Risk Management Guidance for Policymakers

Why do you need to include a risk assessment of the policy?

Policies form part of the Council's internal control framework and may be implemented as mitigation to control a significant risk or risks. (A copy of the key corporate risk register can be found on Centranet). When considering why a policy is needed, policymakers should consider if the policy is aimed at controlling specific risks and ensure that the policy responds to the things that matter to the Council.

The Council needs to be open and transparent and be able to justify its decisions. It is necessary to understand the degree of risk to which we are permitted to expose the Council to before defining the policy.

To make informed decisions to develop a robust policy, full consideration should be given to the cause and effect of risks. To ensure that the policy is successful and effective, the policy maker needs to have a good understanding of the risks and associated costs to achieving the policy objectives. Evaluating the associated costs of each risk and its associated mitigation actions will ensure that a decision to implement a policy is proportionate to the Council's objectives and priorities.

An effective risk management process:

- increases the probability of success of achieving objectives
- helps to avoid or minimise damaging actions or events
- maximises opportunities (events that may have a positive effect on the achievement of objectives)

What defines a risk?

When defining a risk, the description must include the **cause of the risk** and the **consequence to the objective/s** that may arise.

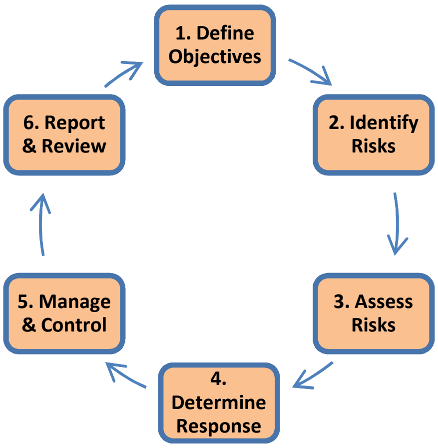
Things to note when defining risk:

- Think about what could prevent you from being successful in achieving objectives and what the cause of this threat is and how it impacts upon the objective. The risk definition should not merely record the converse of the objective such as "Risk that we fail to achieve 'objective".
- Make sure that the risk is relevant. Does it impact on the Council's objectives? If it isn't relevant don't include it.
- It is important to identify the cause of the risk so that we are able to see if we can tackle the cause to prevent the risk from actually occurring and consider mitigation options if required.
- You should include the consequences to the objective to fully understand the risk and assess whether you are prepared to accept that level of risk or otherwise.

Risk Management Lifecycle - How should risk identification and assessment be undertaken?

The key stages and processes for effective risk management are as follows:

1. Defining the objectives of the policy and options
2. Identifying the risks for each objective
3. Assessing the risks for each objective – understanding the significance of each risk
4. Determining the appropriate response to the risks
5. Managing and controlling the risks
6. Reporting and reviewing the risks



1. Defining the objectives of the policy and options

Once the risk appetite has been defined, the **policy options** (how the policy's objectives can be achieved) form the main part of any risk assessment.

2. Identifying the risks for each objective

Each option needs to have **clear aims and objectives** in order to identify risk, and respond to the rationale of the policy. It is important to have clear objectives and continually refer back to them to determine which risks are relevant and the level of impact associated with each risk.

3. Assessing the risks for each objective - understanding the significance of risks

The risk assessment should **consider who and what will be affected** by the policy and assess the range of possible risks both internally, to the achievement of the Council's aims and objectives, and externally, to the public and other stakeholders.

You should consider risks both in the **short-term and in the long-term**. In the current environment, with a need to balance the books, gain efficiencies and meet new demands, decision making may be for short-term solutions that increase long-term risks.

The **costs associated with risks** can be challenging to identify, particularly where risks have other implications that are non-financial or reputational. An approximate quantification is better than making no attempt to cost the risk associated with alternate decisions. The Council needs to be able to justify its decisions and an analysis of the options and associated costs and potential impacts should support the choices it makes.

When risks have been identified, it is important to understand the **potential significance (impact) of those risks internally, externally and the Council's aims and objectives**. To help identify the most significant risks it may be best to think about the risks from the following perspectives:

a. What is the overall aim you are trying to achieve and what may prevent you from achieving this?
b. What may prevent you from achieving each of the different policy options?
c. In relation to the options you are assessing, what are the risks and implications of these to the achievement of the corporate objectives?
d. What opportunities may be available that you can take advantage of?
   Examples of this could be:
   i) *as a result of the planned reorganisation of the Council it may be possible to combine some infrastructure projects with a consequent reduction in costs*
   ii) *because of the improved availability of lottery funding, private investors may offer to partner with the Council to build additional local youth amenities with a consequent reduction in youth crime*

4. Determining the appropriate response to the risks - how can the policy respond to identified risk?

Risk management is not about eliminating or avoiding risk but knowing the level of risk the Council is prepared to take. To do this you need to understand the level of risk by assessing both the likelihood and impact of the risk occurring.

When assessing risk, the following categories can be helpful:

a. **Primary**: these risks are both high in impact and in likelihood, the 'show stoppers'
b. **Contingency**: these risks have high impact but are unlikely to happen. Such potentially catastrophic events are generally approached through a mix of insurance and business continuity planning.
c. **Housekeeping**: these risks are likely to happen but do not have a high impact. They require routine management and auditing to ensure that planned actions occurs.
d. **Negligible**: these can probably be dealt with through standardised administrative action, and need only to be monitored to ensure that they are not becoming more regular

The Council can respond to risk in one of four different ways:

- **tolerate** the risk - risks are accepted and built into operational management
- **treat** the risk - risks are reduced by management action such as implementing controls or tackling the cause
- **transfer** the risk - risks are passed onto someone else by other means, e.g. insurance, sub-contracting, and outsourcing
- **terminate** the risk - these risks are avoided by doing something else, changing the service, or withdrawing from the activity

You may want to look at and take into account previous policies in this area – did they succeed in mitigating any of the risks you have identified?

5. Managing and controlling the risks

If you decide to reduce the risk, you will need to identify what actions and controls are already in place to mitigate the risk. Consider the level of risk as it is now, is it an acceptable level and within risk appetite or not? Are there further reasonable controls or planned actions that you can take to manage the risk down to an acceptable level? If not, consider the need for a contingency plan for what will happen if the risk is realised. Be realistic as to what you can achieve and ensure that the cost of risk mitigation does not outweigh the cost of tolerating the risk. It can be difficult to reduce both the likelihood and impact of a risk so think carefully as to which of these the control actions will affect. Control actions could consist of authorisation and approval processes, governance arrangements and monitoring processes, physical controls, segregation of duties, organisational, personnel, management and supervisory controls or arithmetic and accounting controls. You need to be able to identify and record where the evidence for these controls is kept.

6. Reporting and reviewing the risks

The usual management tool used for monitoring risks is the risk register. If the risk is significant enough that it may impact on the achievement of Service objectives, Directorate objectives or even Corporate objectives it should be captured on the relevant level risk register.

The reason for monitoring key risks is to create an early warning system; risk registers should be regularly reviewed and amended. You need to record how the management of the risk will be monitored and when. Some risks require weekly or monthly monitoring, others will only need to be revisited following the proposed date for the completion of the planned action.

Questions to ask during monitoring are: Is the risk still relevant? Is there any movement in the net risk score? Are the controls still in place and operating effectively? Has anything occurred which may change its impact and/or likelihood? Have any significant control failures or weaknesses occurred since the risk was last monitored? Is the risk increasing - do I need to devise more controls? Is the risk decreasing – can I relax existing controls?

Policymaker Self Challenge Questions:

Once you have completed the risk assessment for the policy, use these questions to challenge its robustness for risk:

1. Do you have a good understanding of the key risks facing the Council and the likely implications for service delivery to the public and achievement of outcomes?

2. Do you understanding the risks and associated costs to achieving the policy objectives?

3. Are you clear about what level of risk the Council is prepared to accept in relation to the risk/s that the policy is aimed at controlling?

4. Have you attempted to quantify the risks?

5. Have you ensured that the policy focus is on managing the things that matter?

6. Have you taken account of previous successes and failures within the Council or by other Council's in relation to this area?

7. Does the policy enable the Council to react quickly to the challenges and opportunities presented during the current economic climate?

As a quick reference guide, the risk assessment should consider the following for each option:

- the risk appetite for the policy
- the options for achieving the policy objective
- what could prevent the successful achievement of objectives
- the causes of any risks and the associated consequences for achieving the policy objectives
- the likelihood and the impacts of any risks if they occur
- opportunities and benefits to the Council and the public
- the associated costs of the risks and controls