# Risk Management

# Annual Report

**April 2024**

# Executive Summary

1. A key principle of good governance is managing the ***effect of uncertainties on the achievement of our objectives*** (our risks). Having arrangements in place to identify and manage our risks increases the probability of achieving corporate and operational objectives by controlling risks in balance with resources.  Good risk management also increases our ability to cope with developing and uncertain events and helps to instil a culture of continuous improvement and optimisation.

2. This report summarises the risk management work undertaken during 2023-24.  It provides assurance to Members of the Audit Committee that the Council has effective risk management arrangements in place.  These processes ensure risks are identified and managed across the Council, with a focus on the most significant risks to the Council.

# Roles and Responsibilities

3. Mid Kent Audit are responsible for facilitating and coordinating the risk management processes across the Council.  Our role includes regular reporting to officers and Members, through the Strategic Management Team (SMT), Policy & Resources Committee (PRC) and the Audit Committee. We also provide workshops and training and support the embedding of risk management throughout the Council.

4. Having valuable and up to date risk information enables oversight functions to happen effectively. The PRC has overall responsibility for the risks identified through the risk process and will review the substance of individual risks to ensure that issues are appropriately monitored and addressed.

5. As those charged with governance and oversight the Audit Committee are required to seek assurance that the Council is **operating** an effective risk management process.  This report enables the Audit Committee to fulfil the responsibilities as set out in the Terms of Reference:

> *To provide independent assurance of the adequacy of the risk management framework and the associated control environment …*
>
> *To monitor the effective development and operation of risk management and corporate governance in the Council.*

# Risk Management Process

6. A risk is a **potential event that, if it materialises, effects the achievement of objectives.** Risk management is the process of identifying, measuring and responding to risks. These processes help to ensure that the Council achieves its corporate and service objectives by controlling risks in balance with resources. Good risk management also increases our ability to cope with developing and uncertain events and helps to instil a culture of continuous improvement and optimisation.

7. The Risk Management Framework sets out the Council's approach to managing corporate and operational (service) risks. The risk management process is broken down into the following key components, which start with being clear about what the Council, or service are trying to achieve. Appendix Ia sets out how the Council evaluates its risks.



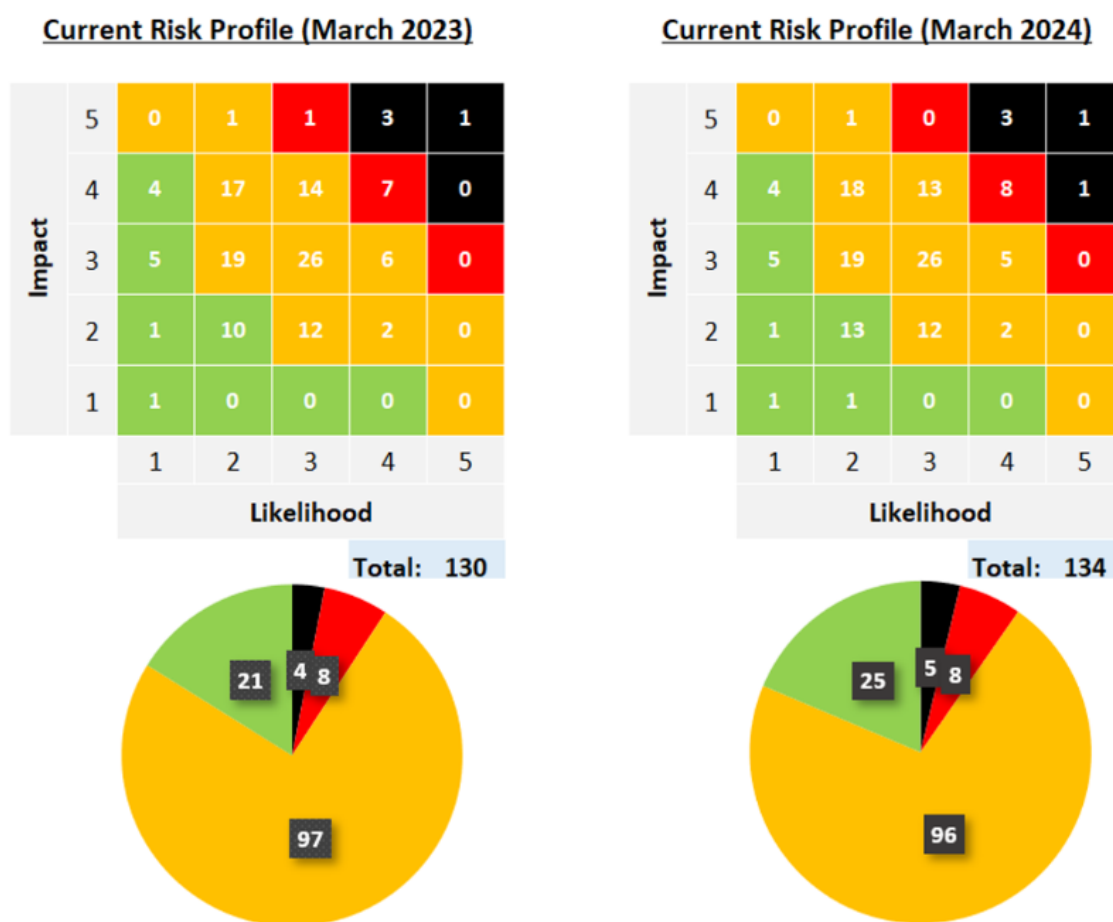8. The Risk Management Framework also includes the Council's risk appetite statement, which articulates how much risk the Council is comfortable with and able to bear. The Council recognises that to achieve its objectives it must take risks, but that some risks are unacceptable (above our tolerance) and so action should be taken immediately to manage these risks. Risk appetite and tolerance are illustrated in the following matrix:
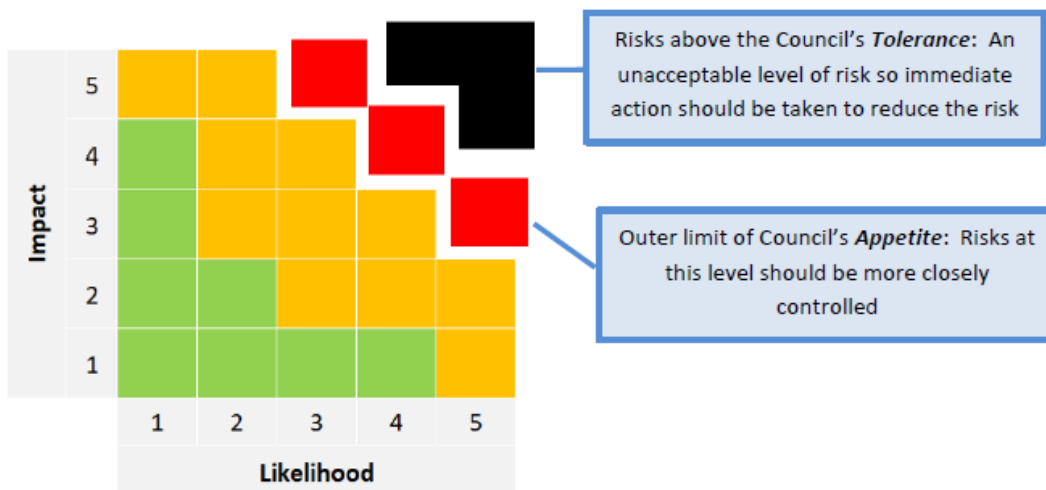
# Risk Management in Action: 2023-24

9.  Throughout the year the risk management processes have operated in line with the Council's Risk Management Framework (as described above). The following risk matrices show the current risk profile as reported to Audit Committee in March 2023 and as at March 2024. The current risk represents the likelihood and impact of the risk based on our understanding of the future uncertainty at this moment in time.

10. The diagrams summarise the changes to the profile with the overall number of risks increasing from 130 to 134. It should be noted that in July 2022 Audit Committee agreed a new Risk Management Framework which changed the criteria for scoring risks and the Council's risk appetite. Further explanation of these changes is provided below.

**Current Risk Profile (March 2023)**

| Impact \ Likelihood | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| 5 | 0 | 1 | 1 | 3 | 1 |
| 4 | 4 | 17 | 14 | 7 | 0 |
| 3 | 5 | 19 | 26 | 6 | 0 |
| 2 | 1 | 10 | 12 | 2 | 0 |
| 1 | 1 | 0 | 0 | 0 | 0 |

Total: 130

Pie chart: 21 (green), 97 (amber), 4 (black), 8 (red)

**Current Risk Profile (March 2024)**

| Impact \ Likelihood | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| 5 | 0 | 1 | 0 | 3 | 1 |
| 4 | 4 | 18 | 13 | 8 | 1 |
| 3 | 5 | 19 | 26 | 5 | 0 |
| 2 | 1 | 13 | 12 | 2 | 0 |
| 1 | 1 | 1 | 0 | 0 | 0 |

Total: 134

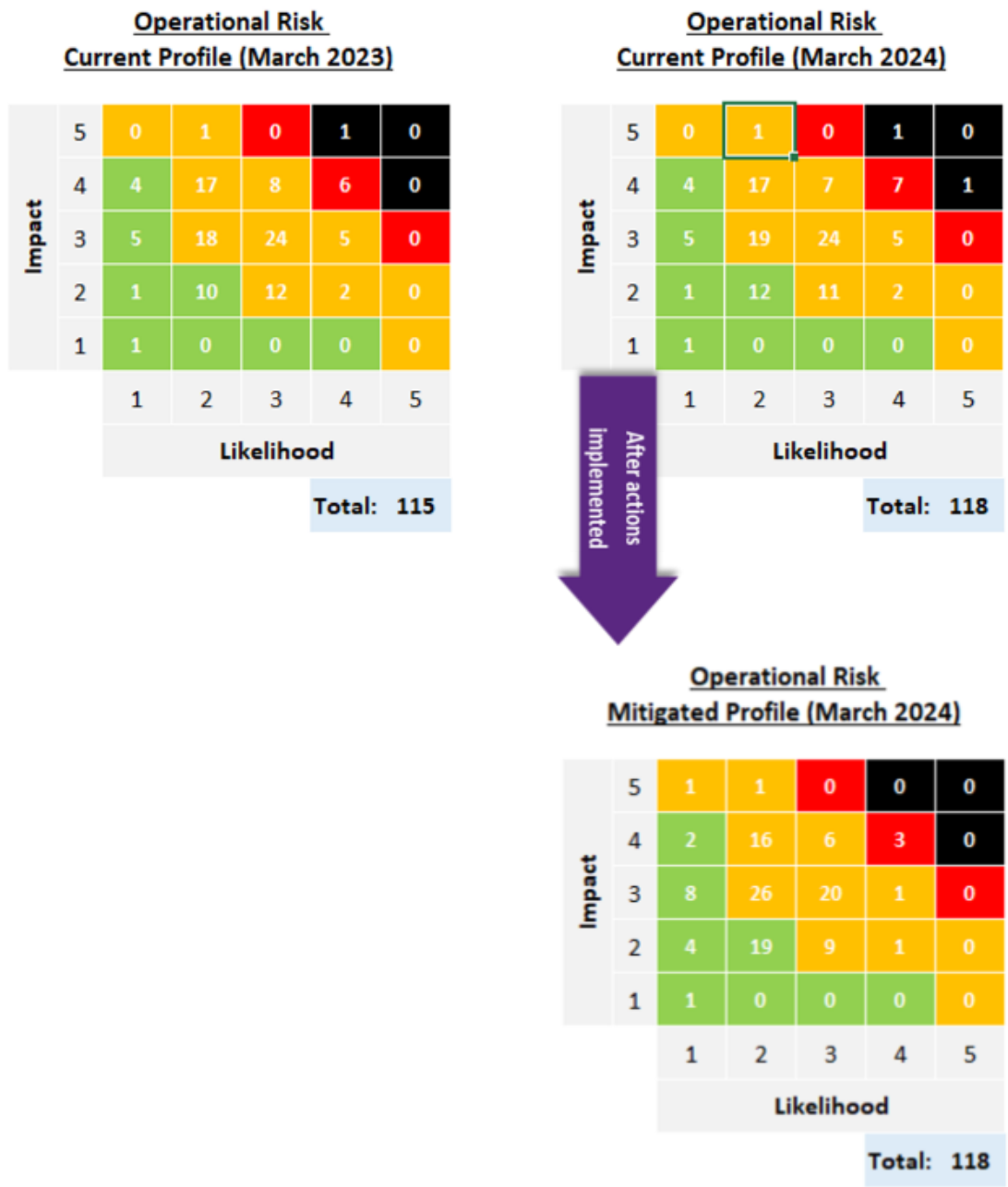Pie chart: 25 (green), 96 (amber), 5 (black), 8 (red)

11. The roll out of the Council's risk management software – JCAD, was undertaken during the previous year. The software is accessible to all risk owners and senior management allowing them to directly view and update their risks. JCAD provides a more efficient risk management process and more effective reporting of risk information than the previous spreadsheet-based process. Alongside training risk owners on the use of JCAD we reviewed and updated all operational risks to ensure the risks remain current and reflect the new Risk Management Framework. Risk owners are engaging well with the system and with understanding and updating their risks.

12. Further training will be offered for both officers and Members on the principles of risk management and the Council's Risk Management processes in the following year.

13. The Council continues to monitor and update its corporate risks.  The corporate risks are those risks which have an affect across Council services and may affect delivery of the Council's strategic priorities.  Throughout the year these risks have been routinely updated by risk owners. The following table shows the Council's corporate risks and how the risk score has changed over the last three years.

| Ref | Risk Title | Risk Owner | Current Risk Rating | | | Overall Trend |
|---|---|---|---|---|---|---|
| | | | Mar-22 | Mar-23 | Mar-24 | |
| A | Balancing Medium Term Budget | Director of Resources | 15 (5 x 3) | 25 (5 x 5) | 25 (5 x 5) | ⟷ |
| B | Increased Homelessness | Head of Housing & Community Services | 16 (4 x 4) | 20 (5 x 4) | 20 (5 x 4) | ⟷ |
| C | Funding Capital Spend | Director of Resources | 9 (3 x 3) | 20 (5 x 4) | 20 (5 x 4) | ⟷ |
| D | Demands & Community Pressure | Head of Housing & Community Services | | 16 (4 x 4) | 16 (4 x 4) | ⟷ |
| E | Social Inclusion | Head of Housing & Community Services | 8 (2 x 4) | REMOVED | | |
| F | Elections Failure or Challenge | Chief Executive | | 15 (5 x 3) | 12 (4 x 3) | ⬇ |
| G | Major Contractor Failure or Decline | Head of Environment & Leisure | 12 (4 x 3) | 12 (4 x 3) | 12 (4 x 3) | ⟷ |
| H | Design of Major Contracts | Head of Environment & Leisure | 15 (5 x 3) | 12 (4 x 3) | 9 (3 x 3) | ⬇ |
| I | Borough Wide Infrastructure | Head of Planning Services | 12 (4 x 3) | 12 (4 x 3) | 12 (4 x 3) | ⟷ |
| J | Affordable Housing | Head of Housing & Community Services | 12 (4 x 3) | 12 (4 x 3) | 12 (4 x 3) | ⟷ |
| K | Recruitment & Retention of staff | Head of Mid Kent HR & Director of Resources | | 12 (3 x 4) | 6 (2 x 3) | ⬇ |
| L | Housing Supply | Head of Planning Services | 16 (4 x 4) | 12 (4 x 3) | 12 (4 x 3) | ⟷ |
| M | Cyber Security Incident | Head of Mid Kent IT | 12 (4 x 3) | 12 (4 x 3) | 12 (4 x 3) | ⟷ |
| N | Swale House Refurbishment | Head of Regeneration & Economic Develop'nt | 16 (4 x 4) | 9 (3 x 3) | 2 (1 x2) | ⬇ |
| O | Climate & Ecological Emergency | Head of Environment & Leisure | 12 (4 x 3) | 9 (3 x 3) | 9 (3 x 3) | ⟷ |
| P | Focus on Established Priorities | Chief Executive | 9 (3 x 3) | 6 (3 x 2) | 8 (4 x 2) | ⬆ |

*(Vertical label between Mar-22 and Mar-23 columns: Change in Risk Management Framework and risk scoring)*

14. Operational risk registers for all services were refreshed during the summer alongside the roll out of JCAD. All Council services, including shared services, have identified risks which may affect delivery of their service objectives or wider Council priorities. The following matrices show the current risk profile at March 2023 and March 2024 (i.e. the risks as understood on those dates) and the mitigated profile (i.e. the risk after planned actions are introduced).

**Operational Risk Current Profile (March 2023)**

| Impact \ Likelihood | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| 5 | 0 | 1 | 0 | 1 | 0 |
| 4 | 4 | 17 | 8 | 6 | 0 |
| 3 | 5 | 18 | 24 | 5 | 0 |
| 2 | 1 | 10 | 12 | 2 | 0 |
| 1 | 1 | 0 | 0 | 0 | 0 |

Total: 115

**Operational Risk Current Profile (March 2024)**

| Impact \ Likelihood | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| 5 | 0 | 1 | 0 | 1 | 0 |
| 4 | 4 | 17 | 7 | 7 | 1 |
| 3 | 5 | 19 | 24 | 5 | 0 |
| 2 | 1 | 12 | 11 | 2 | 0 |
| 1 | 1 | 0 | 0 | 0 | 0 |

Total: 118

After actions implemented

**Operational Risk Mitigated Profile (March 2024)**

| Impact \ Likelihood | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| 5 | 1 | 1 | 0 | 0 | 0 |
| 4 | 2 | 16 | 6 | 3 | 0 |
| 3 | 8 | 26 | 20 | 1 | 0 |
| 2 | 4 | 19 | 9 | 1 | 0 |
| 1 | 1 | 0 | 0 | 0 | 0 |

Total: 118

15. As can be seen there are two black operational risk which is currently being managed and actions have been identified to reduce the risk. This risk is routinely monitored by the risk owner and SMT, and is as follows:

| Risk | Current Score | Mitigated Score |
|---|---|---|
| Balancing the Budget over the medium term | 25 | 12 |
| Provision and cost of Temporary Accommodation | 20 | 16 |

16. The Council has approximately 21 services, including shared services, meaning there's an average of 5 risks identified for each service.  Risk owners review and update operational risks in line with the Risk Management Framework: the highest (red/black) risks are reviewed at least quarterly and will be reported to SMT, amber risks are reviewed 6-monthly and green risks annually.  This process is automated through JCAD.  Reviewing risks in this way enables us to focus resources on managing the most significant risks to the Council, while ensuring we maintain awareness of risks that are increasing.

## Risk Management in 2024-25

17. Due to resources within Mid Kent Audit the actual number of risk management days delivered in 2023-24 is lower than planned.  The focus of the work is as outlined in the previous section of this report, with originally planned work on refreshing corporate risks and developing project risk guidance not having progressed.

18. The following key areas of work have been identified for 2024-25:

- Maintain **routine risk processes**, ensuring risks are reviewed and key risk information is reported in line with the Framework.
- Provide **risk training** to both officers and Members, including as part of Member induction.
- Refresh the Council's **Corporate Risk Register** with Members and senior management to ensure risks to the Council's strategic priorities are adequately captured and risk appetite understood.
- Continue to refine and enhance **JCAD**, in particular building on its reporting capability.
- Establish a **risk group** to share risk information across the Council.
- Explore the use of JCAD to capture and monitor **business continuity risks**.

19. The overall number of days for this work would be 51 days and have been considered within the context of the wider Mid Kent Audit plans for 2024-25 and the resources available.

# APPENDIX 2    Definitions for Impact and Likelihood

The overall risk score is comprised of impact and likelihood.  So that we achieve a more consistent understanding when assessing risks, the following definitions are used to inform the assessment of risks.

## RISK IMPACT

| Level | Service | Reputation | Wellbeing | Legal/Compliance | Financial | Strategic Objectives |
|---|---|---|---|---|---|---|
| Catastrophic (5) | Ongoing failure to provide an adequate service in a key area | Perceived as a failing authority requiring intervention | Significant staff dissatisfaction, long term absence, or increased staff turnover including key personnel | Litigation almost certain and difficult to defend. Breaches of law punishable by imprisonment. Possible responsibility for death. | Uncontrollable financial loss or overspend over £1.5m | Failure to deliver multiple key priorities |
| Major (4) | Key service areas disrupted 5+ days Other service areas ongoing failure | Significant adverse national publicity | Adverse staff dissatisfaction, or increased absence and turnover of staff | Litigation expected and uncertain if defensible. Breaches of law punishable by significant fines. Fails to prevent death, causes extensive permanent injuries or long-term sick | Financial loss or overspend greater than £1m | Failure to deliver key priority |
| Moderate (3) | Key service disruption 3-5 days Other service disruption 7+ days | Adverse national publicity of significant adverse local publicity | Declining staff satisfaction, or some loss of staff due to absence or turnover | Litigation expected but defensible. Breaches of law punishable by fines. Fails to prevent extensive permanent injuries or long- term sick. | Financial loss or overspend greater than £700k | Unsatisfactory delivery of priorities |
| Minor (2) | Key service disruption 2 days Other service disruption 2-7 days | Minor adverse local publicity | Short-term dissatisfaction, minor loss of staff due to absence or turnover | Complaint or litigation possible. Breaches of regulations or standards. Long term injuries or sickness. | Financial loss or overspend greater than £100k | Poor delivery of priorities |
| Minimal (1) | Any service disruption 1+ day | Unlikely to cause adverse publicity | Loss of staff morale but unlikely to result in absence or turnover of staff | Unlikely to cause complaint. Breaches of local procedures. | Financial loss or overspend under £100k | Minimal reduction in delivery of priorities |

## RISK LIKELIHOOD

| Level | Probability | Description |
|---|---|---|
| Highly Probable (5) | 80% + | Without action is likely to occur; frequent similar occurrences in local government / Council history or anticipated within the next 6 months. |
| Probable (4) | 60% - 80% | Similar occurrences known often in local government / Council history or anticipated within the next 12 months. |
| Possible (3) | 40% - 60% | Similar occurrences experienced in local government / Council history or anticipated within the next 18 months. |
| Unlikely (2) | 20% - 40% | Not unheard-of occurrence in local government / Council history.  Anticipated within the next 2 years. |
| Rare (1) | 0% - 20% | Seldom occurs; no recent similar instances in local government / Council history. |