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Reigate & Banstead
BOROUGH COUNCIL
Banstead | Horley | Redhill | Reigate

RISK MANAGEMENT METHODOLOGY

1 Definition of Risk

1.1 There are many definitions of risk and risk management. For the purposes of this strategy the following definition of risk is used:

*"an uncertain event or set of events which, should it occur, will have an effect on the achievement of objectives". (*Cabinet Office)

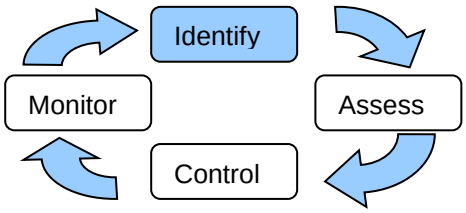
1.2 Risk management is the process by which risks are identified, evaluated and controlled. It is a key element of the framework of governance.

2. Introduction

2.1 In order to manage risk, an organisation needs to know what risks it faces and how to evaluate them. To do this, they need to be systematically identified, assessed, controlled and monitored; the four key stages in the risk management cycle. The process is set out below.

3. Identification

What can happen?
How can it happen?



3.1 Identifying risks is the first step in the process to build the organisation's risk profile and can be separated into two distinct phases:

- Initial risk identification, for an organisation which has not previously identified its risks in a structured way before, changes to existing organisation, a new project or a new service activity;
- Continuous risk identification, to identify new risks which did not previously arise, changes in existing risks or risks that are no longer relevant to the organisation.

3.2 In either case the risk should be related to objectives, analyse the various elements of the business/service and identify the risks that can affect the achievement of the objectives for the services.

3.4 The identification process will vary according to the particular service but it will examine the various elements of the business/service and identify the risks that can affect the achievement of the objectives for the services. Opportunities open to the business/service should also be identified.

3.5 Managing strategic risks is a core responsibility for Management Team in liaison with Members. Strategic risk assessments should be undertaken as part of the community and corporate planning processes. Operational risk

assessments will be a key element of the Council's day to day business processes.

3.6 When a risk is identified it may be relevant to more than one of the organisation's objectives and its potential impact may vary in relation to different objectives and the best way of addressing the risk may be different in relation to different objectives. Conversely a single treatment may adequately address the risk in relation to more than one objective.

3.7 In describing the risks, take care to avoid stating impacts which may arise as being risks themselves, and to avoid risks which do not impact on objectives. Equally, try to avoid defining risks with statements which are simply the converse of the objectives, although this may be a reasonable starting point before describing the risk in more detail.

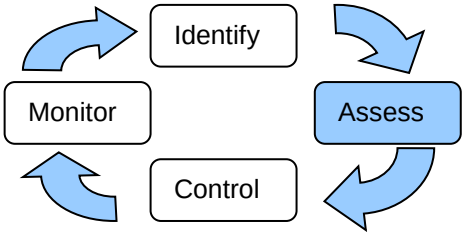
3.8 A statement of a risk should consist of the cause of the impact and the impact to the objective which might arise. Try to think of describing the risk in terms of a **cause** that leads to an **event (the risk)** which has an **impact** on the objective. Understanding a risk in the form of a "scenario" helps not only prioritisation but also mitigation. For example:

Cause	**Event (the risk)**	**Potential Impact / Consequences**
A vulnerability / exposure e.g. We are undertaking a project with tight deadlines, limited resources and key reliances	The event(s) that you don't want to happen e.g. Key milestones missed / partner unable to commit required resources	Potential consequences you will need to manage e.g. Project over-run, increasing cost, key objectives not met, reputation undermined

3.9 As part of the identification process, all risks should be assigned an owner who is accountable for managing and addressing the risk. They may not be the person who actually deals with the risk.

4. Assessment

Determine the likelihood and the consequences in order to estimate the level of risk



4.1 This part of the process ascertains what the key risks are and ranks them. This includes:

- Determining the probability of an event occurring – the "likelihood";

- Determining the potential severity of the consequences should such an event occur – “impact”;

4.2 The table below gives the scores and indicative definitions for each element of the risk ranking process:-

Likelihood		
5 – Almost Certain	Very likely to happen within the current year	>80%
4 - more than likely	Likely to happen within the current year	60-80%
3 – possible	Might happen within the current year	30-60 %
2 - Unlikely	Unlikely to happen within the current year	10 - 30 %
1 – rare	Unlikely to occur within the next few years	< 10%

4.3 A risk could have an impact in a number of different ways, the following table is a guide it should help you identify particular areas of impact;

	1	2	3	4	5
	Almost none	**Minor**	**Moderate**	**Significant**	**Grave**
Environmental	No long term effect e.g. noise, fumes, odour of a short term nature	Short term local effect or social impact	Serious local discharge or source of community annoyance requiring remedial action	Long term environmental or social impact	Extensive long term environmental or social impact
Financial - Revenue	<1% of monthly budget up to £10k limit	>2% of monthly budget up to £50k limit	> 5% of monthly budget up to £100k limit	> 10% of monthly budget up to £250k limit	>£250k
Financial - Capital	<250k	250k – 500k	500k – 750k	750k – 1m	>1m
Health & Safety	Incident resulting in no lost time	Incident resulting in lost time	Reportable injury	Serious injury/ stress resulting in hospitalisation	Fatality
Corporate Objectives	No impact on the delivery of the Council's corporate objectives	There may be a delay in delivery of one of the council's corporate objectives	A number of corporate objectives would be delayed or not delivered	Many corporate objectives delayed or not delivered	All corporate objectives delayed or not delivered
Operational	No interruption to service	Minor disruption that can be managed by altering operational regime	Disruption in a number of operational areas	All operational areas compromised	Total system dysfunction resulting in shutdown of operations
Legal/ Reputational	Minor adverse publicity in local media	Significant adverse publicity in local media	Adverse publicity in national media, inadequate performance	Sustained adverse publicity in national media, directors charged with corporate manslaughter, fraud	Reputational damage is irrecoverable resulting in Government intervention

The risk ratings for each part of the assessment are then combined to give an overall ranking for each risk.

IMPACT	↓					
Grave	**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**
Almost none	**1**	**1**	**2**	**3**	**4**	**5**
		1	**2**	**3**	**4**	**5**
LIKELIHOOD	→	**Rare**	**Unlikely**	**Possible**	**More than likely**	**Almost certain**

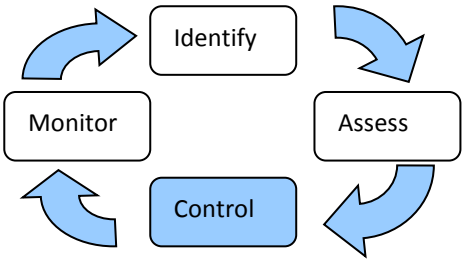
4.4 Three important points to note when assessing risks are:

- Recognise the difference between inherent (without any controls in place) risks and residual (when controls have been identified and actioned) risks.
- Take account of both impact and likelihood when assessing the risk.
- Record the assessment (residual score) so that it can be monitored and prioritised.

In the first instance risk should be assessed **without** taking any controls measures or mitigations into account. This will give us an **inherent risk** score. Understanding the inherent risk this is important as it should enable us to understand the true extent of our exposure if action is not taken or maintained.

5. Control

Determine how to treat or control the risk



5.1 Risk appetite is the amount of risk which is judged to be tolerable and justifiable. It is the amount of risk that an organisation is prepared to accept, tolerate or be exposed to at any point in time.

Defining the limits of the risk appetite is about identifying at what point decisions regarding the management of a risk are escalated. The aim is to better align decision-making and risk. It may also help us identify if we are setting our risk tolerance and responding to risks appropriately.

5.2 The risk appetite table below should help to align our risk exposure with our management and escalation activities. Using the score from the 'Impact/Likelihood' matrix above the risk can then be associated with different levels of management attention.

The risk appetite table is only intended as a guide. It should not be the sole decision making device in assessing the risks. At all times, professional judgment should be exercised to validate the output of the risk appetite table.

Risk	Category	Action
Red risk	Key	Where management should focus attention. Should have immediate actions identified and plans in place to reduce risk as a priority Review regularly and report upwards
Amber risk	Contingency	Where management should ensure that contingency plans are in place These may require immediate action will require monitoring for any changes in the risk or controls. These will be a key area of assurance focus
Yellow risk	House Keeping	These should have basic mechanisms in place as part of the normal course of management.
Green risk	Low	Where risk is minimal if does not demand specific attention but should be kept under review.

5.3 The assessment should also document the decisions made in working through the process. This creates a risk profile for the organisation to learn from. It should include:

Capture of the reasons for decisions made about tolerating risks
Recording the way it was decided to address a risk.

There are four basic ways of dealing with a risk

Tolerate	Decide to accept the risk and take no further measures. This should be a conscious and deliberate decision taken having decided that it is more cost effective to do so than attempt mitigating action
Transfer	Transfer all or part of the risk e.g. insurance or to other agencies/contractors
Treat	Proactive action taken to reduce • the probability of the risk happening by Introducing control measures • the impact of the risk should it occur e.g. Business Continuity Plans
Terminate	This could involve changing an aspect of the activity or ceasing to provide the service or project and thus eliminate the risk

5.4 Most risks can be managed – either by minimising the likelihood of the risk occurring and/or reducing the severity of the consequences should the risk occur. Relatively few risks have to be avoided or transferred.

5.5 Having identified and analysed the risks, all **existing** controls and measures that may already be in place to eliminate or reduce the risk should then be identified and recorded against the individual risk, before the risks are reassessed/scored, to determine the "residual" risk score.

5.6 An individual risk owner should be made responsible for the risk and the control measures. These include:

- Assessing the implications of the risk and determining the level at which the risk can be tolerated and accepted (i.e. No more mitigation action will be taken).
- Determining the effect of the risk on the delivery of service and whether it impacts key performance indicators.
- Developing and implement a series of actions to contain the risk; mitigate, transfer or avoid.
- Ensuring that the actions are SMART.
- Continual assessment of the risk to ensure that the mitigants remain effective.
- Continual review to assess whether a risk needs escalating.
- Regular updates to the risk register to reflect the current status of each risk (its score and the status of the controls).

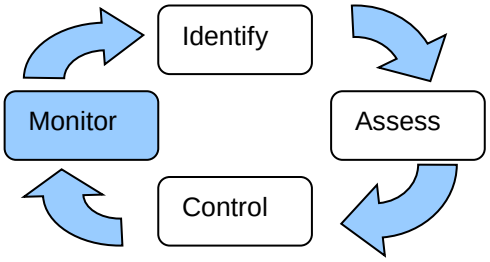
5.7 Risk Owners must judge what course of action is the most appropriate to address each of the risks they have identified, taking advice from the Project and Business Assurance team.

5.8 The cost/benefit of each control action must be assessed. The benefits will not always be solely financial. Managers need to use their own professional knowledge and experience to judge whether the financial cost of risk control is justified in terms of non-financial benefit to the Council. On occasions, managers may conclude that the cost of the control action may outweigh the benefits which will accrue to the Council as a result of the action being taken. In such instances, all or an element of the risk is retained. However, no laws should be breached when making this decision.

5.9 Responsibility for the implementation of the actions identified to reduce or eliminate a risk lie with the appropriate Risk Owner. The actions identified should not be regarded as a separate initiative but should be incorporated into Business Plans and cascaded down into performance agreements for the officers responsible for the risk.

6. Monitoring

Assess whether the nature of risk has changed.
Monitor and review the effectiveness of the controls.



6.1 Monitoring and review is a key stage in the risk management cycle. It is important to assess whether the nature of any risk has changed over time. Risk registers are living documents and therefore must be regularly reviewed and amended to ensure that they remain up to date and relevant. The reason for monitoring key risks is to create an early warning system for any movement in risk.

- Previously identified risks may change over time, the nature of the risk may have changes which could result in a change to the score in terms of likelihood and/or impact.
- It may become necessary to escalate/delegate a risk a level if the situation has changed or the initial assessment has proven to be inaccurate
- As new risks are identified they will need to be included in the process.
- It may be appropriate to delete risks. However, when risks are deleted from a register there should be a record of the reason of this decision.

6.2 In addition to the reviews undertaken by the Corporate Governance Group and Management Team, managers should include an item to discuss risk on team meetings and 1 to 1's. Regular reports will be also be presented to the Executive and Overview and Scrutiny Committee.

6.3 Progress in managing and controlling risks will be monitored and reported so that losses are minimised and intended actions are achieved. Reporting upwards is necessary on the whole spectrum of risks in the risk profile – not just on those being controlled. This ensures there is a mechanism for

monitoring the level/types of risks that the Executive, Overview and Scrutiny Management Team are proposing to tolerate.

6.4 In addition to monitoring the risk, managers must monitor the risk control action plan, in conjunction with risk owners and/or action owners to ensure that responsibilities, deadlines and costs do not slip. An assessment needs to be made as to the effectiveness of the controls and actions in reducing the impact/likelihood of the risks.

7. Training & Communication

7.1 Regular training and communications will comprise:

- Training on the risk management methodology will be provided for Managers/Team Leaders.

- The Council's intranet (The Knowledge) will contain full information and guidance to managers on risk management. This will include background information relating to Risk Workshops and as well as short guides on Risk Identification, Assessment, Scoring, Control, and Monitoring.