Managing Risk

NCER'S Risk Management Statement

Policy Title	Managing Risk – NCER'S Risk Management Statement
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Policy Summary	This statement aims to provide a clear explanation of Risk Management and the expectations placed on NCER Board Members and Officers with regard to the assessment, management, monitoring and mitigation of risk.
Responsibility & Monitoring	The Statement will be reviewed by the NCER Board in March 2020.

1.0 Purpose

1.1 NCER, in line with most other organisations, is experiencing changes in its operating environment and is also undergoing change in the way it delivers services to Local Authorities.

1.2 These changes mean that risk management is now an integral part of everything we do and how we operate and must be in the future if changes are to be adopted in a structured and systemic way. The management of risk should not be viewed as an "add on" at the end of a process or project.

1.3 The expectation will be that this statement will enable and facilitate a more fluid and flexible approach to managing and controlling risk. A combination of formal documentation (a risk register) for key NCER risks; the proportionate evidencing of the identification and control of corporate and operational risks; and other mechanisms to demonstrate that current and emerging risks are being managed on a day to day basis, will help us all to better manage the risks NCER faces.

1.4 This statement aims to provide a clear explanation of Risk Management and the expectations placed on Board Members of NCER with regard to the identification, assessment, management, monitoring and mitigation of risk. The intention is not to constrain Board Members from innovation, or from identifying methods for alternative but effective and efficient service delivery. Rather it aims to assist them in their consideration and decision making.

1.5 It is essential that a consistent risk management approach is used at all levels throughout the NCER, coupled with an appreciation that risks may be identified, managed and evidenced at varying degrees throughout the organisation. By effectively managing our risks and opportunities, which is all part of good governance, we will be in a stronger position to deliver on our objectives, work better as a partner with other organisations and achieve greater value for money. This approach to risk management will inform the NCER's key business processes, including:-

- Strategic planning
- Financial planning
- Product planning and delivery
- Policy making and review
- Performance management
- Project management
- Partnership   working

1.6 A **risk** is concerned with a threat or a possible future event which will adversely or beneficially affect NCER's ability to achieve its objectives. It is typically assessed using two dimensions, one of which is the **impact** of the threat or hazard. This represents the consequence on the NCER's objectives. The second dimension is the frequency or **likelihood** of the risk occurring, this represents the probability of the threat or hazard happening.

1.7 **Risk management** is the process that informs strategic development through the identification and treatment of risk such that, objectives are more likely to be achieved, damaging actions or events are avoided or minimised and opportunities are maximised.

1.8 This **Risk Management Statement** forms part of NCER's internal control and corporate governance arrangements. The purpose is to clearly outline the NCER's commitment to risk management, describe the objectives of risk management and provide a framework for embedding risk management across the organisation, with defined roles and responsibilities and a structured process. Through the implementation and embedding of an effective risk management framework, NCER will ensure that it is better placed to manage its performance, achieve its objectives and provide an effective level of outcomes based activity to the NCER community.

1.9 An appraisal of the NCER's current strategic approach to risk will be undertaken on a regular basis by the NCER Board.

1.10 The following key principles outline the NCER's approach to risk management and internal control:

- The Board has responsibility for identifying emerging risks and overseeing risk management within the NCER as a whole.
- An open and receptive approach to understanding the challenges of risk management is adopted by all stakeholders of the NCER.
- There will be a range of appetites and tolerance levels for different risks which will vary over time.
- The Board are responsible for encouraging good risk management practice.
- Where appropriate, key risk scores and indicators of levels of risk are identified and closely monitored on a regular basis.

2.0 Scope of the Strategy

2.1 This statement outlines how NCER is responding to its responsibility to manage risks and opportunities using a structured and incremental approach.

Objective 1 - Identify the roles and responsibilities of Board Members in relation to the management of risk by establishing a risk management structure to act in an advisory and guiding capacity coupled with an agreed Summary of Responsibilities and through maintaining effective communication.

Objective 2 - Set out a clear methodology for managing risk within the organisation by maintaining documented procedures for the control of risk.

Objective 3 - Provide a focus for the work on risk management and raise its profile across the NCER by continuing to demonstrate the application of risk management principles and through training and communication.

Objective 4 - Integrate risk management into the culture of the organisation by continuing to demonstrate the application of risk management principles.

Objective 5 - Embed risk management through the ownership and management of risk as part of all decision making processes by continuing to demonstrate the application of risk management principles, maintaining effective communication and through compliance reviews.

3.0   Strategy – Key Elements

3.1   Risk appetite

3.1.1. Understanding and setting a clear risk appetite level is essential to achieving an effective risk management framework and should be done before the treatment of risks is considered. Establishing and articulating the risk tolerance level helps to ensure that consideration in the way we all respond to risk is consistent and that there is a shared vision for managing risk.

3.1.2. NCER's risk appetite is determined by individual circumstances and the NCER recognises that in pursuit of its objectives it may choose to accept an increased degree of risk. The NCER will establish and articulate risk tolerance levels for the differing areas of its business. Where the NCER chooses to accept an increased level of risk it will do so, subject always to ensuring that the potential benefits and consequences are fully understood before developments are authorised, and that sensible measures to mitigate risk are established.

3.1.3. The appropriate level will depend on the nature of the work undertaken and the objectives pursued. For example, where safeguarding NCER data is critical then appetite will be low, conversely for an innovative project it may be higher, with the acceptance of short-term failure that could pave the way to longer term success. Below are examples of broad approaches to setting risk appetite that will ensure a response to risk that is proportionate to any given objectives.

- **Averse**

Avoidance of risk and uncertainty is a key organisation objective.

- **Minimal**

Preference for ultra-safe options that are low risk and only have a potential for limited reward.

- **Cautious**

Preference for safe options that have a low degree of risk and may only have limited potential for reward.

- **Open**

Willing to consider all potential options and choose the one most likely to result in successful delivery, while also providing an acceptable level of reward and value for money.

- **Hungry**

Eager to be innovative and to choose options offering potentially higher business rewards, despite greater inherent risk.

3.1.4. The appropriate approach will vary, with different NCER activity having an appetite that reflects the specific objective in question, with an overarching risk appetite framework to ensure consistency.

3.2 *Risk Classifications. These are the broad headings under which all risks are determined, namely* **Corporate and Operational for NCER activities.**

3.3 *Risk categories. The risks faced by the NCER are categorised in relation to what we do, namely,* **Political, Economic, Social, Technological, Legislative, Environmental, Financial, Managerial, Partnership, Customer and Competitive**

Political: failure to respond to key objectives or policy of central or local government.

Economic: NCER's ability to meet its financial commitments.

Social: the effects in changes in demographic trends on the NCER's ability to deliver its objectives.

Technological: NCER's capacity to deal with technological change or its ability to use technology to meet changing demands.

Legislative: current or potential changes in national or international law.

Environmental: the environmental consequences of service delivery (in terms of energy efficiency, pollution, recycling, travel policy etc).

Financial: financial planning and control and the adequacy of insurance cover.

Managerial: professional competences of Board Members.

Partnership: Quality, cost and effectiveness of service delivery with other providers and the reliance on partners to deliver key parts of its services.

Customer: failure to recognise the changing needs and expectations of customers (namely member authorities).

Competitive: the failure to deliver on outcomes within agreed costs and specifications.

3.4   Inherent and residual risks

3.4.1. A complete risk management framework should assess a risk as both an inherent risk and a residual risk.

3.4.2. An inherent risk represents the impact and likelihood of a risk event if no responses have been applied to manage the risk.

3.4.3. Residual risk, meanwhile, is the impact and likelihood of a risk event after responses have been applied.

3.4.4. The difference between the inherent risk and the residual risk is the effect of the response. Where quantitative methods are used to assess the risk, this effect can be stated as a number, and can be known as the 'response score' or 'control score'.

3.4.5. The different ways to manage risk may be summarised below. These are all responses to risks.

- **Terminate**: terminate the activity or circumstance that gives rise to the risk.
- **Tolerate**: do nothing, or rather, consciously accept the level of risk.
- **Transfer**: pass the risk to another party, for example by insurance, hedging or contracting it out.
- **Treat**: take action to reduce either the impact or the likelihood that the risk event will materialise.

Sometimes, a fifth kind of response is added:

- **Take**: as in 'take the opportunity'. This is important as our risk management framework will include risk events with favourable impacts as well as those with adverse impacts.

3.4.6. In practice, NCER will probably use a mixture of the different kinds of responses to address each risk.

3.5   Response manages inherent risk to within risk appetite:

3.5.1. In a new project, for example, it may be relatively easy to focus on the inherent risk because there are no existing responses in place.

3.5.2. However, in an established continuing organisation introducing risk management for the first time, it can be difficult to disregard existing responses and to focus on the underlying risk. The response should reflect the NCER's risk appetite to minimise or control inherent risk.

3.5.3. For example, an inherent risk facing the NCER is that the invoices it receives are wrong in some way - they could be for goods or services not received or wrongly priced - but most continuing organisations have some existing accounting procedures that are in effect responses to those risks.

3.6 Residual risk ratings

3.6.1. To assess the *residual risk rating* (i.e. High, Medium or Low) multiply each *residua*l risk's *impact* score by the *likelihood* score.

3.7 Communication & Reporting

3.7.1. Updates on risk activity should take place on a regular basis

3.7.2. This approach will help the management of risk to become fully embedded in all our processes and will allow for challenge and discussion by key stakeholders.

3.8 Risk Management Methodology

3.8.1 Financing Risk Management

Evaluating and costing the impact of a risk and also the associated mitigating actions ensures that any decisions to implement controls are proportionate to organisational objectives, priorities and available resource.

Effective risk management can lead to improved insurance management and, in turn, a reduction in insurance premiums, reduction in the number and level of claims resulting in lower value of uninsured losses.

3.8.2 Methodology

The NCER has a methodology for the effective management of risk, in accordance with NCER policy, which incorporates the following processes:

- Risk identification and assessment.
- Risk control and management.
- Risk review and reporting.

3.8.3 Risk Identification and assessment

In identifying risks, we need to consider what may prevent the achievement of NCER priorities, outcomes and objectives. Risks may be internally or externally generated (from local, national or international sources). The risks may relate to strategic or operational matters; may arise from partnership arrangement, relate to specific projects or on going service provision.

Once risks are identified the level of the risk should be assessed. The assessment of the level of risk is informed by two key factors – the likelihood of the risk actually occurring and the impact that occurrence would have on the ability of the organisation to achieve NCER organisational priorities, outcomes and objectives. The NCER uses a four-by-four matrix to determine the risk score (refer to the supporting Risk Guidance document for further detail on the risk management / scoring process and 3.7 above).

At this point a decision needs to be made about the level of risk that is acceptable; taking into consideration the "risk appetite" of the organisation. This will inform the level of subsequent control; management and reporting of the risk (see 3.1 above).

3.8.4 Risk Control and Management

It is the responsibility of the NCER Board to approve and maintain oversight of a register of the corporate risks to the organisation. This will incorporate the most significant risks to the delivery of NCER priorities and objectives.

There are five general responses to an identified risk: **terminate** the activity that is generating the risk approach; **tolerate** the risk, **transfer** the risk to another organisation or body; **treat** the risk by taking action to mitigate it or **Take**: as in 'take the opportunity'. (Further explanation of considerations for each of these approaches is outlined in 3.4.5 above).

Each identified risk requires a supporting control, detailing the existing risk treatment/ controls already in place and any improvement actions identified to further mitigate the risk. The control strategies should include target completion dates for the implementation of mitigation measures.

The methods and actions chosen to manage risks should be reflected in business plans and the necessary resources required to do so should be identified and allocated accordingly.

3.8.5 Risk Review and Reporting

Risks should be managed and monitored on an on-going basis and re-evaluated as appropriate.

The risk management process requires a robust reporting and review framework to ensure key risks to the organisation are accurately identified, considered and managed at the appropriate levels. This is integral to a number of review and reporting channels as follows:

An annual Risk Management report detailing progress on Risk Management should be submitted to the Board.

Risk implications should be considered in all key decisions.

3.8.6 Risk Escalation / De-escalation

It is at this monitoring stage that consideration should be given to propose and agree the escalation of a risk.

It is also at this stage, through the regular monitoring of the risk, associated scoring and control strategies that consideration is given to the approval to remove a risk from the register if the risk is deemed to be at a manageable (tolerable) level.

3.8.7 Roles and responsibilities

The following groups and individuals have the following roles and responsibilities for risk management within the NCER.

<u>Managing Director</u>

To oversee the effective management of risk throughout the NCER; to hold the Board accountable for the effective management of risk by Directors of the NCER.

<u>Board Members</u>

To scrutinise and review the management of risk on behalf of the organisation

To ensure that the NCER manages risk effectively through the development of a comprehensive risk management strategy.

External Review

To support the NCER in the effective development, implementation and review of the risk management strategy.

4.0   Governance and Implementation

4.1   This Strategy exists within an overall framework of policies and procedures designed to protect reputation, and ensure appropriate standards of behaviour from NCER Directors.

4.2   Any further guidance or advice on the operation of the statement can be obtained from the Managing Director.

PR – 31st July 2019