

# Birmingham City Council

## Risk Management Methodology 2010

Reviewed May 2010

This document forms part of a set of policies and procedures for all levels of staff to use to manage risk. The others are:

- A short Risk Management Policy Statement
- The Risk Management Strategy which describes the council's objectives, how these will be met, a definition of risk and the roles and responsibilities of both Members and staff regarding risk management
- A detailed Risk Management Toolkit, which provides further guidance along with background information, reference material and links to other useful information.

These documents are all available on InLine at [Risk Management documents](#) and, with the exception of the Toolkit, are also posted on the Birmingham.gov website.

## Introduction

This document describes the risk management methodology to be used within Birmingham City Council. There are five elements to be carried out:

- Risk / opportunity identification
- Risk / opportunity analysis
- Risk / opportunity prioritisation
- Management of risks / opportunities
- Monitoring of progress

### **1. Risk / opportunity identification**

This involves identifying potential opportunities and risks relating to the delivery of the Council's strategic outcomes. These may arise because of the general environment in which we are operating or in relation to specific decisions being made or options being considered. All types and categories of risk should be considered at this stage.

Risk identification should be carried out using service objectives drawn from the strategic outcomes (or the objectives of the project / partnership) considered against the following list of possible types of risk. This stage should be repeated regularly to ensure that new risks arising are identified and brought into the risk profile as appropriate.

#### **Types / Categories of risk:**

There are several ways of categorising risk; these are used as prompts to help people think broadly when identifying risks. More detail and examples can be found in the [Risk Management Toolkit for Managers](#) on the Policies, Standards, Procedures and Guidelines database on InLine

#### **Overarching risks (can be strategic risks and operational risks):**

Reputational  
Partnership/Contractual  
Legislative/Regulatory  
Financial

#### **Strategic risk areas:**

Economic  
Technological  
Political  
Social  
Competitive  
Environmental

#### **Operational risk areas:**

Customer/Citizen  
Physical  
Managerial/Professional

## 2. Risk / opportunity analysis

This is the process of reviewing the risks identified so that similar risks can be grouped and classified according to the likelihood of them occurring and the impact they would have.

### Measures of likelihood

Description	Example Detail Description
High	Almost certain, is expected to occur in most circumstances. Greater than 80% chance.
Significant	Likely, will probably occur in most circumstances. 50% - 80% chance.
Medium	Possible, might occur at some time. 20% - 50% chance.
Low	Unlikely, but could occur at some time. Less than 20% chance.

### Measures of impact

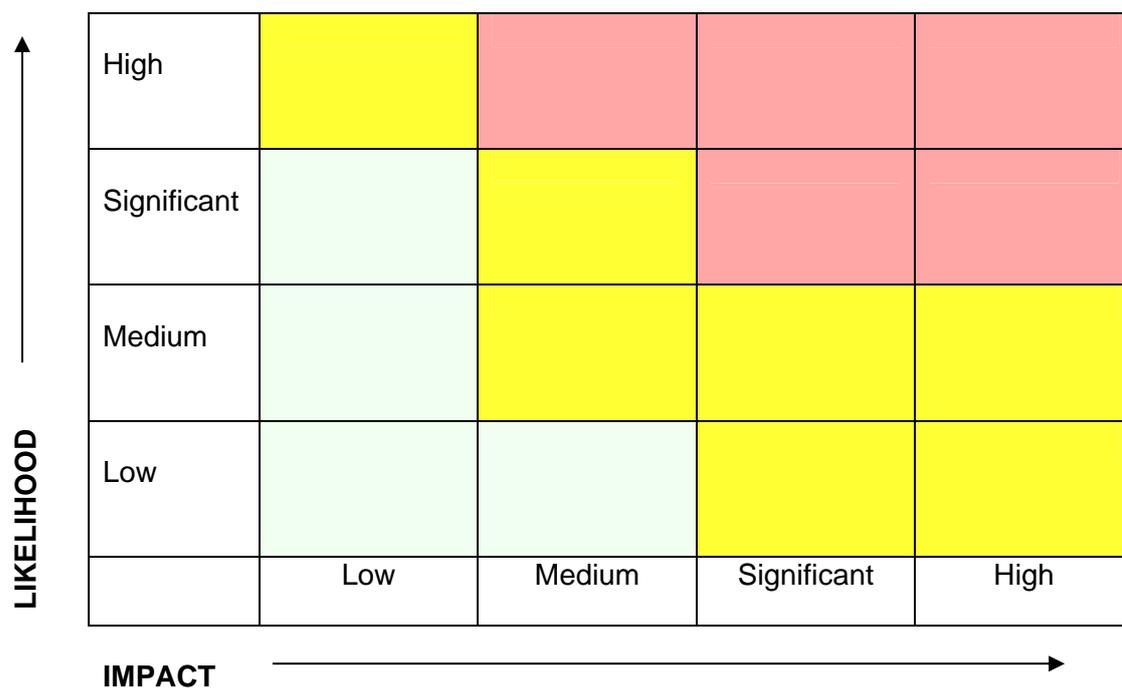
Description	Example Detail Description
High	Critical impact on the achievement of objectives and overall performance. Critical opportunity to innovate/improve performance missed/wasted. Huge impact on costs and/or reputation. Very difficult to recover from and possibly requiring a long term recovery period.
Significant	Major impact on costs and objectives. Substantial opportunity to innovate/improve performance missed/wasted. Serious impact on output and/or quality and reputation. Medium to long term effect and expensive to recover from.
Medium	Waste of time and resources. Good opportunity to innovate/improve performance missed/wasted. Moderate impact on operational efficiency, output and quality. Medium term effect which may be expensive to recover from.
Low	Minor loss, delay, inconvenience or interruption. Opportunity to innovate/make minor improvements to performance missed/wasted. Short to medium term effect.

The descriptions are applied as follows:

- Firstly the likelihood and impact of the risks identified will need to be considered as if no controls exist - this will give the *inherent* risk.
- Secondly the likelihood and impact of the risks will then need to be considered based on an evaluation of the effectiveness of existing controls to give the *residual* risk now.
- Then there will need to be consideration of what the *target* risk is. This is the level of risk that you are aiming to manage the risk down to, over time.

### 3. Risk / opportunity prioritisation

Once the *inherent* risks have been classified they need to be mapped onto the matrix as shown in this example. The colours are a “traffic light” system that denotes the risk appetite of the council. The mapping will need to be repeated to record the *residual* risk too as this will show how controls in place have influenced the level of risks. E.g. the *inherent* risk could place a risk within the red zone as a severe risk, but because controls in place are evaluated as being effective and consistently applied the *residual* risk could fall within the yellow (material risk) or green (tolerable risk) zone. The mapping can then be repeated to record the *target* risk to provide a view of how much further it is aimed to reduce the level of risk to.



Key:

<b>Severe</b>	Immediate control improvement to be made to enable business goals to be met and service delivery maintained/improved
<b>Material</b>	Close monitoring to be carried out and cost effective control improvements sought to ensure service delivery is maintained
<b>Tolerable</b>	Regular review, low cost control improvements sought if possible

#### 4. Management of risks / opportunities

This aspect of the process involves:

- setting the risk appetite, which requires a decision to be made on the degree to which risks are tolerable. This can vary from risk aversion through to risk taking, and will depend upon the nature of the business. The result of this is to set the level at which risks can be tolerated and therefore accepted. The Council's risk appetite is shown on the risk matrix by the identification of which risks are severe (red zone), material (yellow zone) and tolerable (green zone).
- assessing whether to *accept / tolerate, control / treat, modify, transfer or eliminate / terminate* the risk, or how to respond to the opportunity, based on the availability of resources;
- documenting the reasons for the decision taken;
- implementing the decision;
- assigning ownership to manage the risks / opportunity to specific officers; and
- the completion of an *action plan* - this is required for all risks identified as inherently severe and at management's discretion for the others, detailing existing controls, an assessment of their effectiveness and recording where the evidence that the controls are operating can be found. The action plan also has space to record what further controls are needed, along with who is responsible for these and to record the target risk when appropriate.

Controls are the tools that managers use to manage their services. They are the methods used by managers to assure themselves that they are achieving their business aims and service objectives, and that the service is being provided in the most efficient and effective way. The cost and robustness of existing or additional controls is a key consideration at this point and needs to be balanced against the potential consequences (reputational, financial or otherwise) if the event occurred. The cost of implementing and operating a control should not normally exceed the maximum potential benefit.

Using Control Risk Self Assessment, to provide direct management assurance that managers and staff at all levels are actively evaluating and improving the control framework, to support risk management processes is a way for managers to demonstrate their awareness of risk and that they are embedding controls and actions to manage risk and to take advantage of opportunities within their day to day role. A guide with regard to Control Risk Self Assessment (CRSA) is posted on InLine.

Risk management will also help to inform the Directorate and Divisional Assurance Statements that are completed each year.

**Approaches to managing risks:**

**Accepting / tolerating** risks means that you intend to manage the risk within your existing management routines. Risks should only be accepted where officers believe that the residual risk is tolerable to the service area, i.e. where they fall within the green zone of the matrix.

**Controlling / treating** risk means that you identify additional action(s) to be taken that will reduce the likelihood and / or impact if the event occurred. Controls can be:

- preventative, such as physically restricting access to hazardous chemicals, insisting on two signatories, ensuring segregation of duties exist within a system, implementing authorisation limits, or restricting levels of access on IT systems. These controls will help reduce risk levels from the outset. Equality Impact Needs Assessments are also an example of a preventative control as they help to highlight the potential risk of discrimination.
- detective, such as quality checks, alarms, exception reports, accident reports, financial reports such as budget monitoring reports, and reviewing insurance claims. These will show when something has gone wrong – perhaps a trigger event that can then alert you that the risk event is becoming more likely to occur.
- directive, such as procedure manuals, guidance notes, instructions, training. These advise on how to carry out processes safely but if they are not adhered to they will not prevent risk events occurring.

It may be however that the risk identified is outside your immediate control. In this case the action you need to take is to ensure that you have a contingency plan in place in case the risk does occur, so that you can deal effectively with the consequences.

**Modifying** risks means that you change the activity or the way in which it is carried out because adding control mechanisms would not help to reduce likelihood and/or impact.

**Transferring** risk means using an insurer or other third party to cover the cost or losses should a risk materialise. However, care needs to be taken to accurately specify the risks to be covered. Making arrangements with others such as joint working, partnerships or contracting out to provide services could also be used to transfer risks. However, other risks can arise from these arrangements and the responsibility of providing the service remains with the Council. When transferring risks to other parties, ensure that risk registers spell out where liability and accountability lie between parties.

**Eliminating / terminating** risk means ceasing to carry out the activity because modifying it or controlling it would not reduce the risk to an acceptable level.

## 5. Monitoring progress and reviewing the risk registers

This is a key stage of the risk management process. It is necessary to monitor the **action plans** developed at stage 4 above and to regularly report on the progress being made in managing risks, or taking advantage of opportunities, so that the achievement of the council's strategic outcomes and service objectives is maximised and losses are minimised.

In addition there needs to be an assessment of the effectiveness of risk management actions put in place to reduce the likelihood/impact of adverse risk events occurring. Alternative action will need to be taken if the initial action has proved ineffective.

Direct management assurance that controls are in place and are continuing to work effectively to mitigate risk is a key part of the review process. One way of providing management assurance is to use Control Risk Self Assessment.

Reviewing **risk registers** to ensure they remain up-to-date and relevant should also be done.

- Previously identified risks will change over time; some may become less of a hazard, for example once all the affected staff have been trained. Others may become more likely if a key milestone is approaching, such as the end of a funding stream.
- It may become necessary to escalate a risk up a level if the situation has changed or the initial assessment has proven to be inaccurate. Conversely it may be possible to delegate a risk.
- New risks identified or opportunities arising will need to be added.
- It may be appropriate to delete risks. However, when risks are deleted from a register there should be a record of the reasons for this decision and what has happened to the risk e.g. it has been removed at a Directorate level but has been passed to a Division to manage.

Monitoring progress and reviewing the risk registers should take place on at least a quarterly basis, and more frequently if there are many changes or the project is progressing rapidly. This can be done in a variety of ways, such as scheduling it as a periodic agenda item at a management meeting, arranging a separate meeting to discuss the register, or using a facilitator to run a review session.

Documenting the review of the risk register and action plans is also necessary, but need not be onerous. The fact that the review has been carried out should be minuted along with a brief report of any changes made and this should be fed up to the next level of management for information. This also provides the mechanism for escalating risks or highlighting changes that more senior management needs to be aware of.

Although the exact process used will differ between management teams, the following is an example of how officers may wish to approach the review:

- Go through the risks and opportunities listed in the register to consider whether each is:
  - a. Still valid;
  - b. If the situation has changed in the interim period regarding the mitigating actions / controls you already have in place or if it stays the same;
  - c. Record descriptions of any further mitigating actions that are being carried out now;
  - d. Move any actions from the “further agreed control measures” column if they have been implemented and update this column as necessary;
  - e. Use the likelihood and impact definitions to determine the amended residual risk if appropriate;
  - f. Escalate the risk, if in the light of the review it is more serious than was first thought and requires more senior management action;
  - g. Delegate the risk e.g. to service level, if in the light of the review it is relevant to that particular service and can be managed at a local level.
  - h. Decide if any risks should be deleted, and if so to minute the reason for this decision and what has happened to the risk.
- Identify if any new risks or opportunities have arisen, for example:
  - a. From an adverse event occurring either within Birmingham or another organisation;
  - b. By something new happening within the service, project, District etc. e.g. a new partner organisation to work with, a new project starting, a new or different way of delivering services, new funding streams or grants becoming available;
  - c. As a result of ongoing management review, e.g. budget pressures have been identified, unexpected demand for a service etc;
  - d. From changes in legislation.
- Use the likelihood and impact definitions to determine the inherent and residual risk associated to any new risks or opportunities, and capture the mitigating actions / controls currently in place.

## **6. Formats to be used**

The forms to be used to record a summary of the risks identified and the action plan giving more detailed information regarding how they are being managed follow:

## Risk Register

Directorate/Division/Project: .....

Date produced: .....

Risk / opportunity information			Counter Measures		
No.	Description of Risk / Opportunity and Risk / Opportunity owner	Inherent Risk (Likelihood/ Impact)	Description of current controls / mitigation in place and date when controls were last reviewed and reported upon	Residual Risk (Likelihood / Impact)	Further controls proposed, and date for implementation
	Risk / Opportunity owner:		Date:		Date:
	Risk / Opportunity owner:		Date:		Date:
	Risk / Opportunity owner:		Date:		Date:
	Risk / Opportunity owner:		Date:		Date:

Key:

Severe	Immediate control improvement to be made to enable business goals to be met and service delivery maintained/improved
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## Action Plan

<b>Objective influenced by the risk / opportunity</b>		<b>Inherent Risk</b> Likelihood/Impact		
<b>Risk/opportunity description</b>		<b>Residual Risk</b> Likelihood/Impact		
		<b>Residual risk accepted?</b>	<b>Yes</b>	<b>No</b>
<b>Consequences (e.g. effects on service provision, people, money, reputation etc)</b>		If residual risk not accepted what approach has been agreed?	Transfer risk	Eliminate risk
			Control risk	Modify risk
<b>Risk/opportunity Owner and Reference No.</b>		<b>Target risk</b> Likelihood/Impact		
<b>Description of current actions being taken to mitigate the risk, including the responsible officer and date when the controls were last reviewed to assess their effectiveness.</b>		<b>Further agreed control measures to be applied, including responsible officer and deadline for completion</b>		