Risk Management Strategy

2017/18 v1.0

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Document History

Version	Comments
1.0	First draft for approval

1. WYCA Risk Management Policy Statement

Risk management is a planned and systematic approach to the identification, evaluation, prioritisation and control of risks and opportunities facing an organisation.

The West Yorkshire Combined Authority (WYCA) recognises that effective risk management is an integral part of good corporate governance and as such should be a part of everyday management processes across the organisation. WYCA is committed to ensuring robust risk management arrangements are in place and operating effectively at all times. The Leadership Team will champion risk management, providing a management lead and ensuring that appropriate arrangements are maintained but the day to day management of risk sits with Directors, Heads of Service and risk owners.

WYCA will establish clear roles, responsibilities and reporting lines for risk management and ensure a systematic way of:

- Identifying risk and risk owners;
- Assessing risks in terms of likelihood and severity;
- Assessing the need for mitigating actions;
- Recording risks; and
- Regularly monitoring and reporting upon risk.

2. Introduction

The aim of this document is to set out WYCA's strategy for managing risks and to provide guidance on both the purpose and process of risk management at WYCA. Where appropriate the document will link to a series of more detailed guidance documents to assist risk owners in day to day risk management activities.

2.1. Risk and Risk Management definition

"Risk is most commonly held to mean "hazard" and something to be avoided. But it has another face - that of opportunity. Improving public services requires innovation - seizing new opportunities and managing the risks involved. In this context risk is defined as uncertainty of outcome, whether positive opportunity or negative threat, of actions and events. It is the combination of likelihood and impact, including perceived importance.

Risk management covers all the processes involved in identifying, assessing and judging risks, assigning ownership, taking actions to mitigate or anticipate them, and monitoring and reviewing progress. Good risk management helps reduce hazard, and builds confidence to innovate."

-HM Treasury

2.2. Background

Taking risks is an inevitable part of most organisations' day to day work, however attention needs to be focused on routinely managing the risks to which the organisation is exposed.

High performing organisations consistently demonstrate strengths in leadership, financial management, performance management and risk management.

Risk Management can be defined as the culture, processes and structures that are key to the effective management of potential opportunities or threats to an organisation in achieving its objectives and delivering services. Risk management is not about being risk averse. It is about understanding and evaluating risks whether they are an opportunity or a threat and making informed decisions about how those threats are then managed in order to maximise the efficiency of its services.

The benefits gained in managing risk are improved strategic, operational and financial management, continuity of knowledge and information management processes, improved compliance and most importantly improved customer service delivery.

2.3. Risk Management at WYCA

WYCA strives for excellent management of risk in order to maintain good governance, meet its audit requirements and to sufficiently protect itself against the risks that arise in carrying out its functions. WYCA's operations mean it is exposed to risks concerning health and safety, loss of money or funding, reputational risks in relation to delivery of projects and objectives and potential legal action.

WYCA strives to reflect industry best practice in its approach to risk management and this Risk Management Strategy has therefore been informed by the principles set out in IS0 31000 'Risk Management Principles and Guidelines'.

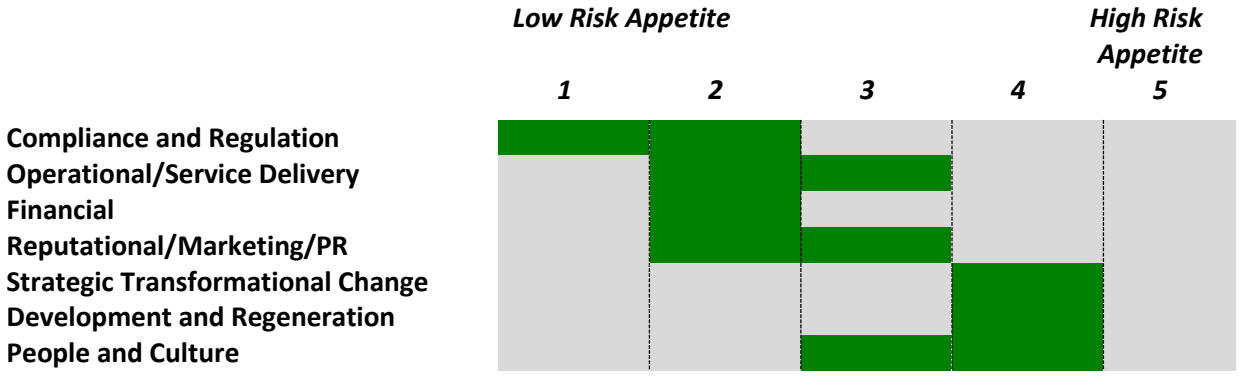
3. Risk Appetite Statement

Risk appetite is the level of risk WYCA is prepared to tolerate or accept in the pursuit of our strategic objectives. Our aim is to consider all options to respond to risk appropriately and make informed decisions that are most likely to result in successful delivery whilst also providing an acceptable level of value for money.

The acceptance of risk is subject to ensuring that all potential benefits and risks are fully understood and that appropriate measures to mitigate risk are established before decisions are made.

We recognise that the appetite for risk will vary according to the activity undertaken and hence different appetites and tolerances to risk apply. Our approach is to minimise exposure to compliance and reputational risk, whilst accepting and encouraging an increased degree of risk in other areas in pursuit of our strategic objectives as illustrated in the figure 1 below.

Figure 1: Risk Appetite Tolerances



Compliance & Regulation – WYCA recognises the need to place high importance on compliance, regulation and public protection and has no appetite for breaches in statute, regulation, professional standards, ethics, bribery or fraud.

Operational/Service Delivery – WYCA accepts a moderate level of risk arising from the nature of the Authority's business operations and service delivery to deliver an appropriate level of service at value for money, whilst minimising any negative reputational impact.

Financial – WYCA aims to maintain its long term financial viability and its overall financial strength whilst aiming to achieve its strategic and financial objectives subject to the following minimum criteria:

- WYCA requires to set a balanced overall revenue budget by February every year and Directors must then contain net expenditure within approved service totals;
- An appropriate level of unallocated general reserves, calculated in accordance with the approved risk based reserves strategy; and
- Working within a set of Treasury management principles that seek to protect funds rather than maximise returns.

Reputational – It is regarded as essential that WYCA preserves a high reputation and hence it has set a low appetite for risk in the conduct of any of its activities to avoid damage to that reputation through adverse publicity.

Strategic Transformational Change – The environment WYCA works in is continually changing through both its internal operations and the services it provides. Change projects provide WYCA with an opportunity to be the leading force in the Region and also to establish benefits for the longer term. WYCA recognises that this may require increased levels of risk and is comfortable accepting the risk subject to always ensuring that risks are appropriately managed.

Development and Regeneration – WYCA has a continuing obligation to invest in the development and regeneration of the Region. To continue to be progressive and innovative in the work performed WYCA is willing to accept a higher risk appetite whilst ensuring that benefits are assessed and risks are fully scrutinised and appropriately mitigated before developments are authorised.

People and Culture – WYCA recognises that its staff are critical to achieving its objectives and therefore the support and development of staff is key to making WYCA a fulfilling and supportive place to work. It has moderate to high appetite for decisions that involve staffing or culture to support transformational change and ensure WYCA is continually improving.

Where circumstances are more complex and two or more different elements of the risk appetite statement apply, our experience is that it is often possible to use an approach to risk management that combines minimising risk where there is a lower appetite while still exploiting the opportunities that can accompany areas of greater appetite.

The levels of risk appetite set out in the diagram above have been arrived at through consultation with and combining the views of the Audit and Risk Management Group of Officers, the Health and Safety Committee, the Leadership Team and the Organisational Management Team, and the Members' Governance and Audit Committee. WYCA's risk appetite statement is reviewed annually by these groups.

4. WYCA Risk Management Approach

4.1. Risk Management Overview

WYCA follows a four-step approach to managing the risk it is exposed to as demonstrated by Figure 2 below:

Figure 2: Risk Approach

Firstly it **identifies** the risk related to the appropriate department, service or project etc. Then the risk is **assessed** in terms of the likelihood of the event actually occurring and the impact that such an event would have on WYCA achieving its objectives.

Steps then must be taken to mitigate this risk- what can actually be done to stop this risk occurring or limiting the impact of the risk. This **treatment** needs then to be **monitored** and periodically **reviewed**. This process is repeated as the risks changes over time.

4.2. Risk recording

WYCA collates risks into the following categories or registers. These can be summarised as follows:

- **Corporate Risk Register** – contains the main on-going or long term risks to WYCA on an organisation wide basis. These risks are owned and managed by the Leadership Team
- **Directorate Risk Registers** – contains risks specific to the processes and actions for each directorate. These risks are managed by WYCA or a specific project. These risks should be managed by Directors and their Heads of Service. Risks within Directorate Risk Registers can be escalated to the Corporate Risk Register with agreement from OMT and Leadership Team.
- **Service, Project and Programme Risk Registers** – contain specific risks related to individual services, projects and programmes and are owned by service managers, project and programme managers with oversight from the relevant Head of Service. Risks within these registers can be escalated to Directorate Risk Registers with agreement from the relevant Director and their management team.

WYCA currently uses the 'Pentana' management system to record and monitor risks. This system allows risks to be recorded, scoring to be allocated, ownership to be clearly defined and mitigation actions to be monitored. WYCA is currently in the process of reviewing a number of corporate ICT applications to ensure that these systems work effectively together and as such a review of the most appropriate means of recording corporate risks in the longer term will be considered as part of this.

Each department is recommended to have a manageable set of risks typically containing no more than ten (and ideally less than five) risks at any one time. This allows the Directors and Heads of Service to maintain a focus on the top risks

4.3. Assessment of Risks

Once risks have been identified they are then assessed by considering both the probability of the risk occurring and the impact that would be expected should the risk be realised. Through combining the scores awarded for probability and impact, an overall risk rating will be obtained and this is then used as a basis on which to prioritise risks.

Guidance about how to score each of these factors for both corporate Level Risks and Directorate level risks is provided below. It is envisaged that service and project level risks will require a scoring approach which is tailored to their own specific circumstances.

<u>Probability (likelihood of occurrence)</u>

The assessment of probability for risks contained within the Corporate Risk Register and Directorate Risk Registers will be undertaken according to the analysis below shown in figure 3:

Figure 3: Risk Probability Scoring Matrix

	Score	Description	Min	Likely	Max
Very High	5	Almost certain	70%	85%	100%
High	4	Likely	50%	60%	70%
Medium	3	Possible	30%	40%	50%
Low	2	Unlikely	10%	20%	30%
Very Low	1	Remote	0%	5%	10%

Impact

The impact assessment should consider the effect of the risk should it occur in terms of cost, time and quality. Wherever possible, the assumptions underwriting the perceived impacts should be entered into the risk register. Figure 4 below shows the risk impact scoring that will be used

Figure 4: Risk Impact Scoring Matrix

	Score	Impact Description	Cost £		Time		Quality
			Lowest	Highest	Lowest	Highest	
Very High	5	Severe	1,000,000	>1,000,000	1 year	> 1 year	Very high impact on quality
High	4	Major	500,000	1,000,000	6 months	1 year	High impact on quality
Medium	3	Moderate	100,000	500,000	3 months	6 months	Medium/moderate impact on quality
Low	2	Minor	25,000	100,000	1 month	3 months	Minor/minimal impact on quality
Very Low	1	Negligible	0	25,000	0	1 month	Little or no impact on quality

Probability/Impact Scores

Once each risk has been assessed for probability and impact, the score ratings are multiplied together to create the overall risk impact rating. This rating score allows each risk to be graded into a red, amber or green category as shown below in Figure 5.

Figure 5: Risk Probability/Impact Scoring Matrix

		IMPACT				
		1	2	3	4	5
PROBABILITY	5	**5**	**10**	**15**	**20**	**25**
	4	**4**	**8**	**12**	**16**	**20**
	3	**3**	**6**	**9**	**12**	**15**
	2	**2**	**4**	**6**	**8**	**10**
	1	**1**	**2**	**6**	**4**	**5**

4.4. Risk Response

Different strategies are appropriate for managing different risks and the appropriate response will need to be selected for each individual risk recorded in the risk register. Further details will then be recorded to set out the proposed mitigation measures and to allocate an owner for pursuing these mitigation actions. The responses to corporate and directorate risks will be selected from one of the categories shown in figure 6 below:

Figure 6: Risk Response Categories

Risk Response	Possible Actions
AVOID	• Clarify the project requirements or objectives • Obtain information or expertise • Undertake research or trials • Modify the approach to minimise/eliminate uncertainty • Adopt a different approach to planning/execution • The fall back plan to Avoid is Transfer
TRANSFER/SHARE	• Share the exposure, either totally or in part with a partner, contractor or through insurance • Monitor any partnership closely • The fall back plan to Transfer is Mitigate
MITIGATE/REDUCE	• Take mitigating actions to reduce the likelihood or consequence of the risk (agree an action plan) • Risk reduction actions must give a cost benefit i.e. the cost of the risk reduction must be less than the expected cost of the risk • The fall back plan to Mitigate is Accept

ACCEPT	• Accept the risk and add to project contingency • Don't ignore accepted risks – monitor and review

Wherever possible, risks should be designed out of the process or removed, however this is not always possible and so it may be necessary to share or transfer the risk to another party. Where removal or transferral is not possible, steps should be undertaken to reduce the likelihood or consequence of the risk by using an agreed action plan. Where all other strategies have been exhausted, the risk must be accepted and reviewed as appropriate.

5. Roles and Responsibilities

In order to embed a culture of proactive risk management all staff must have responsibility for identifying and responding to risk in their areas of work. There are however some key groups who have specific responsibilities with regard to risk management activities and these are summarised in Figure 7.

Figure 7: Summary of roles and Responsibilities in Risk Management

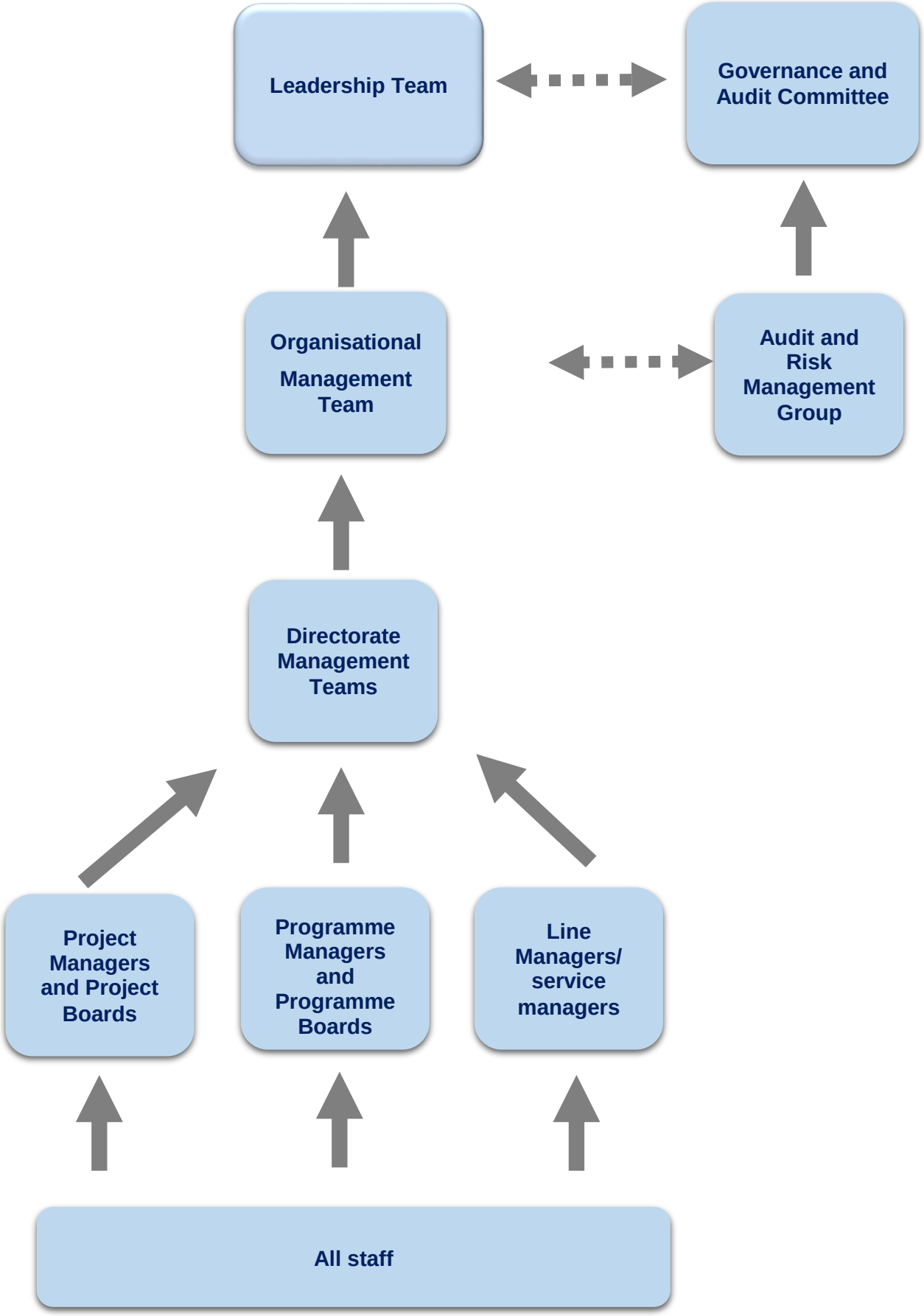
Group	Responsibilities
Governance and Audit Committee	• Provides a Member overview of the audit and risk arrangements in place. • Reviews and assesses the Risk Management Strategy annually and Corporate Risk Register quarterly
Leadership Team	• Approves the Risk Management Strategy • Reviews the Risk Management Strategy annually • Sets the risk appetite statement and reviews this quarterly • Owns the Corporate Risk Register and reviews this quarterly • Reviews any changes to corporate risk as these are escalated
Audit and Risk Management Group	• Reviews risk management arrangements and the Corporate Risk Register bi-monthly • Considers new areas of risk to which WYCA is exposed, the management of these risks, training in risks and awareness of risks across the organisation. • Reviews progress on the internal audit plan, ensuring any emerging risk issues are appropriately addressed in the plan • Escalates risk issues to Leadership Team and Governance and Audit Committee
Health and Safety Committee	• Identifies and Reviews Health and Safety risks which need to be escalated to the Corporate Risk Register

OMT	• Reviews the Corporate Risk Register and any changes to risk Monthly • Escalates risk issues to Leadership Team
Directorate Management Teams	• Owns the Directorate Risk Register • Reviews Directorate Risk Register monthly Escalates corporate risk issues to OMT
Project, Programme and Service Managers	• Develop and monitor individual project, programme and service risk registers • Project, Programme, Service risk registers owned by relevant Director or Head of Service • Escalates risks to Directorate Management Teams
Corporate Planning & Performance Team	• Updates and administers the Risk Management Strategy and the Corporate Risk Register • Prepares risk and performance reports for OMT, Leadership Team • Reports to Audit and Risk Management Group and Governance and Audit Committee on risk matters

6. Risk Reporting and Escalation Process

A formal route for reporting on and escalating risk matters is provided through various corporate groups as demonstrated below.

Figure 8: Summary of Reporting and Escalation Method



The formal route for reporting on risks is further summarised in Figure 9 below, along with further details regarding alternative escalation arrangements in-between formal reports.

Figure 9: Summary of Reporting and Escalation roles

Group	Reporting arrangements	Alternative Escalation Arrangements
Leadership Team	Quarterly risk report to include quarterly review of corporate risk register	Significant changes to corporate risk to be reported through weekly meetings
Organisational Management Team	Monthly performance snapshot – to include changes to corporate risk Quarterly review of Corporate Risk Register	Significant changes to corporate risk to be raised with individual Directors to report to Leadership Team
Directorate Management Teams	Monthly review of Directorate Risk Register	Significant changes to Directorate risk to be raised with relevant Director/Heads of Service
Project/ Programme Boards	Regular project board/programme board meetings	Significant changes to project/programme risk to be raised with relevant SRO
All staff	Regular team meetings and staff 1 to 1's	Risk issues to be raised with line manager/team leader

Preparation of formal risk reports and snapshot performance reports will be undertaken by the Corporate Planning and Performance Team. Directors are responsible for ensuring regular risk reporting takes place as part of their Directorate Management Teams and also via Project Boards, Programme Boards and via service managers in their Directorates as appropriate.