

REPORT TO: Audit and Governance Committee

MEETING DATE: 29 November 2022

BY: Chief Executive

SUBJECT: Finance Risk Register

1 PURPOSE

- 1.1 To present to the Audit and Governance Committee the Finance Risk Register (Appendix 1) for discussion, comment and noting.
- 1.2 The Finance Risk Register is developed in keeping with the Council's Risk Management Strategy and is a live document, which is reviewed and refreshed on a regular basis, led by the Finance Local Risk Working Group (LRWG).

2 RECOMMENDATIONS

- 2.1 It is recommended that the Audit and Governance Committee notes the Finance Risk Register and in doing so, the Committee is asked to note that:
 - the relevant risks have been identified and that the significance of each risk is appropriate to the current nature of the risk.
 - the total profile of the Finance risks can be borne by the Council at this time in relation to the Council's appetite for risk.
 - although the risks presented are those requiring close monitoring and scrutiny over the next year, many are in fact longer-term risks for Finance and are likely to be a feature of the risk register over a number of years.

3 BACKGROUND

- 3.1 The Risk Register has been compiled by the Finance LRWG. All risks have been evaluated using the standard (5x5) risk matrix (Appendix 2) producing an evaluation of risk as either 'low (1-4)', 'medium' (5-9), 'high' (10-19) or 'very high' (20-25).
- 3.2 The Council's response in relation to adverse risk or its risk appetite is such that:
 - Very High risk is unacceptable and measures should be taken to reduce, transfer or treat the risk to a more tolerable position;

- High risk may be tolerable providing the Council is assured that adequate and effective control measures are in place;
- Medium risk is tolerable with control measures that are cost effective;
- Low risk is broadly acceptable without any further action to prevent or mitigate risk.

3.3 The current Finance Risk Register includes 1 Very High, 7 High, 5 Medium and 2 Low risks. As per the Council's Risk Strategy, only the Very High and High risks are being reported to the Committee.

4 POLICY IMPLICATIONS

4.1 In noting this report the Council will be ensuring that risk management principles, as detailed in the Corporate Risk Management Strategy are embedded across the Council.

5 INTEGRATED IMPACT ASSESSMENT

5.1 The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

6 RESOURCE IMPLICATIONS

6.1 Financial - It is the consideration of the Finance LRWG that the recurring costs associated with the measures in place for each risk are proportionate to the level of risk. The financial requirements to support the Risk Register should be met within the proposed budget allocations. Any unplanned and unbudgeted costs that arise in relation to any of the corporate risks identified will be subject to review by the Corporate Management Team.

6.2 Personnel - There are no immediate implications.

6.3 Other - Effective implementation of this register will require the support and commitment of the Risk Owners identified within the register.

7 BACKGROUND PAPERS

7.1 None

Appendix 1 – Finance Risk Register 2022-23

Appendix 2 – Risk Matrix

AUTHOR'S NAME	Scott Kennedy	
DESIGNATION	Emergency Planning, Risk and Resilience Officer	
CONTACT INFO	skennedy@eastlothian.gov.uk	01620 827900
DATE	17 November 2022	

Risk ID	Risk Category	Risk Description (Threat/Opportunity to achievement of business objective)	Risk Control Measures (currently in place)	Assessment of Current Risk			Planned Risk Control Measures	Assessment of Residual Risk [With proposed control measures]			Planned Control Target Date	Evidence held of Regular Review
				Likelihood	Impact	Risk Rating		Likelihood	Impact	Residual Risk Rating		
				L	I	L x I		L	I	L x I		
F1	Financial Service Objectives	<p>Market Conditions and Supply Chain Disruption</p> <p>There is a risk that suppliers may not participate in tenders or request that response periods be extended due to lack of market/supplier/internal resource availability resulting in returned tender proposals exceeding allocated budget.</p> <p>There is a risk that the Care at Home providers (framework and option 3) are not able to recruit to deliver complex care packages and may seek to hand back packages and stop operating in EL.</p> <p>There is a risk of an impact on the supply certainty of material for roads requirements caused by 60% of Bitumen supply being from Russia or processed in Russia, resulting in delays and price uplifts between 20-40%.</p>	<p>Planning – assessing project programmes and possible procurement options</p> <p>Reporting – providing information to funding bodies, Council management and other services</p> <p>Monitoring – Continuing to liaise with industry bodies, working groups, other local authorities, the Scottish Government, suppliers and contractors to keep the Council informed.</p> <p>Regular contact with our suppliers and framework providers</p> <p>ELHSCP are RAG rating care packages to prioritise care.</p> <p>Scotland Excel and SCOTS Executive are monitoring the situation closely. Issue being escalated to Transport Scotland/Scottish Govt. TS looking at future mutual aid arrangements in case of significant disruption.</p> <p>Prioritisation – deciding which works are essential, balancing time, cost and risk, possibly delaying works until the market settles.</p>	5	4	20	<p>Enhanced value engineering.</p> <p>Reviewing the opportunity to phase planned works rather than deliver wholesale projects.</p> <p>Consideration to delaying capital and revenue projects where appropriate and possible.</p> <p>Capital Plan review and prioritisation - using what we have differently to deliver essential projects at the expense of less essential.</p> <p>Work on recruitment with EL works. Consider mini comp on framework or open tender but issue is staff recruitment so 'new' provider could cause problems for existing providers and care packages.</p>	4	4	16	<p>March 2023</p> <p>March 2023</p> <p>March 2023</p> <p>March 2023</p> <p>March 2023</p>	<p>Risk reviewed by Service Manager – Procurement October 2022 with no changes to risk scores.</p> <p>New risk created by Service Manager – Procurement on 21/04/22.</p>
F2	Financial Impact	<p>HRA income and Rent Arrears</p> <p>A fall in HRA income may impact on our ability to provide services and deliver on capital investment plans.</p> <p>Any increase in rent arrears would reduce income to the HRA.</p> <p>Many households now face an unprecedented cost of living crisis with soaring energy prices, rising inflation and an increase in national insurance.</p>	<p>The Council's Rent Income Team has responded well to the impact of current challenges and the approach to dealing with arrears has remained fair, whilst developing working practices to ensure tenants remain engaged and supported. The mitigating work of the team has ensured that rent arrears levels have remained low, given that they had the potential to be far more severe.</p> <p>Performance management is well embedded within the Service and in addition to statutory reporting, Performance Management Frameworks are in place to ensure rent arrears levels are monitored and communicated monthly to management, staff and other key stakeholders.</p> <p>Revised rent arrears procedures are helping Revenues staff to improve rent collection, supporting an early intervention /preventative approach to rent arrears management.</p> <p>Joint working with Benefits colleagues and other Council services has ensured that Council tenants are further supported with Discretionary Housing Payments (DHP) and the Tenant Grant Fund (TGF) where appropriate and this has impacted positively on overall arrears levels.</p>	4	3	12	<p>A draft Rent Income Management Policy has been developed and is currently pending awaiting input from the Housing Service in relation to homelessness arrears.</p> <p>The Rent Income Team has previously worked with Housing Quality Network (HQN) Consultant, Tony Newman and is engaging again in a training programme for staff in Q3 of 2022/23.</p> <p>In addition to the 2021/22 Scottish Government funding, in 2022/23 additional funding has been given to local authorities to support local economic recovery and cost of living impacts on low income households.</p>	3	3	9	<p>March 2023</p> <p>December 2023</p> <p>March 2023</p>	<p>Risk refreshed September 2022 by Service Manager – Revenues and then November 2022 by Head of Finance with current risk score increased from 9 to 12 and residual score from 6 to 9.</p> <p>Also Risk H12</p>

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				<p>Improved joint working and information sharing between Revenues and Housing staff (via EDRMS etc.) and other Council services.</p> <p>The Council's Financial Inclusion service is providing advice and support for Council tenants experiencing financial difficulties and is helping those who are struggling to manage household budgets, particularly those in receipt of Universal Credit.</p> <p>Pre-tenancy checks by Community Housing Officers identify at risk/vulnerable tenants.</p> <p>The Revenues Service, in conjunction with the Corporate Communications team, have developed a Helping with the Cost of Living Crisis leaflet, outlining support available to anyone in need of help. The leaflet has been widely distributed and promoted digitally also.</p> <p>The Revenues Service, in conjunction with the Corporate Communications team, developed and refreshed the Coronavirus Financial Support leaflet and this was promoted by a number of internal services and external agencies as well as being promoted digitally.</p>									
F3	Financial	<p>Loss of General Services Income</p> <p>A reduction in income via reduced collection of Council revenue, including Council Tax, Business Rates, Rent and Sundry Accounts could impact adversely on the Council's ability to provide quality services.</p> <p>Many households and businesses now face an unprecedented cost of living crisis with soaring energy prices, rising inflation and an increase in National Insurance while the conflict in Ukraine is pushing energy prices even higher.</p>		<p>The Council's Revenues Service continues to respond well to the impact of current challenges. The teams mitigating work has ensured that collection levels have remained high, given that they had the potential to be severely affected.</p> <p>A Modern Apprentice has been recruited to help bolster capacity within the Council Tax 7 Debt Management team and to provide an opportunity for a young person to develop their skills in the workplace, increasing their employability opportunities.</p> <p>Performance management is well embedded within the Service and in addition to statutory reporting, Performance Management Frameworks are in place to ensure collection levels are monitored and communicated monthly to management, staff and other key stakeholders.</p> <p>Processes and procedures are in place in order to comply with legislation and other Council/Service standards.</p> <p>After a temporary suspension due to Covid-19, debt recovery work has fully resumed and although automated and robust, those facing financial hardship are encouraged to engage with the Revenues teams to ensure they are fully support and any income maximised where entitlement exists.</p> <p>The additional work associated with the financial impact of Covid has contributed to a build-up of outstanding Council Tax work. Operational changes have been made to the way we handle incoming customer enquiries in order to maximise efficiency and reduce turnaround times. The situation remains under constant review.</p>	4	3	12	<p>Temporary funding will be used to increase the capacity of the Council Tax & Debt Management team by 1FTE until 31 March 2023 although recruitment is proving challenging due to lack of suitable applicants.</p> <p>In addition to the 2021/22 Scottish Government funding, in 2022/23 additional funding has been given to local authorities to support local economic recovery and cost of living impacts on low income households. Discussions are ongoing in relation to allocation and distribution of this money.</p>	3	3	9	<p>March 2023</p> <p>March 2023</p>	<p>Risk refreshed September 2022 by Service Manager – Revenues and key staff and then November 2022 by Head of Finance with current risk score increased from 6 to 12 and residual score from 6 to 9.</p>

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			<p>Collection/enforcement by Sheriff Officers/Debt Collection Agency using range of options for litigation against debtors. Again, those needing additional support are asked to engage with teams so that additional, tailored help can be provided.</p> <p>The Council's Financial Inclusion service is providing advice and support for households and businesses experiencing financial difficulties and is helping those who are struggling to manage household budgets, particularly those in receipt of Universal Credit.</p> <p>The Revenues Service, in conjunction with the Corporate Communications team, have developed a Helping with the Cost of Living Crisis leaflet, outlining support available to anyone in need of help. The leaflet has been widely distributed and promoted digitally also.</p> <p>During the Covid-19 pandemic, the Retail, Hospitality & Leisure relief was awarded to eligible businesses to help reduce their rates liability. As this relief stopped at end Q1 2022/23, we may see a detrimental impact on collection levels for businesses in these sectors.</p>									
F4	Financial	<p>Scottish Welfare Fund</p> <p>The level of administration funding received from the Scottish Government does not reflect the actual level of resource deployed by the Council to administer the SWF scheme (crisis grants and community care grants).</p> <p>Demand has increased throughout the pandemic and continues to remain high as a result of the cost of living crisis. This increasing demand may become unsustainable as wider resource is having to be deployed to assist with this work, which is reducing capacity to manage Housing Benefit and Council Tax reduction claims.</p> <p>The level of programme funding received from the Scottish Government does not reflect the increased demand for SWF payments.</p> <p>It may become unsustainable for the Council to continue to provide top up funding to meet the demand for crisis and community care grants.</p>	<p>In order to adequately resource the administration of SWF, all Benefits Officers have additional responsibility for this business function.</p> <p>The Council has committed money from reserves to top-up the Scottish Government programme funding for 2022/23.</p> <p>LACER funding has been allocated to help meet the demand for cost of living payments.</p>	3	4	12	<p>A planned Scottish Government review of the SWF scheme is taking place during 2022 with findings due to be published in December 2022.</p>	2	4	8	December 2022	Risk refreshed by Service Manager – Revenues September 2022 with current risk rating increased from 5 to 12 and residual from 3 to 8.
F5	Financial	<p>Key Financial Controls</p> <p>Lack of key financial controls which may cause an instance of serious financial fraud or corruption resulting in financial loss and wider reputational loss to the authority.</p> <p>There is an increased risk of fraud as a result of changes in processes linked to new ways of working, limited staff resources in some services, and the impacts of the cost of living crisis.</p>	<p>The whole system of financial controls across the Council.</p> <p>Annual assurance and testing of internal financial controls through annual Governance statement.</p> <p>System of Internal Audit & statutory reporting framework.</p> <p>CMT undertake a self-evaluation framework of Corporate Governance including preparing an annual assurance statement which confirms how internal financial controls are operating within their respective service areas.</p>	3	4	12	<p>Processes continue to be explored as we continue to support a new way of working.</p> <p>NFI data matching exercises underway for 2022/23 including key financial systems data to provide detection if key financial frauds have been undertaken.</p> <p>Whistleblowing policy has been updated and is being communicated out to all staff.</p>	2	3	6	<p>March 2023</p> <p>November 2023</p> <p>November 2023</p>	Risk refreshed September 2022 by Service Manager - Internal Audit with no changes to risk scores.

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			<p>Financial authorised signatories' scheme is in place with appropriate level of financial authorisation delegated to respective managers.</p> <p>Financial "risk rating" of services through quarterly reports with the ability to exercise enhanced financial controls.</p> <p>Internal Audit plan is being regularly reviewed to ensure appropriate coverage of risks continue to be prioritised on an appropriate basis.</p>									
F6	Financial	<p>Key Financial Systems</p> <p>A failure of key financial systems e.g. Pecos and Great Plains due to technical problems and/or supplier failure or loss of key staff could lead to service failure and incomplete management information. Statutory functions may not be completed on the back of a system failure to Great Plains.</p> <p>COVID has increased the reliance on systems to provide necessary and timely information to enable effective decision making.</p>	<p>Contract management arrangements in place with Great Plains supplier, working closely with IT colleagues.</p> <p>Great Plains will be reviewed every three years in line with major upgrades.</p> <p>Current robust contract in place for Pecos which is a government selected supplier.</p> <p>Both systems are regularly backed up as part of ELC IT processes, including a daily download from the financial system.</p> <p>Sharing of knowledge and documentation of procedures within ELC, and clear procedural notes in place.</p> <p>Key system controls reviewed and tested regularly to support audit requirements.</p> <p>Initial phase of Finance service review has secured additional administrative support within the Corporate Finance team.</p>	3	4	12	<p>Purchase 2 Pay review is ongoing, which will review our strategic approach to procuring and paying goods and services.</p> <p>Greater number of staff to be shown administration and other tasks on the main Financial systems to ensure tasks could be completed if other key staff are not available.</p>	2	3	6	<p>March 2023</p> <p>December 2022</p>	<p>Risk Register reviewed by Service Manager – Corporate Accounting September 2022 with no change to risk scores.</p> <p>Risk reviewed and refreshed by Finance Managers October 2021 with current score increased from 8 to 12 and residual risk score increased from 4 to 6. .</p>

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F7	Service Objectives	<p>Finance Staffing Issues</p> <p>Loss of key finance staff, external recruitment pressures, and on-going complexity and continuing financial challenges and complexity of finances may result in the Finance service not being able to provide an appropriate level of financial support to the Council and wider services. The team may not have the appropriate skills, and due to the increasing obligations may not be able to meet statutory financial accounting requirements such as completion of statutory annual accounts.</p> <p>There has also been an increasing number of staff turnover including ill health and retirements of experienced staff members. Turnover of staff also means that knowledge is leaving the team and it will take time for new staff to get up to speed.</p>	<p>On-going development of skills across the team to enhance knowledge and ensure the workforce have the appropriate financial skills to meet on-going requirements.</p> <p>Generic Finance posts have been established to ensure Business Continuity across the team and ensure that there maintains flexibility and transfer of knowledge within the team to support service provision.</p> <p>Work has and will continue to be progressed to review the ongoing support which can be provided to service areas, introducing standardised procedures to financial management provision where possible and provide training and support to services to allow them to manage their budgets as effectively as possible.</p> <p>Support on-going training for Finance staff ensuring the team have the appropriate skills to support the Council and financial accounting requirements.</p> <p>Trainee Accountant posts have been set up to ensure that we have some succession planning in place for the future.</p> <p>Finance Service review currently in progress, designed to increase capacity and resilience across the workforce.</p>	4	4	12	<p>The Finance Service review is progressing, which will ensure the team has the necessary skills to meet our on-going obligations and enhanced support and resilience across the Finance team.</p> <p>Enhance the number of relevant qualified accountancy staff to meet statutory accounting requirements.</p>	2	3	6	<p>December 2022</p> <p>December 2025</p>	<p>Risk Register reviewed by Service Manager – Corporate Accounting September 2022 with no change to risk scores.</p> <p>Risk Register reviewed by Executive Director and current risk score increased from 9 to 12.</p>
F8	Reputation Legal & Regulatory	<p>Failure to Comply with procurement processes</p> <p>Failure of client services to comply with our procurement processes through lack of knowledge/experience and/or also business failure of key suppliers leads to service failure, poor value for money, fraud, loss of reputation and/or legal action.</p> <p>Loss of further functionality to contract register due to upgrades to the main platform would lead to non-</p>	<p>Corporate Procurement Strategy for period 2017-22 adopted and in place along with associated procedures, reviewed on an annual basis and updated as required.</p> <p>Controls in place over creation of new suppliers and Supplier Finder on Intranet.</p> <p>Additional approval within procurement for single source applications is in place.</p> <p>Close working with internal audit and departments (Audited regularly).</p> <p>Measures are adopted to ensure appropriate budget is in place for procurement project initiated by Services through Finance budget approval of PID documents before the initiation of a project</p> <p>Enhanced escalation of tender sign off by Heads of Service in the event the tender price exceeding cost by more than PID.</p> <p>Procurement team used SXL to deliver Contract management training for service staff - rolled out in May 2022.</p> <p>New procurement software (Atamis) purchased, phased implementation of 3 modules (contract</p>	3	4	12	<p>Draft Corporate Procurement Strategy for period 2023-28 prepared to go to Cabinet in early 2023.</p> <p>Corporate Procurement Procedures being updated and will be re-launched. (standing Orders late 2022/staff procedures early 2023) This includes any further controls to be implemented in response to Low Level Spend Internal Audit.</p> <p>LearnPro Training for all staff being developed and rolled out Early 2023.</p> <p>Enhanced escalation of tender sign off by Heads of Service in the event the tender price exceeding cost by more than 10%.</p> <p>Exploring options to link Purchase orders and payments to contract reference number to allow traceability, transparency and benefit tracking. This will also reduce risk maverick spend.</p> <p>Purchase to Pay review underway across the Council which will enhance procurement processes and service compliance.</p> <p>Roll-out of training to users of the new Atamis system. Following contract award, the contracting Service will undertake contract management and capture in new Atamis</p>	2	3	6	<p>January 2023</p> <p>December 2022</p> <p>December 2022</p> <p>October 2023</p> <p>March 2023</p> <p>March 2023</p>	<p>Risk Refreshed October 2022 by Service Manager – Procurement with no changes to risk scores.</p> <p>Risk Register reviewed by Executive Director and residual risk score reduced from 9 to 6.</p>

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		compliance and disproportionately increased administrative workload as well as failure to provide efficient procurement services.		register, pipeline management & contract/supplier management).				system that will be visible to Procurement to ensure further checks can be carried out that the terms of the contract continue are being followed and best value is achieved.				January 2023	

East Lothian Council Risk Matrix

Likelihood Description

Likelihood of Occurrence	Score	Description
Almost Certain	5	>90% chance of occurring
Probable	4	70%-90% chance of occurrence
Possible	3	30-70% chance of occurring
Unlikely	2	10-30% chance of occurring
Rare	1	<10% chance of occurring

Impact Description

Impact of Occurrence	Score	Description							
		Impact on Service Objectives	Financial Impact	Physical and/or Psychological Impact on People	Impact on Time	Impact on Reputation	Impact on Assets	Business Continuity	Legal & Regulatory
Catastrophic	5	Catastrophic failure in service delivery and key service standards are not met, long-term catastrophic interruption to operations, several major partnerships are affected	Severe impacts on budgets (emergency Corporate measures to be taken to stabilise Council Finances. Consideration should be given as to whether this is an insured or uninsured risk and whether there may be reliance on reserves. The Council is expected to hold a reserve to budget ratio of 2%.	Single or Multiple fatality and or psychological impact, within council control, leading to fatal accident enquiry.	Serious - in excess of 2 years to recover pre-event position.	Highly damaging, severe loss of public confidence, Scottish Government or Audit Scotland involved. Prolonged regional and national condemnation.	Significant disruption to building, facilities, vehicles or equipment (Loss of building, vehicles, rebuilding required, temporary accommodation required, vital equipment lost without replacement capability available resulting in services being unable to be delivered).	Complete inability to provide service/system, prolonged downtime with no back-up in place.	Catastrophic legal, regulatory, or contractual breach likely to result in substantial fines or other sanctions, including substantial involvement from regulators.
Major	4	Major impact to service quality, multiple service standards are not met, long-term disruption to operations, multiple partnerships affected.	Major impact on budgets (need for Corporate solution to be identified to resolve funding difficulty). Consideration should be given as to whether this is an insured or uninsured risk and whether there may be reliance on reserves.	Number of extensive injuries (major permanent harm) or major psychological impact to employees, service users or public.	Major - between 1 & 2 years to recover pre-event position.	Serious negative national or regional criticism and publicity.	Major disruption to building, facilities, vehicles or equipment (Significant part of building unusable for prolonged period of time, alternative accommodation required, equipment or vehicles unavailable to provide significant elements of service delivery and no appropriate contingency arrangements in place).	Significant impact on service provision or loss of service.	Legal, regulatory, or contractual breach, severe impact to Council, fines and regulatory action publicly enforced.
Moderate	3	Significant fall in service quality, major partnership relationships strained, serious disruption in service standards.	Moderate impact on budgets (can be contained within overall directorate budget).	Serious injury requiring medical treatment or moderate psychological impact to employee, service user or public (semi-permanent harm up to 1yr), council liable.	Considerable - between 6 months and 1 year to recover pre-event position.	Adverse national media public attention with elected members becoming involved.	Moderate disruption to building, facilities, vehicles or equipment (loss of use of building for medium period, loss of equipment or vehicles requires contingency arrangements to be employed and has moderate impact on overall service delivery).	Security support and performance of service/system borderline.	Legal, regulatory, or contractual breach, moderate impact to Council, regulator action and or improvement required of the Council .
Minor	2	Minor impact to service quality, minor service standards are not met, short-term disruption to operations, minor impact on a partnerships	Minor impact on budgets (can be contained within service head's budget).	Non life changing injury or psychological impact to staff or member of the public requiring treatment.	Some - between 2 and 6 months to recover.	Minor adverse local, public or media attention and complaints.	Minor disruption to building, facilities, vehicles or equipment (alternative arrangements in place and covered by insurance, equipment or vehicles unavailable for small period of time minor impact on service).	Reasonable back-up arrangements, minor downtime of service/system.	Legal, regulatory, or contractual breach, minor impact to Council, regulator advice and improvement requested of the Council.
Minimal	1	No impact to service quality, limited disruption to operations.	Minimal impact on budgets (can be contained within unit's budget).	Minor injury or minor psychological impact to employee, service user or public.	Minimal - Up to 2 months to recover.	Public concern restricted to local complaints and of no interest to the media.	Minimal disruption to building, facilities, vehicles or equipment (alternative arrangements in place, equipment or vehicles alternative quickly available to replace or substitute).	No operational difficulties, back-up support in place and security level acceptable.	Legal, regulatory, or contractual breach, negligible impact to Council, regulator suggested improvements requested.

Risk	Impact				
	Minimal (1)	Minor (2)	Moderate (3)	Major (4)	Catastrophic (5)
Almost Certain (5)	5	10	15	20	25
Likely (4)	4	8	12	16	20
Possible (3)	3	6	9	12	15
Unlikely (2)	2	4	6	8	10
Remote (1)	1	2	3	4	5

Key

Risk	Low	Medium	High	Very High
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