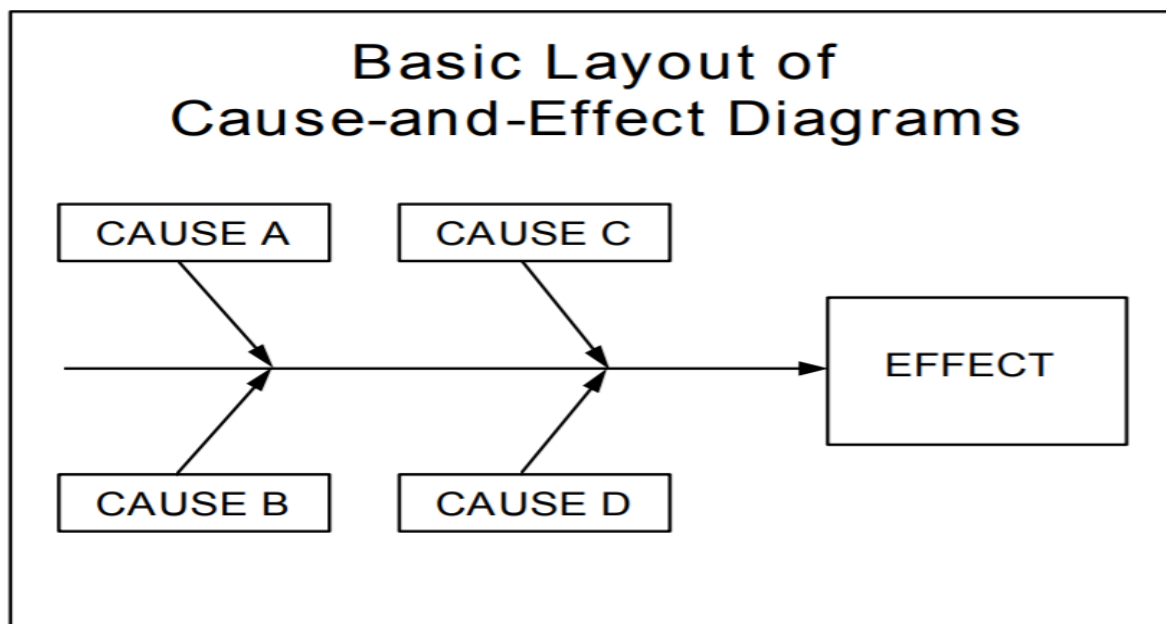
Interviews

An interview is conducted with task or project participants, stakeholders, experts, etc to identify risks. Document the results of the interview.

Workshops/Sessions

There are a number of models or tools that can be used to assist with the identification of risks, which can include:

- *Checklist Analysis*
Use the list of strategic, operational and project risks listed in section 4 of the Strategy as a checklist. Use this as a starting point but tailor to the service, task or project being considered.
After each task/project, conduct a post review where you capture the most significant risks. This list may be used for subsequent projects.
- *Brainstorming*
Brainstorming is done with a group of people who focus on identification of risk for the task or project. This could include the use of an affinity diagram where each participants writes each risk on a sticky note. Then participants sort the risks into groups or categories. Lastly, each group is given a title. The output from the session is then fed into the Risk Assessment Process
- *Assumption Analysis*
The Project Management Body of Knowledge (PMBOK) defines an assumption as “factors that are considered to be true, real, or certain without proof or demonstration.” Assumptions are sources of risks. Project managers should ask stakeholders, “What assumptions do you have concerning this project?” Furthermore, document these assumptions and associated risks.
- *Cause and Effect Diagrams (Root Cause Analysis)*
This simple method can be used to help identify potential problems or causes that give rise to risks and the effect they may have. If we address the causes, we can reduce or eliminate the risks.



- *Nominal Group Technique (NGT)*

NGT is a structured variation of a small-group discussion to reach consensus. NGT gathers information by asking individuals to respond to questions posed by a moderator, and then asking participants to prioritize the ideas or suggestions of all group members.

Step 1: Preparation – logistics and focus

Step 2: Silent idea generation

Step 3: Round-robin recording of ideas

Step 4: Serial discussion of ideas

Step 5: Preliminary voting

Step 6: Discussion of preliminary voting

Step 7: Final voting

- *Delphi Technique*

The Delphi Technique is a method used to estimate the likelihood and outcome of future events. A group of individuals exchange views, and each independently gives estimates and assumptions to a facilitator who reviews the data and issues a summary report.

The group members discuss and review the summary report, and give updated forecasts to the facilitator, who again reviews the material and issues a second report. This process continues until all participants reach a consensus.

- *SWOT Analysis (Strength, Weakness, Opportunities And Threats)*

Weaknesses and Threats are highlighted as risks and Strengths and Opportunities are identified as opportunities for the service, task or project and thus, risks are determined.

6.0 Risk Appetite Statement

6.1 This statement details the level of risk related to our corporate objectives and pledges that we are willing to accept within our capacity. We are a risk embracing Council which understands the importance of risk taking and accepts that there is an element of risk in most of the activities we undertake.

6.2 The level of risk we are willing to take is intrinsically linked to each of our Council priorities and, for this reason, it has been accepted that our risk appetite should not be highly prescriptive.

6.3 Our risk appetite should depend on which of our corporate objectives would be affected by the risk and the impact the risk would have on that objective should it materialise.

6.4 This flexible approach is seen as the best way to allow us to make informed decisions in respect of each risk situation.

- 6.5 To assist in the decision making process, and to help with prioritisation, we have agreed to apply a general level of risk retention (see below). However, this does not mean that in every case, risks falling below the line of retention require no action and vice versa.

Risk Retention Threshold

- 6.6 The following information details how we will apply our risk appetite in practice.
- 6.7 Below is the risk scoring matrix SWT will use to determine the risk score from strategic, operational and project risks once the Impact and Likelihood have been scored (covered in section 7 – Risk Management Process)

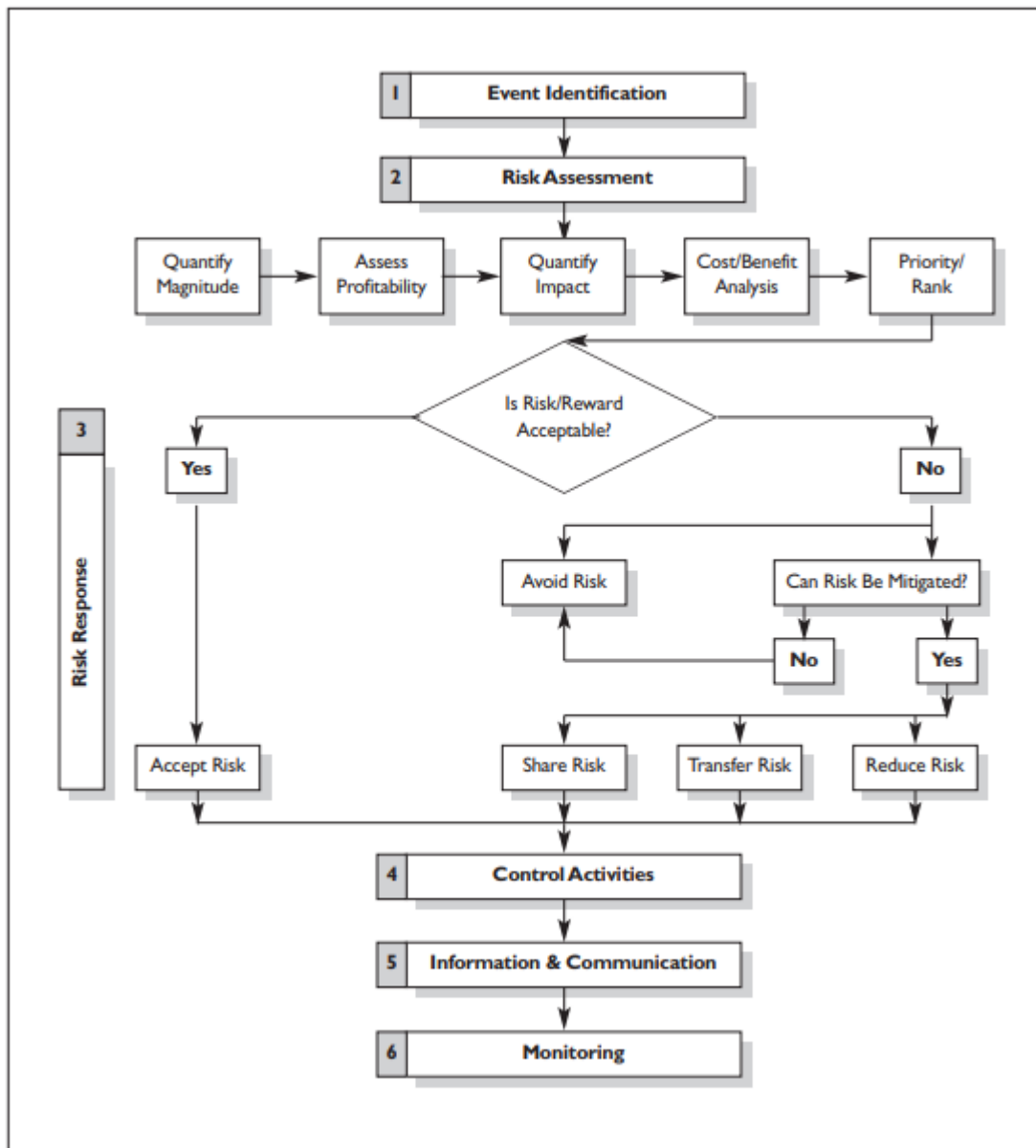
Impact/ Severity	5	10	15	20	25
	4	8	12	16	20
	3	6	9	12	15
	2	4	6	8	10
	1	2	3	4	5
Likelihood					

- 6.8 Identifying and ranking risks is important but the key element thereafter is to determine the strategy for managing them. The following table provides guidance on the level of management intervention that is likely to be necessary or appropriate.

Colour	Score	Action	Risk Control
Green	Low	Review periodically	Tolerate/Accept or Treat and Control
Yellow	Medium	Mitigate, Control and Review Frequently	Tolerate/Accept or Treat and Control
Amber	High	Seek cost effective management action, control, evaluation or improvements with continued proactive monitoring	Treat, Tolerate or Transfer
Red	Extreme (key business risks)	Significant management action, control, evaluation or improvements with continued proactive monitoring	All options can and should be considered

7.0 Risk Management Process

- 7.1 The 6-step process below will cover all areas of risk and opportunity management including making strategic decisions, managing strategic, operational and project risks and opportunities.



Step 1 – Event Identification Risks and Opportunities

- 7.2 This is the identification of risks and opportunities and these include strategic, operational and project risks (with examples given in section 4).

Step 2 – Risk Assessment

- 7.3 Once the risks and opportunities have been identified they then need to be assessed to consider the impact/severity and likelihood or any risks occurring and the potential benefits of any opportunities.

Risk Impact

- 7.4 The Risk Impact measures the severity of the impact should the risk be realised. The following guide is neither prescriptive nor exhaustive but should

provide a framework for the range of impacts a risk could have and how to score such impacts.

Score of 1 - Very Low Impact

- Localised minor injury or health impact to one person (no time off work required)

Score of 2 – Low Impact

- Localised minor injury or health impact to one person (small time off work required e.g. less than 1 week)
- Small financial loss or service cost increase (less than £5,000)
- Some loss of confidence and trust in the Council felt by a certain group or within a small geographical area

Score of 3 – Medium Impact

- Minor injury or health impact to multiple persons (small time off work required e.g. less than 1 week)
- Injury or health impact to one person (substantial time off work required e.g. more than 1 week)
- Contract, resource, data or equipment failure resulting in short-term inability to maintain service
- Capacity of technology unable to meet changing demands of service needs
- Incorrect information being published / use of incorrect information in financial calculations, financial transactions are incorrectly processed resulting in incorrect payments
- Lax service delivery and/or inability to meet non-statutory service objectives / targets
- Financial loss or service cost increase (e.g. over £5,000)
- Theft of Council property, assets, resources (less than £5,000)
- General loss of confidence and trust in the Council within the local community

Score of 4 – High Impact

- Serious injury or health impact to one person
- Loss of contract, resource, data or equipment resulting in long-term inability to maintain service or short-term inability to maintain several services
- Localised damage to Council property / premises
- Localised environmental impact
- Breaches of, or damning external audit report for failure to comply with, legislation / accepted standards e.g. CIPFA, Data Protection, TUPE, Equality Act
- Substantial financial loss or service cost increase (e.g. over £50,000)
- Inability to meet Council objectives, customer requirements or financial commitments
- Inefficient use of resources, services offering poor value for money, officers at risk of false accusations of fraud, corruption or misappropriation
- Theft of Council property, assets, resources (e.g. over £5,000)

- Poor / incorrect political and managerial decision-making could take place
- Inability to account for all income received, expenditure made and other financial information
- Major loss of confidence and trust in the Council within the District

Score of 5 - Very High Impact

- Serious injury or health impact to several or death of a person
- Loss of contract, resource, data or equipment resulting in long-term inability to maintain several services
- Serious damage / destruction of Council property / premises
- Prosecution for failing to comply with / serious breach in, or non-application of legislation / accepted standards
- Serious, District-wide environmental impact
- Serious financial loss or service cost increase (e.g. over £100,000)
- Failure to deliver either local or central Government policy, statutory timescales are not met
- Theft of Council property, assets, resources (e.g. over £50,000)
- Failure of internal control systems, leading to the possibility of fraud, corruption, loss, extravagance, waste or embarrassment to the Council
- Disastrous loss of confidence and trust in the Council both locally and nationally

Likelihood Ratings

- 7.5 The likelihood rating needs to be based on existing precautionary measures in place, at the time of the Risk Assessment. When measuring the likelihood, we will consider the level of internal controls or mitigating actions in place as well as frequency of contact with hazardous situation. For example:

Score of 1 - Very Low Likelihood

- Substantive, effective, tested and verifiable internal controls / mitigating actions in place
- Previous experience at this and other similar organisations makes this outcome highly unlikely to occur

Score of 2 – Low Likelihood

- Effective internal controls / mitigating actions in place
- Previous experience discounts this risk as being likely to occur but other organisations have experienced problems in this area

Score of 3 – Medium Likelihood

- Some internal controls / mitigating actions in place, but in need of review / improvement
- Existing controls generally work but there have been occasions when they have failed and problems have arisen
- The Council has in the past experienced problems in this area but not in the last 12 months

Score of 4 – High Likelihood

- Poor or ineffective internal controls / mitigating actions in place, or existing controls are generally ignored
- The Council has experienced problems in this area within the last 12 months

Score of 5 - Very High Likelihood

- No internal controls / mitigating actions in place
- The Council is experiencing problems in this area or expects to within the next 12 months

- 7.6 Once analysed the risks need to be assessed and prioritised according to their Impact (severity) and likelihood using the 5x5 scoring matrix (see section 6.7 above). Risks then need to be ranked i.e. those scoring 25 will be at the top of the list and those scoring 1 will be at the bottom of the list. Risks scoring between 15 and 25 are classed as key business risks (red), as set out in the table in section 6.8, and will be reported to the Executive and Scrutiny Committee on a quarterly basis.
- 7.7 The risks will then need to be considered in conjunction with any opportunities when making decisions.

Benefits of Opportunities

- 7.8 The assessment methods for determining the potential benefits of opportunities can include:
- Assessing the increased income/reduced expenditure from the innovation
 - Quantifying the number of potential new customers
 - Calculating the potential sales growth that could stem from capturing the opportunity
 - Calculating the return on investment for a particular project and whether that is the level of return that the Council is looking for
 - Considering the value added as a result of capitalising on the innovation e.g. the benefit to the community

Step 3 – Risk Response

- 7.9 This involves taking action to minimise the likelihood of a risk occurring and/or reducing the severity of the consequences should the risk occur. Actions need to be allocated to responsible officers along with a realistic target date for implementation.
- 7.10 Determine the best course of action for the Council. There are 5 key action strategies to managing risk:

Strategy	Action
Prevention	Terminate the risk*
Reduction	Treat the risk
Transference	Pass risk to a third party e.g. Insurance
Acceptance	Tolerate the risk
Contingency	Action plan implemented

* This can include carrying on the activity but modified so that the risk ends, or stopping the activity to end the risk.

Step 4 – Control Activities

- 7.11 Risk and Opportunity Management is dynamic and so the identification phase needs to be done continuously. It is also important to consider whether the nature of the risk or opportunity has changed over time – thereby completing the cycle.

Step 5 – Information and Communication

- 7.12 For the benefits of Risk and Opportunity Management to be realised, it is necessary for the process to be embedded in the culture and operations of the organisation.
- 7.13 Once the Strategy has been agreed it will be communicated to officers and Members.
- 7.14 Risk Management Training will also be provided to appropriate officers to ensure that they have the tools to enable them to identify risks using the techniques set out in Section 5.
- 7.15 The Director of Internal Operations (or her nominated deputy) will regularly raise awareness of Risk and Opportunity Management through the Officer and Member communications and through briefing sessions.

Step 6 - Monitoring

- 7.16 Progress in managing risks and opportunities will be monitored and reported so that losses are minimised and intended actions and opportunities are achieved.
- 7.17 Risk and Opportunity Management is an on-going process that should be constantly revisited and reviewed to ensure that new and emerging risks and opportunities are picked up and acted upon.
- 7.18 This Strategy will be reviewed and updated on an annual basis.