

# Frome Town Council Constitution

## Chapter 12 Risk Management Strategy

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## 1. Introduction

- 1.1. Risk management has been identified by the National Audit Office as an essential part of effective corporate governance and we have a statutory duty to have in place arrangements for managing risk as stated in the Accounts & Audit Regulations 2015.
- 1.2. Governance is how the Council manages its functions, determines its visions, objectives and priorities and goes about delivering its services as they affect the local community.
- 1.3. The principles of good governance are:
  - Openness and inclusivity
  - Integrity
  - Accountability
- 1.4. An open approach is essential to improve confidence in the Council and what it does. It is reflected in the honesty by which the Council is seen to carry out its functions, its professional standards and its accountability.
- 1.5. Strong leadership is vital to provide a clear vision and an example of excellence in relation to decision making, processes and professionalism.
- 1.6. This document forms the Council's Risk Management Strategy. It sets out:
  - 1.6.1.1. How will risk management feed into the Council's existing policies
  - 1.6.1.2. Implementation timetable
  - 1.6.1.3. Roles and responsibilities
  - 1.6.1.4. Future monitoring
- 1.7. The objectives of this strategy are to:
  - 1.7.1. Further develop risk management and raise its profile across the Council
  - 1.7.2. Integrate risk management into the culture of the Council
  - 1.7.3. Embed risk management through the ownership and management of risk as part of all decision-making processes; and
  - 1.7.4. Manage risk in accordance with best practice

## 2. What is risk management?

### 2.1. Definitions

- 2.1.1. Risk is an uncertain event or condition that, if it occurs, will influence the achievement of an authority's objectives.
- 2.1.2. Risk management is the process whereby authorities methodically address the risks associated with what they do and the services which they provide.
- 2.1.3. The focus of risk management is to identify what can go wrong and take appropriate steps to avoid this or successfully manage the consequences.
- 2.1.4. Good risk management allows Councillors and the community to have increased confidence in the Frome Town Council's governance arrangements and its ability to deliver its priorities.
- 2.1.5. Risk management is not just about financial management; it is about protecting the achievement of objectives set by Frome Town Council to deliver high quality public services.
- 2.1.6. The failure to manage risks effectively can be expensive in terms of litigation and reputation and can impact on the ability to achieve desired outcomes.
- 2.1.7. The Council generally is responsible for risk management.
- 2.1.8. Risk management is an ongoing activity that comprises four elements:
  - identifying risks
  - assessing risks
  - addressing risks

- reviewing and reporting

2.2. Identifying risks

- 2.2.1. To manage risk, the Council needs to know what risks it faces.
- 2.2.2. Identifying risks is therefore the first step in the risk management process.
- 2.2.3. It is not possible to present a suggested list of the specific risks which authorities may face as the range, nature, complexity and scale of the business of authorities vary.
- 2.2.4. Similarly, the priorities and service delivery objectives of one authority will differ from those of others. For this reason, each authority should identify, for itself, the key risks to successfully achieving its priorities and service objectives.
- 2.2.5. The typical categories of risks that might help in the process of risk identification are as follows:
  - financial – loss of money
  - security – fraud, theft, embezzlement
  - property – damage to property
  - legal – breaking the law or being sued
  - IT – failure of IT systems or misuse
  - reputational – actions taken could harm the authority’s public reputation

2.3. Assessing risks

- 2.3.1. Once the authority has identified its key risks, the next step is to assess the potential consequences of a risk occurring (impact) and consider how likely the risk is to happen (likelihood).
- 2.3.2. The assessment of potential impact and likelihood need not be any more complex than assigning a simple numerical score, say 1 – 3, and multiplying the two scores to arrive at a risk assessment for each risk of high, medium or low.
- 2.3.3. The risk assessment enables the Council to decide which risks it should pay most attention to when considering what measures to take to manage them.
- 2.3.4. This Council uses a simple risk assessment matrix as follows:

<b>Likelihood</b>	Highly likely (3)	Medium (3)	High (6)	High (9)
	Possible (2)	Low (2)	Medium (4)	High (6)
	Unlikely (1)	Low (1)	Low (2)	Medium (3)
		Negligible (1)	Moderate (2)	Severe (3)
		<b>Impact</b>		

2.4. Addressing risks

- 2.4.1. Risk is unavoidable, and every Council needs to act to manage risk in a way which it can justify to a level which is tolerable.
- 2.4.2. The response to risk, which is initiated within the Council, is called ‘internal control’ and may involve one or more of the following standard responses:
  - Tolerate the risk - for risks where the downside is containable with appropriate contingency plans; for some where the possible controls cannot be justified (e.g. because they would be disproportionate); and for unavoidable risks, e.g. terrorism.
  - Treat the risk - a common response which can mean imposing controls so that the Council can continue to operate; or setting up prevention techniques.
  - Transfer the risk – buying in a service from a specialist external body or taking

- out insurance. Some risks cannot be transferred, especially reputational risk.
    - Terminate the activity giving rise to the risk - it may be best to stop (or not to start) activities which involve intolerable risks or those where no response can bring the risk to a tolerable level.
- 2.4.3. Areas where there may be scope to use insurance to help manage risk include the following:
  - The protection of physical assets owned by the authority – buildings, furniture, equipment, etc. (loss or damage).
  - The risk of damage to third party property or individuals because of the authority providing services or amenities to the public (public liability).
  - The risk of consequential loss of income or the need to provide essential services following critical damage, loss or non-performance by a third party (consequential loss).
  - Loss of cash through theft or dishonesty (fidelity guarantee).
  - Legal liability because of asset ownership (public liability).
- 2.4.4. The limited nature of internal resources in most authorities means that those wishing to provide services often buy them in from specialist external bodies. Areas where there may be scope to work with others to help manage risk include the following:
  - Security for vulnerable buildings, amenities or equipment.
  - Maintenance for vulnerable buildings, amenities or equipment.
  - The provision of services being carried out under agency/partnership agreements with principal authorities.
  - Banking arrangements, including borrowing or lending.
  - Ad hoc provision of amenities/ facilities for events to local community groups.
  - Markets management.
  - Vehicle or equipment lease or hire.
  - Trading units (leisure centres, playing fields, burial grounds, etc.).
  - Professional services (planning, architects, accountancy, design, etc.).
- 2.5. Reviewing and reporting
  - 2.5.1. Once the key risks have been identified and assessed they should be recorded, for example in a risk register.
  - 2.5.2. Cllrs should review the risk register not less than annually
  - 2.5.3. This could be achieved by risk management being a standing item at authority or committee meetings.
  - 2.5.4. An example of a simple risk register can be found in Appendix 1.
  - 2.5.5. Support for authorities wishing to improve their risk management arrangements, over and above that provided by this guidance, is available through training that may be requested from NALC, SLCC and ADA, or from other training providers.
  - 2.5.6. In identifying training needs, parish and town councils may wish to seek the professional input of their insurance provider and refer to various elements of the National Training Strategy for town and parish councils in England.
- 3. Why does the Council need a Risk Management Strategy? Risk management will strengthen the ability of the Council to achieve its objectives and enhance the value of services provided.
  - 3.2. The Risk Management Strategy will help to ensure that the Council understands risk and adopts a uniform approach to identifying and prioritising risks.
  - 3.3. This should in turn lead to conscious choices as to the most appropriate method of dealing with each risk, be it elimination, reduction, transfer or acceptance.
  - 3.4. There is a requirement under the Accounts and Audit Regulations 2018 to establish and

maintain a systematic strategy, framework and process for managing risk.

- 3.5. Risks and their control will be collated in a Risk Register.
- 3.6. A statement regarding the system of internal control and the management of risk will be included as part of the Annual Statement of Accounts.
  
4. **What is the Council's philosophy on risk management?**
  - 4.1. Frome Town Council recognises that it has a responsibility to manage risks effectively in order to protect its employees, assets, liabilities and community against potential losses, to minimise uncertainty in achieving its goals and objectives and to maximise the opportunities to achieve its vision.
  - 4.2. The Council is aware that some risks can never be eliminated fully, and it has in place a strategy that provides a structured, systematic and focused approach to managing risk.
  - 4.3. Risk management is an integral part of the Council's management processes.
  
5. **What is the Council's risk management process?**
  - 5.1. **Implementing the Strategy**
    - 5.1.1. **Risk Identification** – Identifying and understanding the hazards and risks facing the Council is crucial if informed decisions are to be made about policies or service delivery methods. The risks associated with these decisions can then be effectively managed. All risks identified will be recorded in the Council's Risk Register.
    - 5.1.2. **Risk Analysis** – Once risks have been identified they need to be systematically and accurately assessed using proven techniques. Analysis should make full use of any available data on the potential frequency of events and their consequences. If a risk is seen to be unacceptable, then steps need to be taken to control or respond to the risk.
    - 5.1.3. **Risk Prioritisation** - An assessment should be undertaken of the impact and likelihood of risks occurring, with impact and likelihood being scored Low, Medium or High.
    - 5.1.4. The following generic definitions of risk are a useful guide:
    - 5.1.5. **Low risks** occur where the impact or severity will not be severe, and any associated losses will be relatively small. As individual occurrences, they will have a negligible effect on service provision, however, if action is not taken then such risks may have a more significant cumulative effect. Examples include incidental errors, absence, minor employee accidents, missed project deadlines and minor incidents of vandalism.
    - 5.1.6. **Medium risks** have a noticeable effect on the service provided. Each event will cause a degree of disruption to the service provision and have budgetary implications. Such events are likely to happen infrequently and are generally difficult to predict. More than one medium loss each year could have substantial impact or severity on service provision. Examples may include a fire, a large theft, major systems failures or incidents of pollution.
    - 5.1.7. **High risks** are those that can have a catastrophic effect on the operation of the Council or its services. They are likely to result in significant financial losses, major service disruption or a significant impact to the public. They usually occur very infrequently and can be extremely difficult to predict. For example, a total system failure, a major emergency or a major fire at the Council's main offices.

5.1.8. Assessing risk is largely subjective, but the production of a Risk Register provides a way to assess and record the likelihood of an event judged against its impact.

## 5.2. Risk Control

5.2.1. Risk control is the process of acting to minimise the likelihood of the risk event occurring and/or reducing the severity of the consequences should it occur.

5.2.2. Typically, risk control requires the identification and implementation of revised operating procedures, but in exceptional cases more drastic action will be required to reduce the risk to an acceptable level.

5.2.3. Options for control include:

- Elimination – the circumstances from which the risk arises are removed so that the risk no longer exists;
- Reduction – loss control measures are implemented to reduce the impact/likelihood of the risk occurring;
- Transfer – the financial impact is passed to others e.g. by revising contractual terms;
- Sharing - the risk is shared with another party;
- Insuring - insure against some or all the risk to mitigate financial impact; and
- Acceptance – documenting a conscious decision after assessment of areas where the Council accepts or tolerates risk.

## 5.3. Risk Monitoring

5.3.1. The risk management process does not finish with putting any risk control procedures in place.

5.3.2. Their effectiveness in controlling risk must be monitored and reviewed.

5.3.3. It is also important to assess whether the nature of any risk has changed over time.

5.3.4. The information generated from applying the risk management process will help to ensure that risks can be avoided or minimised in the future.

5.3.5. It will also inform judgements on the nature and extent of insurance cover and the balance to be reached between self-insurance and external protection.

## 6. Roles and responsibilities

6.1. Risk management becomes embedded into the everyday culture and performance management process of the Council.

6.2. The roles and responsibilities set out below are designed to ensure that risk is managed effectively right across the Council.

6.3. Those who best know the risks to a service are those responsible for it.

### 6.4. Cllrs

6.4.1. Risk management is seen as a key part of the Cllrs' stewardship role and there is an expectation that Cllrs will monitor the approach adopted. This will include:

- Approval of the Risk Management Strategy;
- Analysis of key risks in reports on reports to Council, ensuring that future work is adequately risk managed;
- Consideration, and if appropriate, endorsement of the annual Statement of Internal Control; and
- Assessment of risks whilst setting the budget, including any bids for resources to tackle specific issues.

## 6.5. Managers

- 6.5.1. Will act as the risk champions for each section, assisting with identifying all risks in their section and the compilation of the Risk Register.
- 6.5.2. They will manage risk effectively in their service areas or projects and report how threats and risks have been managed to the Town Clerk.
- 6.5.3. This includes identifying, analysing, prioritising, monitoring and reporting on service risks and any control actions taken.
- 6.5.4. Specific duties relating to individual officers are detailed below.

## 6.6. The Town Clerk will:

- 6.6.1. Act as the Lead Officer on risk management;
- 6.6.2. Be responsible for overseeing the implementation of the detail of the Risk Management Strategy;
- 6.6.3. Provide advice as to the legality of policy and service delivery choices;
- 6.6.4. Provide advice on the implications for service areas of the Council's corporate aims
- 6.6.5. Update the Council on the implications of new or revised legislation;
- 6.6.6. Assist in handling any litigation claims;
- 6.6.7. Provide advice on any human resource issues relating to strategic policy options or the risks associated with operational decisions and assist in handling cases of work-related illness or injury;
- 6.6.8. Advise on any health and safety implications of the chosen or proposed arrangements for service delivery;
- 6.6.9. Report progress to Council via the Council Matters Committee;

## 6.7. Business Manager will:

- 6.7.1. Assess and implement the Council's insurance requirements;
- 6.7.2. Assess the financial implications of strategic policy options;
- 6.7.3. Aid and advice on budgetary planning and control;
- 6.7.4. Ensure that the financial systems allow effective budgetary control; and
- 6.7.5. Effectively manage the Council's investment portfolio.

## 6.8. Employees

- 6.8.1. Will undertake their job within risk management guidelines ensuring that their skills and knowledge are used effectively
- 6.8.2. All employees will maintain an awareness of the impact and costs of risks and how to feed data into the formal process.
- 6.8.3. They will work to control risks or threats within their jobs, monitor progress and report on job related risks to their manager.

## 6.9. Role of Internal Audit

- 6.9.1. Internal Audit provides an important scrutiny role by carrying out audits to provide independent assurance to the Internal Affairs Committee that the necessary risk management systems are in place and all significant business risks are being managed effectively.
- 6.9.2. Internal Audit assists the Council in identifying both its financial and operational risks and seeks to assist the Council in developing and implementing proper arrangements to manage them, including adequate and effective systems of internal control to reduce or eliminate the likelihood of errors or fraud.
- 6.9.3. Internal Audit reports, and any recommendations contained within, will help to shape

the annual Statement of Internal Control.

6.10. Council Matters Committee

6.10.1. The review and future development of the Risk Management Policy and compilation of the Risk Register will be overseen by the Council Matters Committee.

6.11. Training

6.11.1. Risk Management training will be provided to Cllrs, managers and staff through a variety of mediums.

6.11.2. The aim will be to ensure that both Cllrs and staff have the skills necessary to identify, evaluate and control the risks associated with the services they provide.

6.12. In addition to the roles and responsibilities set out above, the Council expects Cllrs and staff to report adverse incidents promptly and openly.

7. Future monitoring

7.1. This Strategy will be reviewed on an annual basis by Council. The Risk Register and risk management generally is the responsibility of the Council Matters Committee.

7.2. Feedback from Internal and External Audit can identify areas for improvement, as can the sharing of best practice via professional bodies, the National Association of Local Councils and relevant local council forums.

Appendix 1. Risk Register (available on request to the Business)