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RHONDDA CYNON TAF COUNTY

BOROUGH COUNCIL

Risk Management – A Toolkit

CONTENTS

1. Introduction

1.1 The diverse range of activities undertaken by the Council involves making decisions and taking risks. We cannot always decide upon the activities with which we are involved. In the private sector, high impact/high likelihood risks can be avoided by opting out of that part of the business. However in public service the option to completely eliminate risk may not exist due to statutory responsibilities. Risk management therefore plays an important role in helping to manage risks and opportunities in a practical and cost effective manner.

1.2 Whilst the over management of risks is not advocated, certain activities will require a managed and structured approach. This toolkit is designed to help in this process and describes a simple methodology to maximise the opportunity to achieve expected results – by managing risks. This toolkit is an integral part of service business planning.

1.3 The toolkit should be used as a supplementary guide to support and where appropriate reinforce risk management arrangements already in place within Council services.

Risk Management Process – A One Page Summary

Risk Management - is about getting the right balance between innovation and change on the one hand, and the avoidance of shocks and crises on the other

Stage 1 - Identify your risks	Stage 2 - Evaluate your risks	Stage 3 - Treat your risks	Stage 4 - Monitor & Review
• Identify priorities / outcomes **Risk:** What could occur that would prevent the priority / outcome being met • In full • On time • Within budget Think about: IF……THEN Event → Consequence → Impact And then: Threats & Opportunities When: • Setting strategic aims • Setting business objectives • Early/key stages of project planning • Partnership arrangements • Service improvement plans Categories can help: • Strategic/Operational • Internal/External	Combination of the likelihood and impact Impact x Likelihood 	Concentrate on Top Risks first : • Can we reduce the likelihood? • Can we reduce the • impact? • Can we change the consequences? Consider the options to deal with the risk : • Treat • Terminate • Tolerate • Transfer Devise Contingencies - i.e. • Strengthen internal controls • Develop service continuity planning • Engage external contractors • Review insurance arrangements	Risk Registers: • Confirm the risk owner. • Report progress to senior management. • Review and monitor risks regularly along with associated progress. • Establish any emerging/new risks.

2. What is risk?

2.1 Wherever there is a decision or action to be taken, there lies a risk potential.

2.2 There are many definitions for 'risk' of which the following is a simple example:

'Risk is the chance of something happening that will have an impact on objectives.'

2.3 Risk is therefore something that may arise which may stop you achieving something you want to do. It's not always a bad thing and there is no activity without risk.

3. What is risk management?

3.1 Put simply, risk management is the ongoing process of identifying threats and the implementation of measures aimed at reducing the likelihood of those threats occurring and minimising the damage (impact) if they do. Equally, risk management can also help identify opportunities aimed at increasing the prospects of success.

3.2 The benefits of a robust management process will help to manage risks so that:

- Risk owners and key stakeholders are identified at an early stage.
- There is an increased focus on what needs to be done/not done to meet objectives.
- Better use of resources.
- Better management of change programmes.
- Scrutiny committees are provided with a fuller picture of factors influencing performance.
- Innovation is supported.
- Results are achieved first time of trying.
- Competitiveness is improved.
- Improved quality of service delivery.
- Enhanced ability to justify actions taken.
- Protection of reputation.

3.3 Figures 1a and 1b show the six stages to the risk management process.

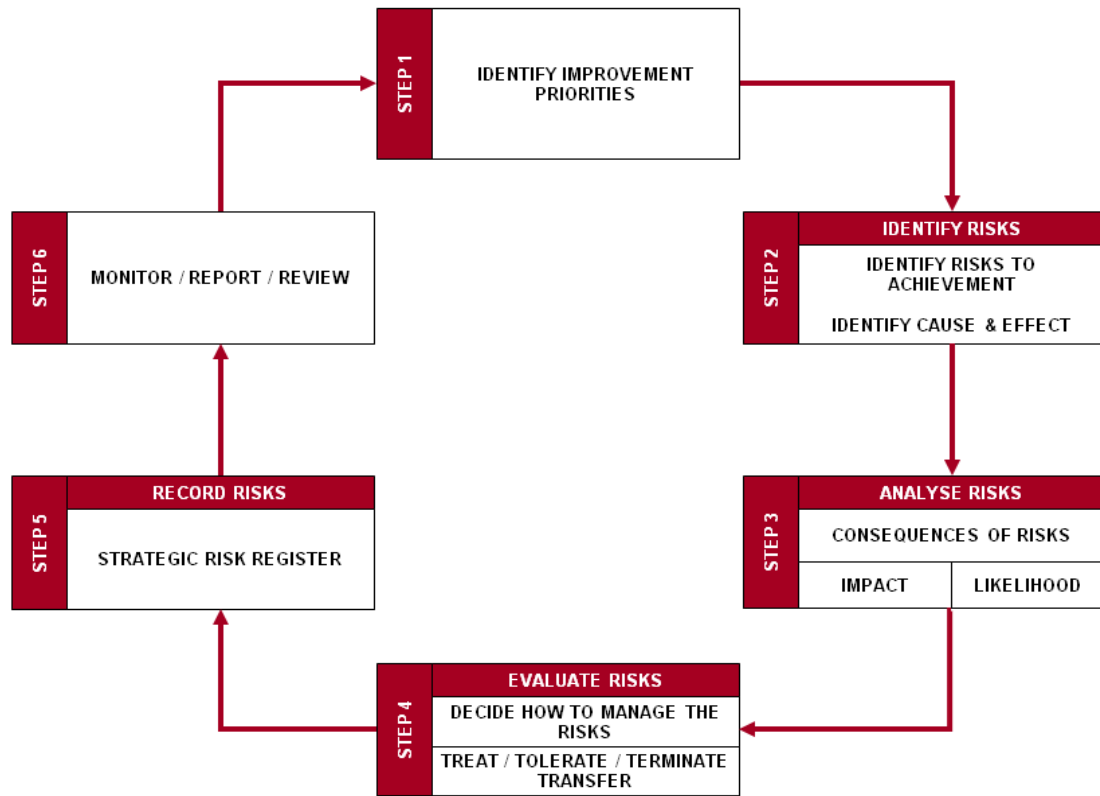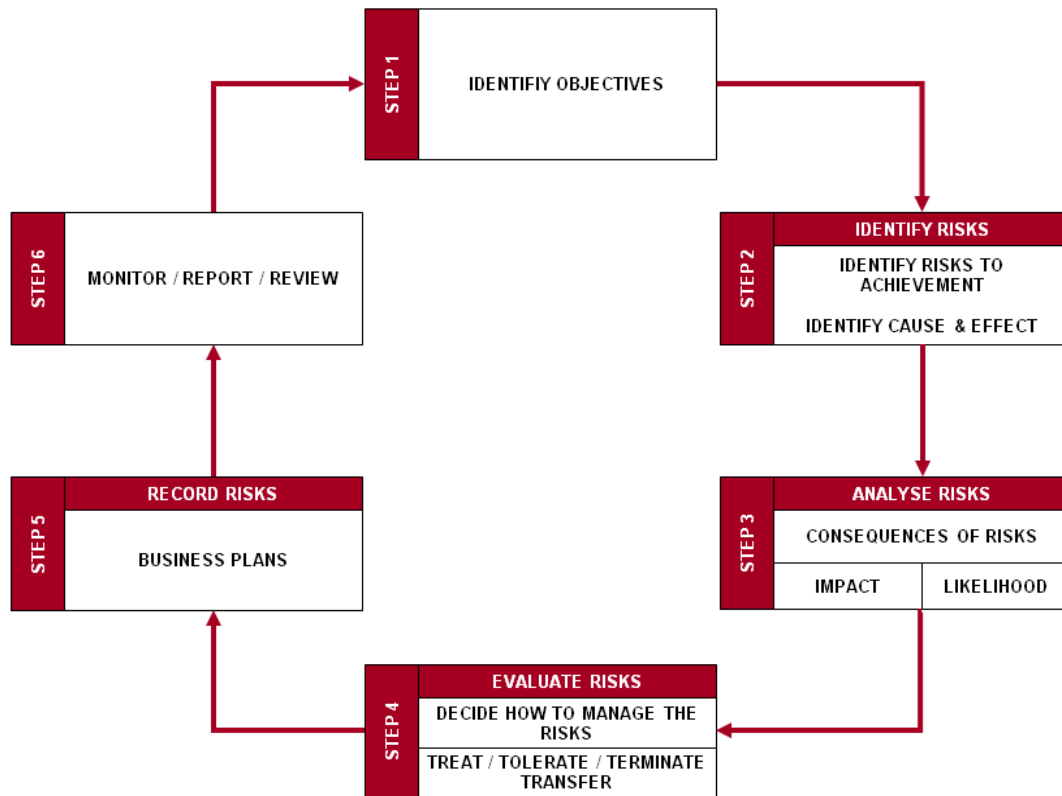## Figure 1a – Strategic Risk Management Arrangements

Figure 1b – Operational Risk Management Arrangements

4. Risk identification

4.1 You should first set out the objectives of the activity to be examined. It may help to have key documents available such as the business plan, or a project brief / project plan.

4.2 When wording risks, the Council suggests using the "If and Then" statement. The "If" being the risk and the "then" being the impact if it's not dealt with. It is important to ensure that when a risk has been identified, the risk description is clear and precise. The associated causes and effects are those areas where management action could take place aimed at managing the risk.

Here is an example:

> *'If the Council does not meet Welsh Government targets to achieve diversions from landfill then the Council will be subject to financial penalties.'*

4.3 In order to manage risk it is necessary to know what risks exist or might occur. Risks can be broken down into two categories – strategic and operational. It is important to distinguish between strategic and operational risks to ensure that they are managed and reported upon at the appropriate level within the Council.

4.4 Strategic risks are those arising from major events which could impact across the whole of the Council e.g. major overspend or serious damage to the reputation of the Council. External factors are especially important when considering risks at the strategic level. Their origins can be classified as being:

- Political
- Economic
- Social
- Technological
- Environmental
- Legislative
- Competitive
- Customer/stakeholders
- Reputational
- Partnerships

4.5 Operational risks are those arising from the day-to-day management of activities within service areas and are less likely to impact upon other services or the Council as a whole.

4.6 To help facilitate the process of risk identification Figure 2 has been developed. This is not an exhaustive list, it is designed to trigger thoughts and focus discussion in the correct direction.

4.7 As you proceed through this process you will start to build up a list of risks.

4.8 You should consider impacts on your objectives from:

- External factors
- Internal factors (SWOT)

Figure 2 – Sources of Strategic & Operational Risks

SOURCES OF STRATEGIC RISKS		
Category	**Description**	**Indicative guidelines (given as examples)**
Political	Those associated with a failure to deliver either local or central government policy.	• Wrong political priorities • Not meeting government agenda • Too slow or failure to modernise • Decision based on incorrect information • Unfulfilled promises to electorate • Community planning oversight / errors
Economic	Those affecting the ability of the Council to meet its financial commitments. These include internal budgetary pressures, the failure to purchase adequate insurance or the consequences of proposed investment decisions.	• General/regional economic problems • Missed business and service opportunities • Failure of major projects • Failure to prioritise, allocate appropriate budgets and monitor • Inadequate control over expenditure or income • Inadequate insurance cover
Social	Those relating to the effects of changes in demographic, residential or socio-economic trends on the Council's ability to deliver its objectives.	• Failing to meet the needs of disadvantaged communities • Failures in partnership working • Problems in delivering life-long learning • Impact of demographic change • Crime and disorder
Technological	Those associated with the capacity of the Council to deal with the pace / scale of technological change, or its ability to use technology to address changing demands. They may also include the consequences of internal technological failures on the Council's ability to deliver its objectives.	• Breach of confidentiality • Failure in communications • Insufficient disaster recovery for key data/systems • Failure of technology related project • Breach of security of networks and data • Failure to comply with IT Security Policy
Legislative	Those associated with current or potential changes in national or European law.	• Inadequate response to new legislation (including failure to consult) • Not meeting statutory duties/deadlines • Failure to implement legislative change • Misinterpretation of legislation • Exposure to liability claims e.g. motor accidents, wrongful advice • Breach of confidentiality / Data Protection Act

Environmental	Those relating to environmental consequences of progressing the Council's corporate objectives (e.g. in terms of energy, efficiency, pollution, recycling, etc).	• Impact on sustainability initiatives • Impact of planning & transportation policies • Noise, contamination and pollution • Crime & Disorder Act implications • Inefficient use of energy and water • Incorrect storage/disposal of waste
Competitive	Those affecting the competitiveness of the service (in terms of cost of quality) and / or its ability to deliver best value.	• Take over of services by government • Failure of bids for government funds • Failure to show value for money • Accusations of anti-competitive practices
Customer /Citizen	Those associated with the failure to meet the current and changing needs and expectations of customer and citizens.	• Lack of appropriate consultation • Bad public and media relations
Reputation	Those relating to public confidence.	• Adverse media attention • Policies misunderstood or misinterpreted • Negative implications identified by other which have not been previously considered • Failure to keep partners on side • Breach of confidentiality • Lack of business continuity plan • Failure to maintain and upkeep land and property
Partnership	Those associated with working in partnership with another organisation.	• Non compliance with procurement policies & financial regulations • Poor selection of partner • Poor contract specification, deficiencies • Failure of partner to deliver • Inadequate contract terms & conditions • Bad management of partnership working • Lack of contingency planning in the event of partnerships dissolving.

SOURCES OF OPERATIONAL RISKS		
Category	**Description**	**Indicative guidelines (given as examples)**
Professional	Associated with the particular nature of each profession.	• Inefficient/ineffective management processes • Lack of business continuity plan • Inability to implement change • Non achievement of Best Value • Lack of control over changes to service provision • Bad management of partnership working • Inadequate consultation with service users • Failure to manage and retain service contracts • Failure to communicate effectively with employees • Poor management of externally funded projects
Financial	Associated with financial planning and control and the adequacy of insurance arrangements.	• Failure of major projects • Failure to prioritise, allocate appropriate budgets and monitor • Ineffective/inefficient processing of documents • Missed opportunities for income/grants • Inadequate control over expenditure • Inadequate insurance cover • Inadequate control over income
Legal	Related to possible breaches of legislation	• Not meeting statutory duties/deadlines • Failure to implement legislative change • Failure to comply with European directives on procurement of works, supplies and services • Misinterpretation of legislation • Breach of confidentiality/Data Protection Act • Exposure to liability claims e.g. motor accidents, wrongful advice
Physical	Related to fire, security, accident prevention and health and safety.	• Violence or aggression • Loss of physical assets • Non compliance with Health & Safety legislation • Injury at work • Loss of intangible assets • Criminal damage to assets e.g. vandalism • Failure to maintain and upkeep land and property

Contractual	Associated with the failure of contractors to deliver services of products to the agreed cost and specification.	- Non compliance with procurement policies - Over reliance on key contractors/suppliers - Failure of outsourced provider to deliver - Failure to monitor contractor performance - Poor selection of contractor - Poor contract specification, deficiencies - Inadequate contract terms & conditions - Quality issues
Technological	Relating to reliance on operational equipment (e.g. IT systems or equipment) or machinery.	- Failure of big technology related project - Crash of IT systems affecting service delivery - Lack of disaster recovery plans - Breach of security of networks and data - Failure to comply with IT Security Policy - Bad management of intranet / website
Environmental	Relating to pollution, noise or energy efficiency of ongoing service operation.	- Crime & Disorder Act implications - Incorrect storage/disposal of waste - Noise, contamination and pollution - Inefficient use energy and water - Damage caused by trees, tree roots etc
Human Resources	Associated with staffing issues (e.g. recruitment / retention, sickness management, change management, stress related risk analysis).	- Capacity issues - Over reliance on key officers - Failure to recruit/retain qualified staff - Lack of employee motivation/efficiency - Failure to comply with employment law - Poor recruitment /selection processes - Lack of training - Lack of succession planning

5. Risk Analysis & Evaluation

5.1 Having compiled a list it is then necessary to assess which of the risks identified are going to pose the greatest threat (or opportunity) and this is done by looking at both impact (what harm might result from the risk) and likelihood (chance of the risk occurring).

5.2 In assessing risks you are simply identifying and prioritising them so that you know which need earlier attention.

5.3 The matrix in Figure 3 together with Figures 4 & 5 should be used to allocate a 'risk score' which could range from 1 to 25.

Figure 3 - Risk Ranking Methodology

Figure 4 - Likelihood Assessment Matrix:

Factor	Score	Indicators
Almost certain	5	99% likely to happen or has happened on a regular basis over the last 12 months.
Very likely	4	75% likely to happen or has happened at least once or twice in the last 12 months.
Likely	3	50% likely to happen or has happened once or twice in the last 24 months.
Unlikely	2	20% likely to happen or has happened once or twice in the last 5 years.
Highly unlikely	1	5% likely to happen or hasn't happened within the last 5 years.

Figure 5 - Impact Assessment Matrix

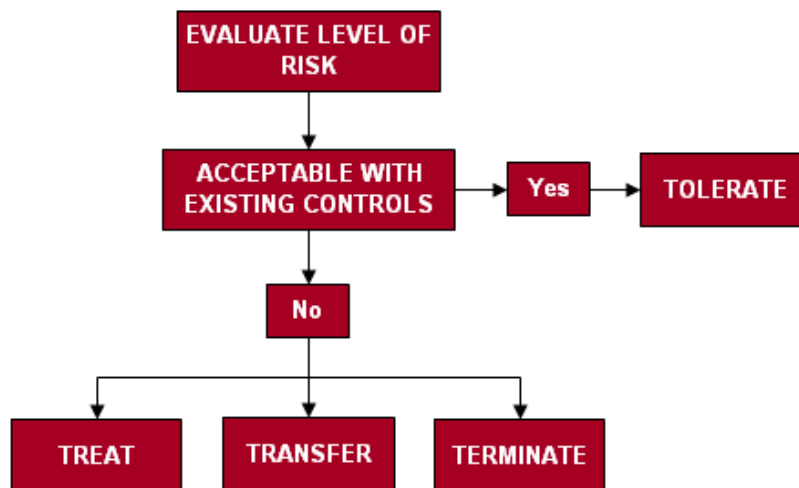| Risk	Score	Effect on Service	Reputation	Financial & Resources	Compliance with law / contracts	People	Effect on project objectives
Major	**5**	• Complete breakdown in service delivery with severe, prolonged impact on customer service affecting the whole organisation. • Failure of a strategic partnership.	• A vote of no confidence in one service area. • Substantial adverse national media criticism/coverage leading to Officer(s) &/or Elected Member(s) forced to resign and/or Audit Commission enquiry.	• A substantial failure in accountability or integrity. • A large financial loss over 50% of budget or greater than £5m. • Total loss of a critical building.	• Litigation leading to sizeable increase in responsibilities. • Breakdown in relationship with regulator affecting funding. • Multiple civil uninsured or criminal actions with payments / fines above £150k.	• Death of several people.	• Complete failure of a project.
High	**4**	• Intervention in a key service. • Disruption to service delivery for one of more service area for 3 – 5 days. • Failure of an operational partnership.	• Criticism of a key process. • Large scandal. • High level of complaints at the corporate level across several service areas • National adverse publicity / bad press.	• Sizeable financial loss up to 50% of budget or between £2-5m. • Extensive damage to a critical building or considerable damage to several properties from one source.	• Multiple uninsured civil litigation or criminal actions with payments / fines of £50k - £150k. • Breach of regulation or legislation with severe costs/fine.	• Reportable major injuries to several people or death of an individual.	• Extreme delay.

Moderate	**3**	• Widespread disgruntlement. • Disrupted service delivery from one service area for up to 3 days. • Can handle but with difficulty.	• Criticism of an important process/service. • Local bad press.	• Some financial loss £100k-2m. • Inability to deliver popular policies due to budgetary constrictions. • Substantial damage to one part of a critical building.	• Multiple uninsured civil litigation or criminal actions with payments / fines of £25k - £50k.	• RIDDOR reportable major injury to an individual.	• Important impact on project or most of expected benefits. • Considerable slippage. • Possible impact on overall finances / programme.
Minor	**2**	• Small setback - management headache. • Disruptive impact on service. • Localised disgruntlement.	• Embarrassment contained within the service. • Criticism of a secondary process/service.	• Noticeable financial loss; £10-100K. • Slight damage to one property.	• Low value / high volume litigation. • Departmental fine of £5k - £25k.	• Superficial first aid injuries discomfort to more than one person.	• Adverse effect to project. • Slippage requires review finances / short term programme.
Trivial	**1**	• Small impact on customer service which may result in complaints. • Nuisance • Disgruntlement by a few.	• Embarrassment contained within the service area.	• Small financial loss; less than £10k. • Negligible property damage.	• Low value / volume litigation. • Departmental fine below £5k.	• Superficial first aid injury or discomfort to an individual.	• Minimal impact to project. • Minor slippage.

5.4 Each identified risk should be scored according to the potential level of impact and likelihood (in the current environment – i.e. taking into account the internal controls in place at that 'point in time').

5.5 The scores will provide a list of those risks that need earlier attention. High risks are the ones that should be addressed as a priority. These are risks that are still considered to be high even with the existing level of controls in place. Only a workable number of risks should be focused upon at any one time. Any remaining risks can be dealt with as work progresses.

5.6 Although those risks requiring more detailed analysis have been prioritised there may be other risks that are suitable for a 'quick fix'. It might be useful to clear these to focus on bigger risks and also demonstrate the advantages to be gained through the risk assessment process.

5.7 To support this process it is suggested that identified risks are recorded in the relevant section of the service business plan. When populated this will be known as the operational risk register.

6. Risk Control – Risk Mitigation Strategies

6.1 Having identified and prioritised risks it is necessary to decide upon whether action is required that could reduce the impact and/or the likelihood.

6.2 The course of action decided upon will be determined by the level of risk that can be accepted. This level is known as your 'risk appetite'. The courses available are:

Treat	Take action that will reduce the likelihood and/or the impact of the risk.
Tolerate	Where the impact and/or the likelihood is inherently low or where controls or other risk management activity has reduced them to a low residual level and any further reduction would not be cost-effective.
Transfer	Transfer the risk either in whole or in part.
Terminate	Withdraw from the activity if possible. This is a response to risk that cannot be contained by treatment or transferred to another or where the rewards are not commensurate with the cost of treatment or transfer.

6.3   Any controls should always be proportional to the risk, 'over control' should be avoided. For example, loss control initiatives can be expensive and time consuming to initiate and it is therefore important to try and ensure that they are likely to be successful and will not cost more than the losses they are designed to avoid or mitigate.

6.4   Controls should be clearly described to avoid ambiguity and any obstacles or barriers that might arise and affect them should be explored along with early warning indicators.

6.5   Target dates for completion of aspects of control and reporting of progress should be made clear and recorded.

6.6   Some risks might seem too difficult to tackle because they are controversial, political, too big or too specialist. These should not be avoided but dealt with in a positive but proportional way by considering factors such as the opportunity to improve them, ease of improvement, cost of improvement and breadth of community affected.

6.7   Even with controls some degree of residual risk may remain in which case business continuity plans might need to be considered to reduce impact.

7. Risk monitoring and review

7.1   Few risks remain static and it is important to know and understand what is happening. This can be achieved through regularly monitoring progress and formally reviewing risks in order to:

- Gain assurance that progress is being made towards controlling risks and the effectiveness of controls.
- Monitor changes to the risk profile brought about by circumstances and business priorities i.e. new legislation.

7.2   A suggested monitoring period might be every three months with a more formal review period annually. The frequency will be dependent on the circumstances and environment around the risks. For example, within a rapidly changing environment monthly monitoring and three monthly reviews may be appropriate.

7.3 When monitoring and reviewing risks you need to be clear about how this is to be undertaken. It may help to develop a set of questions for example:

- Are the key risks still relevant?
- Has anything occurred which could impact upon them?
- Are performance indicators appropriate?
- Are the controls in place effective?
- Have risk scores changed and if so are they decreasing or increasing?
- If risk profiles are increasing what further controls might be needed?
- If risk profiles are decreasing can controls be relaxed?

7.4 Where objectives have not been achieved or are not on course to be achieved, the cause(s) should be investigated to inform and improve the risk assessment process.

8. Summary

8.1 Working through this toolkit provides a simple basic methodology to help identify and manage most of the threats and opportunities that might arise.

8.2 It is important to ensure that continuous risk assessment feeds into any decision making and business process.

8.3 It may be helpful to understand how managing risk through this process fits in with the overall framework for managing risk throughout the Council. Details of this can be found in the document 'Risk Management Strategy'.