The Highland Council

Committee: **Audit Committee**

Date: **24th January 2024**

Report Title: **Review of Corporate Risk Strategy**

Report By: **Interim Executive Chief Officer, Performance and Governance**

1.   Purpose/Executive Summary

1.1   The report recommends changes to the Council's Corporate Risk Management Strategy which has been reviewed by Officers. The main change relates to the creation of a risk appetite statement to enable Risk Owners to better understand the context of the risks they are managing in relation to the Council's strategies and plans.

2.   Recommendations

2.1   The Committee is asked to:

   i.   Approve the revised Corporate Risk Management Strategy at **Appendix 1.**

   And Agree to Recommend to Council:
   ii.   the risk appetite statement on page 5 of **Appendix 1**.
   iii.   that it will be named the Corporate Risk Management Policy.

3.   Implications

3.1   <u>Resource</u> Having a robust approach to risk management will continue to help the Council minimise future financial risks and implications. It will also prevent reputational damage. The approach must be embedded into budget setting process and be part of all Council plans.

3.2   <u>Legal</u> A robust risk management approach supports the effectiveness of the organisation's framework of governance, and control. The risk appetite statement recognises the need for regulatory compliance.

3.3   <u>Community (Equality, Poverty, Rural and Island)</u> Having a Council which is resilient to risk means that it is better positioned to support its communities. Risk management is intended to reduce the likelihood and potential impact of risks affecting our communities.

3.4　Climate Change / Carbon Clever The Council's approach to risk management enables the risks inherent in climate change to be addressed while taking advantage of the opportunities created by the move to net zero.

3.5　Risk The corporate risk management approach reduces the Council's exposure to risk by ensuring that corporate risks are identified and proactively managed.

3.6　Health and Safety (risks arising from changes to plant, equipment, process, or people) Health and safety risks are identified in number of corporate risks and with associated mitigating actions.

3.7　Gaelic There are no Gaelic implications identified at this time.

4.　Corporate Risk Management Strategy review.

4.1　The Council's Risk Management Strategy was last approved in March 2021. A review has been carried out and the main changes are summarised below:

4.2　It is recommended that the document be renamed the Corporate Risk Management Policy to better reflect its purpose.

4.3　The role of the Members of the Audit Committee has been updated to reflect the CIPFA guidance "The audit committee member in a local authority".

5.　Risk Appetite Statement

5.1　The main change to the way the Council manages risk is the introduction of a risk appetite statement (Section 2.3 of Appendix 1) which recognises that not all risks must be treated in the same way. Some risks may be acceptable in achieving the Council's aims while some may have to be avoided altogether. Risk appetite and tolerance have been referred to in previous versions of the strategy but the concept is not actively used in the analysis of risks or when reporting risks.

5.2　The adoption of a risk appetite statement as part of an updated risk management process will assist Officers and Members in making decisions about the management of risks and in deciding which actions it is appropriate to take in order to achieve the Council's aims.

5.3　The Risk Owner will review the results of their risk analysis against the appropriate statement within the risk appetite statement. This will assist them to decide whether the risk can be tolerated or whether it should be treated or transferred to another organisation. They may also decide that the risk must be terminated by not taking the course of action that they were considering.

5.4　Members will be able to review the status of risks and risk actions in light of the Council's risk appetite. This will provide a better understanding of the approach which is being taken by the risk owners who are managing risks.

5.5　It is clear from the risk appetite statement that the higher the risk rating, the more intensively the risk mitigation actions must be monitored and reviewed.

5.6　A risk appetite statement is included on page 5 of Appendix 1 for approval.

6.   Next Steps

6.1   Once the policy is approved it is intended that risk management training will be rolled out to Council Managers and Members. This will include face to face and online training.

6.2   All existing corporate and service risks will be reviewed in light of the risk appetite and the updated process. It is also the intention that risks associated with budget savings will be managed under this new policy.

Designation: Interim ECO, Performance & Governance

Date: 04/01/2024

Authors: Miles Watters, Corporate Performance & Information Governance Manager

Background Papers:

Appendices:
Appendix 1 – Corporate Risk Management Policy

Corporate Risk Management Policy

Version: 2

Last Updated: Draft January 2024

Contents

1. Introduction to Risk Management

The Highland Council employs a systematic process to identify significant risks to the achievement of their strategic and operational objectives. Risks and their potential impacts are evaluated to determine and implement effective controls. This process is known as Corporate Risk Management and is used to create a single Risk Register.

Corporate Risk Management recognises that:

- Insignificant risks will not be reported. These include risks that are well managed, thoroughly understood, and unlikely to occur. Reviewed regularly, these risks will be managed through current business practices.
- Risks may have positive as well as negative consequences. The Council must take calculated risks to drive innovation and improvement.
- Not all risks require action. Some risks only require to be monitored.

The Corporate Risk Management Process supports the Council in taking the right risks, in the right way, at the right time. The Corporate Risk Management process may be applied to Risks at any level, from minor projects to major Council initiatives.

The Corporate Risk Management Process is integral to business planning and must be employed when monitoring partnership arrangements, including community planning.

Subsidiary risk registers may also be created and maintained at individual project, contract, or partnership level, or as part of the business continuity planning process.

Risks v Issues
A Risk is the chance that an issue may occur. Risks may be avoided, or their potential impact reduced.

An Issue is an obstacle or challenge which has already occurred. Issues can no longer be avoided, only mitigated.

Only Risks are added to the Risk Register. However, if an issue may reoccur it may be included (as a risk) on the Risk Register with mitigating actions based on lessons learned.

2. Objectives of Risk Management

Risk Management seeks to embed a culture which supports the delivery of services. By implementing the risk management process we will achieve a number of objectives, including:

- Enable the identification and understanding of risks throughout the Council.
- Help officers and Elected Members focus on the most significant risks
- Help officers and Elected Members to make informed decisions and take action with a full understanding of the risks and uncertainties that the Council faces
- Increase the likelihood of achieving the Council's objectives
- Increase the Council's resilience
- Facilitate better communication and sharing of knowledge about significant risks across the Council
- Allow risks to be managed at the most appropriate level
- Allow risks to be escalated
- Ensure the risks the Council takes are within its tolerance or appetite for risk

- Inform decisions and actions on internal controls and governance and counter-fraud awareness
- Support continuous improvement and Service Planning

2.1 Risk Management Structure

The Risk Register contains all risks monitored at the Corporate or Service level. Corporate Risks are reported to the Audit Committee while Service Risks are reported to the Service Committees.

To ensure a holistic approach to risk management, the Corporate Risk Management Group, made up of officers from across the Services, act as corporate support and fulfil an oversight function. This group champions the deployment of the Risk Management Process and culture, to build organisational capacity to effectively manage risk. The group also supports training and ensures the co-ordination and efficient consideration of risk management activities.

Risks may flow between the Corporate and Service levels depending on their severity or circumstances. Key criteria to consider when deciding the level at which a Risk should be monitored include:
- Risk Appetite
- Risk Rating
- Potential Impact e.g. 'catastrophic' will always sit within the Corporate level
- Number of Service areas affected

2.2 Risk Categories

Risks are categorised in terms of table 1 (below).

Table 1 – Risk Categories

Category	Definition:
Financial	A risk that may have a detrimental effect upon the Council's revenue/ capital budget or reserves
Compliance & Regulatory	A risk that may cause the Council to contravene statute, regulation, or policy (government or local).
Operational & Service delivery	A risk that may compromise the delivery of Council functions and services.
Reputation	A risk that may damage stakeholders' perception of the Council.
Natural Environment	A risk that increases damage to, or is caused by, the Natural Environment.
People & Place	A risk that negatively impacts upon the social and / or economic wellbeing of our communities.

Nb – Risks may also fall into secondary categories.

2.3 Risk Appetite

Once a Risk has been categorised in terms of table 1 (above) it can be considered against the relevant Risk Appetite Statement and the risk level (**bold**) can be determined. Table 2 (below).

The Risk Appetite Statements are formal expressions of our willingness to accept and manage risk to achieve our objectives. Appetite Statements guide decision-makers in their pursuit of the outcomes set out in the Highland Outcome Improvement Plan and the Council Programme. They ensure that the Council operates within acceptable boundaries and strikes a balance between risk-taking and risk aversion.

The Risk Appetite Statements also assist Council Officers and Elected Members in considering their response to findings and recommendations arising from external audits and inspections.

Table 2 – Risk Appetite Statements

Risk Category	Risk Appetite Statements
Financial	The Council is **averse** to risks associated with impairing financial stewardship, internal controls, and financial sustainability.
	The Council has an **open** appetite for short-term risks that support financial performance and mitigate negative external factors.
	The Council has **cautious** appetite for longer term capital and financial investments provided that the risks are well managed and demonstrate realisable future benefits for delivering the Council's outcomes and commissioning intention
Compliance & Regulatory	The Council is **averse** to any risks that will result in non-compliance or breaches in statutory obligations, regulations, and law.
	The Council is **cautious** when giving legal advice and considers the likelihood of any legal challenge and the likely success of any legal challenge.
Operational & Service delivery	The Council is **cautious** to any risks that may have a negative effect on the health and safety, diversity and equality of its staff, elected members and members of the public.
	The Council has an **open** appetite to the risks that allows it to manage service demand, continuously improve service delivery and performance.
Reputation	The Council relies on its reputation to ensure engagement with communities, partner organisations and stakeholders in order to deliver its strategic outcomes. The Council has a **cautious** appetite to reputational risk and will accept opposition when its activities and projects will provide longer-term benefits and improvements to service delivery, performance, outcomes and commissioning intentions.
Natural Environment	The Council has an **averse** appetite for any risks that may have a long-term detrimental impact upon the environment but is **hungry** for well managed risks in order to contribute to net zero corporate carbon emissions by 2045.
	The Council is **cautious** about risks relating to the impact of climate change which may threaten the delivery of critical services, our outcomes and commissioning intentions.
People & Place	The Council has an **averse** appetite for any risks that may have a long-term negative socioeconomic impact upon our communities but is **hungry** for well managed risks in order to contribute to their sustainability.

There may be occasions where there are competing risks for which the Council has competing appetites. In such instances, the decision maker and/or the officer making a recommendation, will be expected to consider and manage those competing risks and appetites and exercise careful judgement.

The Council may deviate from its agreed risk appetite. When this is the case, it will be important to exercise judgement when assessing the potential impacts across the organisation. The statement is reviewed annually by the Corporate Risk Management Group and the Corporate Management Team which will submit any proposals for revision to the Audit Committee**.**

2.4 Risk Response

The response to a Risk can be determined by comparing the Risk Rating for the risk under consideration with the tolerances associated with the relevant Appetite Level Table 3 (below). If the Risk Rating is beyond the relevant appetite level, it must be decided whether any further action could bring it within the appetite level or whether other action is appropriate.

Table 3 – Risk Appetite and Tolerance

Appetite Level	Description	Risk Rating Tolerances
Averse	Avoidance of almost all risk. It is crucial that these outcomes are delivered. Activities undertaken will only be those considered to carry virtually no risk.	1 to 4
Cautious	Willing to tolerate a low level of risk when undertaking these activities in order to achieve a significant reward or deliver key initiatives. The activities may hold a high degree of risk, but this risk will be carefully mitigated and controlled.	5 to 9
Open	Willing to consider all options and choose one most likely to result in successful delivery while providing an acceptable level of benefit. Seek to achieve a balance between a high likelihood of successful delivery and a high degree of benefit and value for money. Activities themselves may potentially carry, or contribute to, a high degree of residual risk.	10 to 15
Hungry	Eager for innovation and activities that focus on maximising opportunities. These activities will generate additional benefits and potentially very high rewards but carry a very high level of risk.	16 to 25

3. Risk Management Process

Figure 1 (below) illustrates the six stages of The Corporate Risk Management Process. Integral to each stage is communication and consultation with stakeholders.

Figure 1 – Risk Management Process
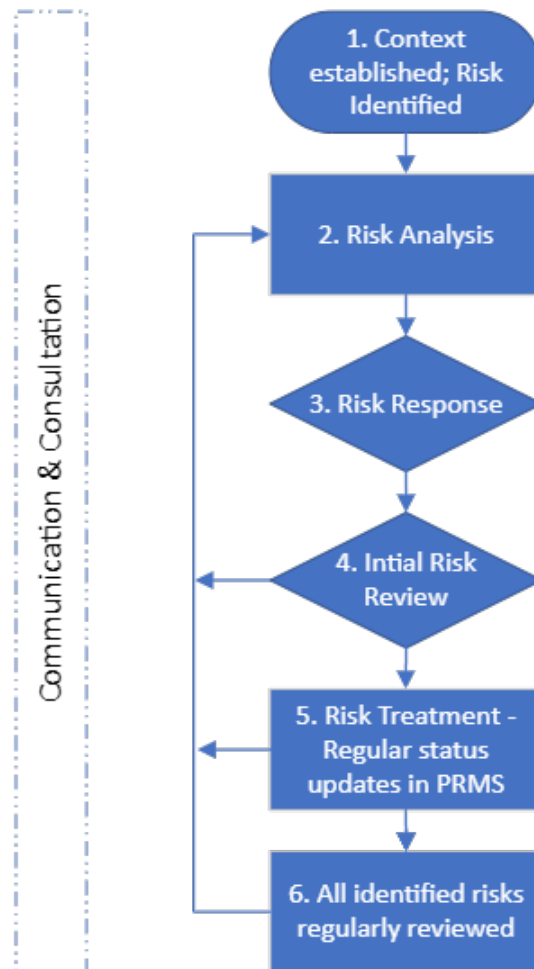
Further detail of the process and its use is contained within the Risk Management Process Guidance Document which is available on the Council's intranet. This includes details of how to analyse risks as well as how they should be reviewed and monitored.

4. Health and Safety Risk Management

This risk management strategy sits alongside the Council's responsibility for health and safety risk assessments as required by The Health and Safety at Work, Etc. Act 1974 and all subsequent regulations and as set out in the Corporate Health Safety and Wellbeing Policy 2021. This includes a requirement to have competent persons undertaking risk assessments and involving Trade Union Health and Safety representatives in the process.

5. Roles and Responsibilities

Risk Management is the responsibility of all Elected Members and Council Officers. It is important that it is considered at every level of the Council, and that responsibilities are clearly communicated to all members of staff. Different officers have responsibilities for each stage of the process.

Role	Responsibilities
All Elected Members	• To ensure risks have been appropriately considered as part of all Committee and Council reports • To scrutinise and question officers on the risk information provided by them • Encourage a culture that supports appropriate risk taking within the agreed risk appetite statement and the open discussion of risk
Audit Committee	In addition to the above, members of the Committee have the additional responsibilities: • Provide assurance over the governance of risk, including leadership, integration of risk management into wider governance arrangements and the ownership of and accountability for risks. • Keep up to date with the risk profile and the effectiveness of risk management actions • Monitor the effectiveness of risk management arrangements and support the development and embedding of good practice in risk management • Approve revisions to the Corporate Risk Management Policy
Corporate Management Team	• Promote and support risk management throughout the Council • Seek to ensure Corporate and Service risks are identified and managed within the associated risk appetites • Review corporate risks at least quarterly • Ensure the corporate risks reflect any new or emerging external and internal risks • Monitor progress in managing corporate risks, to ensure agreed actions are taken timeously at least quarterly • Ensure Elected Members are aware of the risks when taking decisions, through providing quality information • Consider risks escalated from a service, project or contract for inclusion within the Corporate Risk Register • Ensure risks are considered as part of any significant projects, contracts or partnerships • Encourage a culture of openness to allow risks to be identified and fully considered • Encourage a culture of learning from risk events when they happen

Corporate Risk Management Group	• Share business intelligence on risk and disseminate this across the Council; • Identify risks which are common across services and escalate these for consideration on the corporate or service risk registers; • Ensure risks that are reported on through other processes (e.g. the Information Governance Board or Central Safety Committee), are appropriately captured within risk registers • Work collaboratively to resolve any issues related to the Corporate Risk Register referred to the group by the Executive Leadership Team; • Share and disseminate best practice and risk management guidance to Services; • Provide a contact point in each Service to support effective risk management; and review the Corporate Risk Management Strategy
Executive Chief Officers/ Senior Managers	• Maintain a Service Risk Register in line with the Risk Management Strategy, reviewed in-line with Service Planning guidance. • Ensure there are clear connections made in reports to Council or Strategic Committees where policy changes or actions will prevent or mitigate a Corporate or Service • Ensure service risks are adequately communicated to other services if appropriate • Ensure significant contracts, partnerships and projects the service relies upon or is delivering have appropriate risk management arrangements in place • Encourage a culture of risk awareness through involving others in the risk management process as appropriate, and challenging risk information • Escalate, if appropriate, risks to the CRMG for consideration and possible inclusion on the Corporate Risk Register • Encourage a culture of openness to allow risks to be identified and fully considered • Encourage a culture of learning from risk events when they happen
Programme, Project, Contract, and Partnership Managers	• Maintain an up to date risk register for each significant project, contract or partnership • Escalate, if appropriate, risks to Service representatives/ CRMG for consideration and inclusion on service risk registers/ corporate risk register.

Risk Owners	• Take the lead in monitoring own risks to ensure they are being managed in line with appetite set for that risk • Co-ordinate any further action needed to treat the risk • Review progress of the risk treatment actions • Escalate and de-escalate risks as appropriate • Take the lead on communicating with interested internal stakeholders about the risk • Ensure connections to Corporate or Service risks are adequately made in the implications section of committee reports.
Corporate Performance Team	• Assist Risk Owners in developing Risk using Risk Analysis and Risk Template Forms • Assist Risk Owners in determining the appropriate level at which to monitor the Risk • Carry out Initial Risk Review to check for alignment with the Risk Guidance and pose challenge questions • Check new Risks for duplication or similarity with existing risks to consider consolidation where appropriate • Providing reporting on Risks via information held on PRMS system • Provide regular Risk Horizon Scan to check for emerging Risks not yet being assessed
Internal Audit	• Ensure the annual audit plan is linked to the significant risks facing the Council • Scrutinise the controls in place to address significant risks • Report on the overall risk management arrangements within the Chief Audit Executive's annual report
All employees	• Maintain an awareness and knowledge of the risk management responsibilities appropriate to their role • Notify line manager, or another appropriate manager, of any significant Service, Project, Contract or Partnership risks they identify or become aware of in their role