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Risks may be best understood if they are framed as scenarios, i.e. finding the source (***Cause***) of the risk **(event)** and its possible impact on the objective (***Consequence***).

As a result of ....<definite cause>, **there is a risk that** …. <uncertain event> **which may result in** ….<effect on objectives>

For example:

	Cause	Consequence
RISK	**As a result of** limited staffing and budget resources being prioritised on the new office refurbishment, **there is a risk** that there will be a delay of up to 6 months in implementing the buildings maintenance plan.	• increased deterioration • increased cost of implementation • budget shortfall • Insurance premium affected

Care needs to be taken to avoid stating impacts which may arise as being the risk themselves. Equally, risks should not be defined with statements that are simply the converse of the objectives.

The following illustrates this through a very simple example:

Objective – to travel by train from A to B for a meeting at a certain time.

Risk?	
Being late and missing the meeting X	*this is a statement of the impact of the risk*
Failure to get from A to B on time for the meeting X	*this is simply the converse of the objective.*
Missing the train √	Consequence: being late and/or missing the meeting
Missing the train is a risk which can be mitigated by allowing extra time to get to the station.	
Severe weather prevents the train running √	Consequence: missing the meeting
Severe weather is a risk that can't be controlled but a contingency plan can be made.	

(from HM Treasury Orange Book)

Positive Risk Statements

The same structure of cause/uncertain event/consequence can be used to frame an upside risk.

For example:

As a result of the need to refurbish the new office **it may be possible** to upgrade the telephony specification to provide enhanced resilience across the organisation.

As a result of the increased number of undergraduates looking for work experience **it may be possible** to introduce new placement schemes which will attract more young/well qualified people into the workforce in subsequent years.

(Some other examples of opportunity risks are provided in Appendix 2)

Section 2: SBC Risk Management Process and Methodology

Step 3: Prioritising the risk

(Assessing the risk level)

- Inherent to Residual risk
- Assessment process and matrix
- Prioritisation

An overview of the assessment process

Once identified and defined each risk needs to be assessed to determine the risk level and therefore the relative priority of the risk.

The council uses a 5x5 matrix (page 25) and *InPhase* reporting using a sunburst diagram to indicate the organisation's exposure to risk, which is defined as being the relationship between the likelihood of a risk occurring and its impact.

In assessing a risk, there are a number of things to take into account:

- Assessing the impact if the risk occurred is considered from three aspects: impact on service delivery, financial loss and on reputation. This is to provide a more comprehensive understanding of the impact. For example, a risk may have very little financial impact but a very serious reputational one.

- Both the **inherent and residual risk** level is scored. See explanation below.

- Risk perception varies according to each person's attitude to risk. To encourage consistency in assessing the relative likelihood and impact of a particular risk occurring, guidance is provided for each level in the Likelihood and Impact tables to assist. However, this is not intended to be a comprehensive outline, but an indication of the level of impacts that may be considered at each level (or frequency of occurrence for Likelihood).

  See **Guide to aid consistent prioritisation of risks** pages 22-23

Inherent and residual risk

There are two steps to the assessment of the risk and both scores are recorded on the risk register:

Step 1

The initial assessment should be made <u>without</u> taking into account any existing controls (mitigations) that are in place. Assume the worst case scenario if the full risk occurs. This will represent the **<u>inherent risk score and risk level</u>** recorded on the risk register.

The reason for capturing inherent risk is that this demonstrates the council's exposure if the control should fail. Knowledge about the inherent risk also demonstrates whether there is over control in place – if the inherent risk is acceptable, then this informs the extent to which the risk needs to be addressed and whether resources need to be expended on controlling it.

Step 2

Next it is necessary to consider what mitigation measures are already in place which can be used to manage this risk. These should be recorded on the register. They may include procedures, systems or other control measures. The likelihood and impact scores are then reassessed taking these into account, in order to produce the anticipated **residual risk score and risk level.** The residual risk is the level of risk that exists now, today.

Guide to aid consistent prioritisation of risks
Use the statements/indicators in the following tables to help identify the most appropriate level of risk.

Remember this is a judgement and the resulting risk score should 'feel right'. When assessing the level of a risk it is important to apply a 'sense check' so that the risk score feels right.

Impact on service / reputation / finance indicators

	Level of impact	Service delivery	Finance	Reputation
5	Major	•Potential for loss of/major disruption to, service delivery (for > '7' days) •Possible formal regulatory intervention •Possible loss of strategic partner	•Virement required >£250,000 •Supplementary Estimate (ie additional expenditure or income reduction) requiring approval of Full Council •Very high potential for successful legal challenge with substantial financial implications •Potential negligence claim. (loss of Life)	•May require resignation of CE and/or Leader •Extensive/sustained negative coverage in national media likely (>5day coverage) •Possible town wide revolt against service delivery (proposed changes) •Impact on staff morale potentially catastrophic (breakdown in staff confidence of management authority)
4	Significant	•Potential for major disruption to service delivery (> 48 hrs and < 7 days with reprioritisation of service deliverables necessary) •Formal regulatory investigation •May result in failure to deliver Corporate Priority	•Virement required £50,000 - £250,000 •Supplementary Estimate (ie additional expenditure or income reduction) requiring approval of Executive / Executive Portfolio Holder •Possible significant variations to contracts of works with major effect on budget •Potential for significant impact on local economy (e.g. change of contractor use) •High potential for successful legal challenge with serious financial implications •Any unplanned expenditure or loss of income which triggers need for identification of additional savings requirements •Potential for extensive / multiple injuries resulting in significant compensation claims	•May require resignation of Director / HoS •Coverage in national press and / or low national TV coverage likely (< 5 day coverage) •May result in major damage to object / area of importance to a local area that will require prompt repair with corporate-wide input •Impact on staff morale likely to be significant (> 6 months)

	Level of impact	Service delivery	Finance	Reputation
3	Moderate	•Potential for moderate disruption to service delivery requiring temporary working arrangements (<= 48 hrs) • Possible loss of partner(s) / partner relationships •Legal concerns are likely to be resolved locally or through informal regulatory involvement •Significant disciplinary action likely against staff responsible for service failure •Delay to delivery of Corporate Priority likely	•Virement required £25,000 - £49,999 •Possible late delivery, overspend issues on contracts of works with significant adverse effect on budget •Potential compensation claims (violence or threat of serious injury)	•Coverage in local and national media possible •May result in moderate environmental damage to an object / area of importance to a local area that will require prompt repair with input from < 4 service areas •Large increase in customer complaints possible •Impact on staff morale likely to be moderate and longer term (<= 6 months)
2	Minor	•Potential for service disruption causing operational inconvenience (<= 24 hours) •Business critical information may be compromised •Possible disciplinary action against staff concerned	•Virement required £5,000 - £24,999 •May result in superficial injury (requiring minor financial support) •Possible late delivery, overspend issues on contracts of works with minimal adverse effect on budget	•Minor local media coverage / adverse internal publicity likely • May result in minor environmental damage to an object / area of importance to a local area, that will require prompt repair by one service area •Minor increase in customer complaints possible •Any impact on staff morale likely to be minor and short term (weeks)
1	Insignificant	•Operational inconvenience - not affecting quality of service •No legal implications •No disciplinary action against staff responsible for service failure	•Loss or income reduction <£5,000; Any unplanned expenditure or loss of income can be absorbed •No injuries •Any potential insignificant financial loss (< £1k) •Any potential for late delivery, overspend issues on contracts of works will not result in adverse effect on budget •No potential for injuries to occur	•Media coverage unlikely •Any potential impact on staff morale minimal •No or superficial environmental damage is anticipated

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Likelihood Indicators

Likelihood		Indicators
5	**Almost certain**	> 85%
		Is expected to occur in most circumstances
		Likely to occur this year or at frequent intervals
4	**Likely**	60% - 85%
		Will probably occur at some time or in most circumstances
		Likely to occur at least once in the next 3 years
3	**Possible**	30% - 60%
		Fairly likely to occur at some time, or in some circumstances
		Likely to occur at least once in the next 5 years
2	**Unlikely**	15% - 30%
		Is unlikely to, but could occur at some time
1	**Rare**	5% - 15%
		May occur only in exceptional circumstances
		Extremely unlikely to occur in the next 10 years

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Plotting the Likelihood and Impact Scores assigned on the risk matrix will result in a risk level being determined (A risk level for both the Inherent risk and residual risk should be determined).

Once the residual risk is assessed, a judgment can be made as to adequacy of the mitigations already in place (assuming they are effective). If the risk score is still too high to tolerate (10 or above), then additional actions to mitigate the risk must be considered.

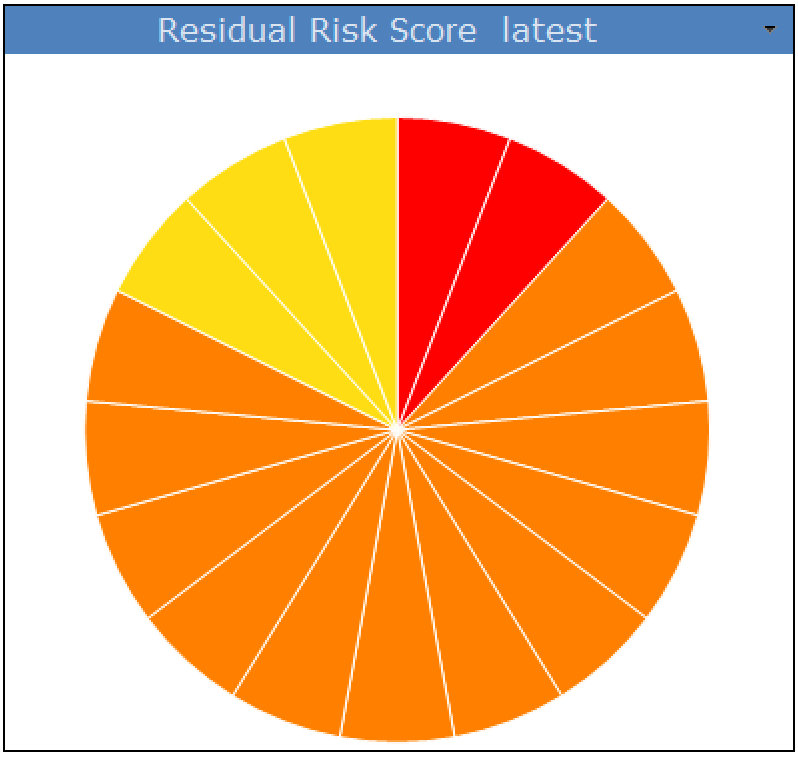
Risk matrix

		LIKELIHOOD				
		Rare (1)	**Unlikely (2)**	**Possible (3)**	**Likely (4)**	**Almost Certain (5)**
IMPACT	**Major (5)**	5	10	15	20	25
	Significant (4)	4	8	12	16	20
	Moderate (3)	3	6	9	12	15
	Minor (2)	2	4	6	8	10
	Insignificant (1)	1	2	3	4	5

Summary of Risk Level and minimum action required:

Red	Very High Risk Level	Above Tolerable Level	**Escalate risk to relevant Director for agreement as to treatment**
Amber	High Risk Level		
Yellow	Medium Risk Level	Tolerable Level	Consider appropriate mitigation
Blue	Low Risk Level	Tolerable Level	Periodic Review

Risks are presented as part of Strategic Insight reporting through InPhase using a Sunburst:



Tolerable risk level and escalation requirements

The Council has designated any risk with a residual score of 10 or above (very high and high risks), ‘above tolerable level’. These high level risks need to be escalated to the appropriate Director for agreement as to whether the activity is of sufficient value to the organisation for the risk to be accepted and if so, how the risk will be managed. This process is set out in the table below.

This does not mean that a high level of risk cannot be tolerated in certain circumstances – delivering innovative change often comes with high risk. It may also be that further mitigation is not possible or that further mitigation is beyond reasonable or available resources. The escalation process ensures that Directors are aware of the highest risks areas across the portfolio of services and how they are being managed.

Risk Level	Indicated by	How the risk should be managed
Very High	**Red**	**Above tolerable level - escalate risk to relevant Director for agreement as to treatment** Consideration to be given to whether the risk can be accepted transferred or avoided. If the risk cannot be accepted, transferred or avoided a mitigation action plan to be agreed to bring risk down to as low a level possible. The Director should determine the timescale for implementation of mitigation activity. Contingency plans to be put in place to deal with the consequences of this risk should it occur.
High	**Amber**	**Above tolerable level - escalate risk to relevant Director for agreement as to treatment** Consideration to be given to whether the risk can be accepted transferred or avoided. If the risk cannot be accepted, transferred or avoided a mitigation action plan to be agreed to bring risk down to as low a level possible. The Director should determine the timescale for implementation of mitigation activity Contingency plans to be put in place to deal with the consequences of this risk should it occur.
Medium	**Yellow**	**Tolerable level** Consider mitigation (if not too resource intensive) to bring the risk down to as low a level as possible Periodic review required to ensure conditions remain unchanged
Low	**Blue**	**Tolerable level** Periodic review required to ensure conditions remain unchanged.

Step 4: Mitigation

- How can the risk be controlled?

Treatment options

Once it has been assessed, the best course of action to address the risk can be determined. Risk treatment includes as its major element risk mitigation/control, but also includes risk transfer, avoidance or acceptance as explained below:

- **Mitigation** of the risk
  Most risks will be retained and controlled in this way. This may be through actions to reduce either the likelihood or impact of the risk occurring, or both.

- **Transfer** of the risk
  This could be through insurance or to a partner organisation. However, it should be remembered that some risks will not be fully transferable – in particular reputational risk, even if the service is contracted out. Transfer may also result in other risks being created.

- **Avoidance** of the risk
  Some risks would only be reduced to acceptable levels by terminating the activity. However, this option may not be possible e.g. where the Council is required to undertake an activity.

- **Acceptance** of the risk
  This is when the risk is retained but there may be limited ability to do anything about it or the cost of doing so is prohibitive. If the level of risk is high, then contingency planning comes into play – a plan to minimise the effect of the risk if it happens.

Take the **opportunity**
This is not an alternative to the options above, rather something to consider whenever accepting, transferring or treating the risk. There are two aspects to this. At the same time as mitigating the risk, there may be an opportunity to exploit a positive impact. For example, if a large sum of capital funding is part of a major project, are the relevant controls good enough to consider increasing the scale of the project to greater advantage? The second aspect is whether circumstances which arise, whilst not generating threats, offer positive opportunities. For example a drop in the cost of goods or services frees resources which can be redeployed.

Meaningful mitigation - some points to consider

Most risks will already have controls in place, so the first step is to check they are actually effective; still relevant and being complied with (eg are policies or procedures really addressing the risk).

If additional mitigation is required (or if it is reasonable and proportionate to the risk), there are some questions to consider before deciding on additional actions to put in place:

- Where do we want the risk score to move to?

- How will we know if the actions are having an effect - what does success look like?

- Are the proposed actions SMART?

Any actions planned should have an owner and a completion or review date attached.

Who owns a risk?

The risk owner, is the individual responsible for making sure that the risk is managed appropriately and that mitigation actions are completed should ensure that appropriate treatment of the risk has been identified and where appropriate a mitigation owner assigned.

The mitigation owner is the individual responsible for implementing the action to control the risk.

Step 5: Monitoring

- The corporate review process

The review process

The initial identification and analysis of risk is only the first step. The key to effective risk management is monitoring and controlling the risks in proportion to their severity and ensuring that any new risks are picked up.

Risks need to be monitored and reviewed regularly to:

- Make sure they are still relevant (the context or environment may have changed)
- Check that the risk rating (score) is still correct
- Assess whether mitigation actions are having the desired effect – is the risk moving in the right direction?
- Check that action dates are adhered to or revised
- Identify new risks on the horizon
- Determine whether there are any risks that need escalating.

The corporate review process

The Strategic risk register is the overall responsibility of the Chief Executive with individual risks being the responsibility of the appointed risk owner. Assistant Directors (or their nominated officer) provide quarterly updates and SLT review the register on a quarterly basis, through a highlight report from Corporate Risk Group. This process is facilitated by the Performance and Improvement Team who present the report to SLT.

The Business Unit Operational Risk Register is the responsibility of the relevant Assistant Director. Registers should be produced as part of the service planning process and should be reviewed at least every six months within the schedule of regular service management team meetings and 1:1 meetings.

NB: Risk Mitigation tasks require regular update through the Council's Business Insight System InPhase to ensure up to date status information is maintained.

A Risk Management Group with representation from several Business Units meets quarterly. Its role is to oversee and review the reporting process and the development of the Council's risk arrangements. The group considers and challenges new and existing risks and reviews the content of the strategic risk register on a regular basis. The scope of Corporate Risk group is set out on page 11

Audit Committee review the strategic risk register and any developments to the risk management process as a standing item. They may challenge entries, request further investigation or suggest new developments.

Audit Committee also receives a quarterly update on the status of operational risk registers.

Section 2: SBC Risk Management Process and Methodology

The ideal cycle for operational risk review

The Corporate minimum standard is that operational risk registers are formally reviewed at least every 6 months however, risks should be looked at as often as their severity suggests is needed. High risks or those which have the greatest proximity (nearness in time) are likely to need more frequent review than low risks.

Good practice would be to look at risks formally through a standing item on the management team meeting agenda quarterly, and through the 1:1 process. This does not need to be a time consuming process if the focus is on the risks that need managing.

All staff should contribute to the discussion about emerging risks and changes to the existing risks.

Appendices

Appendix 1

A step by step guide to the Risk management process and completion of the risk register

This guide can be printed out on A4 for ease of use. (Risk Management is collated and updated using the Business Insight System, InPhase. A guide for input is available from the Corporate Performance Team)

For more detailed guidance on risk management see the full Risk Management Guide.

5 steps to robust risk management:

Identify → Define → Prioritise → Mitigate → Monitor

STEP 1
Identify risks

Think about the sources of risk/areas of uncertainty

- consider the categories of risk (see Guide Section 2 of full risk management guide)
- brainstorm
- look at any high risk Audit recommendations
- consider organisational changes that may impact
- examine trends /last year's problems

Focus on the key risks

Link to your service objectives or SBC Priorities
Link to projects/partners
Remember that some uncertainties will provide opportunities too.

STEP 2
Defining the risk

Formulate the risk

Define the risk clearly and simply.
As a result of......(cause) there is a risk that...........(event or opportunity) which may result in ....(consequences)

It is crucial to get to the root cause of the risk in order to put effective mitigation in place.

→ **Risk Description**

→ **Risk Consequences**

STEP 3
Prioritising (assessing) the risk
(Inherent risk score – no mitigation in place)

Inherent risk exposure - ignoring any mitigations in place

How likely is the risk and what is the worst case impact if the full risk occurs? Refer to the **Risk Prioritisation Guide** (see guide at section 2 of full risk management guide) but remember ultimately it is your assessment.

1. Assess how likely the risk is to occur
(1= rare, 5 = almost certain)

2. Assess the impact in respect of Finance, Service Delivery and Reputation (in terms of the impact on your service if it's an operational (BU) risk and on SBC's strategic priorities if it's strategic).
(1 = insignificant, 5 = Major)
see **scoring guidance in Section 2**

The **scoring matrix** identifies whether the resulting risk exposure is **Low (blue), Medium, (yellow), High (amber) or Very High (red)**

Likelihood	**Financial Impact**	**Service delivery Impact**	**Reputation Impact**	**Risk Score**	**Risk Level**

Inherent Risk – The risk score and level will be automatically populated in the System

Likelihood

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

Appendix1

Identify any existing control measures in place which mitigate the risk.
Eg policies or procedures. (There may be several).

Consider carefully how/if these actually address the risk.

STEP 3 Prioritising (assessing) the risk (Residual risk score – no mitigation in place)

Residual risk exposure
Reassess the Likelihood and Impact scores, taking account of mitigation measures already in place - as identified above to assess the exposure level *today*.

Refer to the Risk Prioritisation Guide but remember ultimately it is your assessment.

1. Assess how likely the risk is to occur
(1= rare, 5 = almost certain)

2. Assess the impact in respect of Finance, Service Delivery and and Reputation
(1 = insignificant, 5 = major)

Use the **scoring matrix** to identify whether the residual risk exposure is Low (blue), Medium, (yellow), High (amber) or Very High

Likelihood	Financial Impact	Service delivery Impact	Reputation Impact	Risk Score	Risk Level

Residual Risk – The risk score and level will be automatically populated in the System

STEP 4 Mitigating the risk(s)

Is the level of residual risk tolerable?
Considering the measures already in place, assess whether the residual likelihood and impact risk is acceptable.
The scoring matrix provides guidance as follows:
Very High and **High** risks need to be discussed with the appropriate Director and a mitigation plan agreed.
Medium risks require good housekeeping and some mitigation to reduce Likelihood or Impact
Low risks require periodic review.

(it may be that very high/high risks are acceptable if a good reason exists)

If the level of residual risk is not acceptable:
Identify specific actions to reduce the Likelihood and/or the Impact. → **Additional mitigation measures: actions planned**
Identify a named individual who is responsible for each mitigation action. → **Mitigation owner**
Set a timescale for completion of the actions. → **Action by date**

Identify the risk owner: the person responsible for ensuring that the risk is adequately managed and reviewed appropriately (normally an Assistant Director or Director) → **Risk Owner**

STEP 5 Monitoring the risk(s)

<u>Review risks in a timely manner</u>

This is as often as the severity and context of each risk requires, but as a minimum:

Strategic Risk – quarterly
Operational Risk – 6 monthly

This will be facilitated through the Business Insight System, *InPhase*.

Remember it is the residual risk that is reviewed.
- is the risk still relevant?
- is the risk score/level still correct?
- are the mitigations having the desired effect?
- is the risk moving in the right direction
- are the action dates adhered to or still relevant?
- are there new risks emerging?
- are there opportunities to be captured?

Update the risk to reflect any new actions, changes to risk scores etc.

Appendices

Appendix 2

Opportunity Risk Management Examples

The examples below are an attempt to describe "real opportunity risks" and not just the inverse of threat risks:

Due to government campaigns to promote recycling and to reduce waste to landfill, the level of recycling by local residents may exceed forecasts. This may result in the use and costs of landfill decreasing more than expected and net revenue from recycled materials increasing more than expected. The council's reputation would also be enhanced.

Because the council is seen as a preferred employer staff turnover may be reduced with a consequent reduction in recruitment and training costs.

Due to very high availability and take up of internet broadband the need for printing and distribution of letters,invoices, magazines and leaflets may be reduced with a consequent reduction in its communication budget

Because the council needs to reduce its asset base and cut costs, it may be possible to transfer some assets or activities to community groups for delivery or shared delivery, which would reduce expenditure and help deliver other key council priorities

As a result of improved energy efficiency in engines and motors transport fleet operating costs may be reduced leading to reduced expenditure.

Opportunity Risk Management Guide ©Alarm 2011

Response options to opportunities

Exploit or realise	How can we ensure that we make the most of this opportunity and potential improvements are delivered?
Enhance	What can we do to increase the probability of this opportunity occurring? What action can we take to increase the likelihood, impact or both?
Share	This is an opportunity but the organisation cannot maximise the benefits alone. Can we share this opportunity with a partner?
Accept	We know an opportunity exists and the possible benefits but we will wait and see what happens and accept the risk should it occur. (or invest in preparing for action should the risk become a greater priority or the situation changes - this may be seen as a contingent response)