

## **East Sussex County Council** **Managing Risk-Risk Assessment Guidance**

### **Introduction**

- 1) These guidelines replace those issued in September 2001 and reflect some changes that have been introduced to the risk assessment process following the first year of operation.

**These changes are being made because of the need to focus more clearly upon the operational risks that could prevent the Council from achieving its targets (i.e. its policy steers). It is important that managers concentrate on the risks they can control and/or influence and not risks such as loss of accommodation and ICT when these are centralised responsibilities of specialised business units. It is also very important to link risk management generally and risk assessment in particular to Reconciling Policy and Resources and consequent business planning, as they are an integral part of both.**

- 2) The importance of risk management has increased considerably since the introduction of the original guidance following the inclusion of risk management within the scope of the CPA inspection regimen.
- 3) The intention of the guidelines remains much the same in providing a guide to be followed by the Managers of all business units/service areas when carrying out risk assessments. The updated guidelines recognise that managers will now be inputting data into the risk assessment database rather than completing hard copy forms. The guidelines will enable managers to:
  - Clearly identify and understand the primary objectives of their business unit/service area;
  - Identify the key functions and processes that enable these objectives to be achieved;
  - Evaluate the likelihood and the impact of the risks that could affect the operation of these key processes and their wider implications for the County Council;
  - Devise appropriate risk control measures;

In order to embed risk management into the service planning cycle the service proformas, used throughout the Reconciling of the Policy and Resources process, now include a specific section on “Key Risks to the delivery of Policy Steers”. These revised risk assessment guidelines are intended to help managers ensure that robust assessments are carried out and actions required built into service plans.

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### **Overview of Approach**

- 4) The County Council's approach to risk assessment and risk management is divided into three main stages 1) Key Outcomes 2) Key Processes and 3) Loss Control. The objective is to concentrate resources on those business processes and associated risks considered most critical to the achievement of business objectives.
- 5) Stage one relates to the identification of overall business objectives. This is the key area of focus and it is on outcome rather than process.
- 6) Stage two relates to the identification of the key business processes that support achievement of the objectives. This is followed by identifying the risks to these business processes and assessing the scale of the risks through a process of scoring, based on the impact of the process failing and likelihood of this happening. Once completed each business process and the associated risk can be given a risk rating and prioritised accordingly.
- 7) Stage three concentrates only on those areas with the highest risk ranking and covers the identification of control measures required to manage the specified risks and the naming of a responsible officer. Once all the control measures have been established a further risk assessment should take place similar to that performed in stage one, but this time based on the risk after appropriate control measures have been implemented. The balance of residual risk should be acceptable to management. Action plans should then be developed in order to ensure appropriate control measures are implemented and maintained.

STAGE 1
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### **Identification of Primary Business Objectives (1.1)**

- 8) Every organisation, department or business unit must have overall core business objectives that are clearly documented and understood. These need to recognise a common thread linking policy steers, the County Council Plan and Departmental Business Plans. It is also important to take into account standard basic objectives that may not be in the plans e.g. payment of staff.
- 9) The starting point in the risk assessment exercise is identifying these overall core objectives for the business unit. Business or service plans should help to identify them.

### **Identification of Key Business Processes (2.1)**

- 10) The next step is to identify the key business processes and actions that support these business objectives and the greatest significance in terms of impact upon the organisation if they fail. These may be processes or actions carried out by others, which are not necessarily internal to ESCC. Job descriptions, office procedure manuals and internal quality control systems are useful starting points for the identification of key business processes.
- 11) A business process is a group of activities undertaken by an organisation in pursuit of a common goal:
- Planning a service
  - Delivering a service
  - Monitoring a service
  - Invoicing for a service
  - Paying suppliers
- 12) Processes should be considered at a relatively high level within a business unit and the impact on achievement or outcomes should always be the measure of whether a process is key or not.
- 13) A business process may be undertaken by a single service area or by several areas working together. Any key process in which the service area is involved should be included.
- 14) The risk assessment database has been designed to include fields to aid this process and they should be used to record each individual business objective and the key business processes that support them.
- 15) In many cases it is likely that the key business processes will be obvious to managers and can be relatively easily identified. However, the following criteria provide a useful aid to assessing the criticality of the business process:
- The business process provides total support to the business objective and/or has much wider organisational implications
  - The business process provides significant support to the business objective and/or has some wider organisational implications
  - The business process provides some support to the business objective and/or has limited wider organisational implications
  - The business process does not support the business objective at all and/or has no wider implications

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16) It should be noted that individual projects should also be subject to risk assessment and risk management, particularly if the project has the potential to have a significant impact upon the organisation.

### **Risk Identification (2.2)**

17) Once overall business objectives and the supporting key business processes have been identified and documented on the risk assessment database a process of risk assessment should be undertaken.

18) First the main risks to each key business process should be identified and entered on the risk assessment screen of the database in the appropriate field. In order to aid this task the following assets of the Council should be considered together with the types of operational risks listed in Section 41:

- People knowledge and skills
- Premises plant and equipment
- Information and Systems
- Third party suppliers and partners
- Finance
- Reputation

19) It is important not to concentrate too much on “Armageddon” type risks such as loss of County Hall or on relatively trivial risks but to focus on the main risks to the achievement of key outcomes. Corporate risks cannot be ignored, however, and should be included in the risk assessment process for individual business units when appropriate.

### **Risk Assessment (2.3)**

20) Once all the main risks have been identified and documented, a risk assessment can be performed based on the impact of the risk on the key business processes and the likelihood of it occurring. Risks are scored and designated High, Medium or Low according to priority as a result of these two factors.

### **Impact**

21) Impact can be classified as the effect of the identified risk on the key business processes (i.e. the extent to which it may cause failure or unavailability). Impact should be classified as below using the descriptions in italics as a guide:

- **Extreme (4).** *Total service loss for significant period/fatality/losses in excess of £500,000/ministerial intervention/attainment of key objective rendered impossible.*
- **High (3).** *Significant service disruption/serious injury/losses in excess of £100,000/adverse national media coverage/attainment of key objective rendered difficult.*

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- **Medium (2).** Noticeable service disruption/injury resulting in loss of working time/losses in excess of £10,000/adverse local media coverage and/or lots of service user complaints/minor impact on key objective.
- **Low/Negligible (1).** Minor service disruption/minor injury/losses of less than £10,000/isolated service user complaints/minimal impact on key objective.

**Likelihood** – Expected to occur within eighteen month period

22) An assessment of the likelihood of the identified risk occurring within the next eighteen months should now be performed. This should be carried out using the following classifications:

- **Almost Certain (4)**
- **Likely (3)**
- **Moderate/Could Happen (2)**
- **Unlikely/Rare (1)**

23) Based on the above a reference of 1, 2, 3, or 4 is allocated to each level of impact and likelihood. The table below shows how these references are used to rank the risks.

IMPACT					
		Extreme 4	High 3	Medium 2	Low 1
LIKELIHOOD					
Almost Certain	4	16 H	12 H	8 H	4 M
Likely	3	12 H	9 H	6 M	3 L
Moderate Chance	2	8 H	6 M	4 M	2 L
Unlikely/Rare	1	4 M	3 L	2 L	1 L

24) These assessments of likelihood and impact are performed without any reference to the measures or controls available to reduce the possibility of occurrence or impact.

#### **Prioritisation (2.4)**

25) Using the above table and the results of the risk ratings, all the identified risks can be categorised into High, Medium or Low and allocated a numerical rating to further refine the process.

26) This will enable attention to be focussed on the highest priority areas. Stage three of the risk assessment process will concentrate only on those risks falling into either the High or Medium categories.

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#### **Risk Management (3.1)**

27) There are a number of ways in which risk can be managed and these include:

- Identification and implementation of adequate controls to reduce risk to an acceptable level
- Acceptance of the risk
- Avoidance of the risk
- Transfer of the risk – (insurance or third party)
- Reduction of the possible impact – (contingency planning)

28) As we have already been through an exercise to identify and prioritise the key business processes and their associated risks it is likely that the only risk management methods worthy of further consideration will be those relating to loss control and loss reduction (i.e. implementation of adequate controls, risk transfer or risk reduction).

29) This stage covers the identification of risk control measures relating to the highest priority areas. The objective of risk control measures is to reduce the likelihood and/or impact of the recognised risks occurring and therefore the related key business processes failing and outcomes not being achieved.

30) Many risk control measures may already be in place whilst others may need to be implemented as a result of this process. There is a field on the database that has been created specifically for loss control measures.

31) The cost of implementing and maintaining loss control measures should not be greater than the cost of the potential losses associated with the key business processes and the business objectives they are designed to protect.

<b>Risk</b>	<b>Loss Control Measure</b>
Key supplier going into liquidation.	<ul style="list-style-type: none"><li>• Perform full financial appraisals of all key suppliers prior to appointment and annually thereafter to confirm financial stability.</li><li>• Identify alternative suppliers who could take over in an emergency.</li></ul>
Loss of key accreditation from a trade association or professional body.	<ul style="list-style-type: none"><li>• Regular audits of professional standards.</li><li>• File reviews by peers and senior officers.</li></ul>
Tree roots causing structural damage	<ul style="list-style-type: none"><li>• Regular inspection of all trees and</li></ul>

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to third party property.	removal of those diseased or damaged. <ul style="list-style-type: none"><li>• Regular maintenance, trimming and pruning.</li></ul>
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32) In the cases of certain strategic risks it may be that the potential impact of the risk on the key business process cannot be reduced to an acceptable level. Where this is the case, appropriate measures should be identified for ensuring business continuity. These may be the responsibility of a specialised business unit and dealt with centrally.

- Ensuring that alternative accommodation is available in the event that a core building becomes unavailable for an extended period.
- Arranging for the provision of alternative IT services in the event of unavailability of existing systems for an extended period.
- Identification of specialist services to provide alternative manpower in the event of the absence of key staff for an extended period.

### **Identifying a Responsible Officer (3.2)**

33) Once appropriate risk control measures have been identified, it is essential that responsibility for implementing and monitoring these be clearly established. There is a field on the screen for identifying the responsible officer who should clearly understand what action is expected. There is also a report on the database to help officers manage the implementation of control measures.

### **Reassessment of Risk (3.3)**

34) All those risks assessed as high or medium should be reassessed after the implementation of control measures. The objective of this exercise is to establish the effect of the control measures in reducing the identified risk. Control measures will normally reduce the impact of the risk or the likelihood of it occurring in first instance. It is possible however, that some risks will still be considered high even after the implementation of all the possible control measures. This should not impede sign off provided that all reasonable loss control measures are in place. Some very large and potentially hazardous risks such as the Waste Management Private Finance Initiative may always be ranked as a High risk no matter what loss control measures are in place.

### **Action Planning (3.4)**

35) Once all the appropriate control measures have been identified and the reassessment process completed the target dates for implementation and the responsible officers should be recorded.

36) All reassessments should be recorded on the database and used to support the planning activity as an integral part of the process. Once

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control measures are implemented Business Unit heads should sign off the risks.

### **Monitoring and Reporting (3.5)**

- 37) Risk management and risk assessment is not a one off activity and should be integrated into the normal management and business planning process. It should also be capable of responding to business and organisational change. It is essential, therefore, that ongoing monitoring takes place to ensure that risk control measures are operating effectively and that they remain appropriate in the light of any changes to business objectives and key business processes.
- 38) Responsibility for identifying and assessing risks, and then for maintaining adequate controls lies with management. For this reason monitoring and reporting on the adequacy of control measures and, if needed, action to improve control is also the responsibility of management. The Risk Assessment Database Risk Assessment Screen provides for self certification by the relevant manager that risks have been assessed and that appropriate control measures are either in place or being developed.
- 39) The self certification by managers will be available to the County Council's Risk Management Officer and will be used to prepare the annual report on risk management in accordance with the County Council's Risk Management Strategy. Risk management and risk assessment is now reviewed as part of the CPA inspection regimen and is referred to specifically in the CPA Guidance Notes. Managers should review their risk assessment annually during the autumn in order to coincide with the planning process and ensure that risk management and risk assessment is fully embedded into the process.
- 40) The Database is primarily designed for operational risks but if the process highlights issues that are strategic at the moderation level then these should be dealt with as strategic issues by Chief Officers. It is very unlikely that Business Unit managers will have the authority to deal with such issues.

### **Strategic Risks**

- 41)
- i) In the past the risk assessment database has been used solely for operational risks and the work on strategic risks has been carried out in isolation using a purely paper-based exercise. The previous guidelines actually used the word "operational" in the heading but this has been omitted in this version as it is intended that strategic risks should be entered in a similar manner to operational risks. There are, however, some important differences and these need to be recognised.
  - ii) Although to some extent it is artificial to draw a distinction between strategic and operational risks, as some operational risks can become

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strategic issues, it is generally accepted that risks that affect the County Council as a whole, as opposed to only one department, are more likely to be regarded as strategic issues. For example the inability to attract staff in one department due to an inadequate remuneration policy may start off as an operational issue but if it spreads to other departments and across the County Council as a whole it will become a strategic issue. However departmental risks that are of major significance (e.g. the waste management PFI) would be strategic.

- iii) Operational risks are usually concerned with issues that can be dealt with during the short to medium term and during the course of the current planning cycle. Strategic risks are normally medium to long term issues that go beyond the current planning cycle and are of such significance that they impact on the County Council as a whole i.e. a very large financial loss.
- iv) It is important to be able to draw a distinction between the two types of risk because whereas the head of a business unit can usually deal with operational risks strategic risks by their very nature are much more the province of chief officers and members.
- v) Operational risks usually fall under one of the following headings:
  - **Professional** Those associated with the particular nature of each profession.
  - **Legal** Those related to possible breaches of legislation.
  - **Financial** Those associated with financial planning and control of the adequacy of insurance and internal funds.
  - **Physical** Those relating to fire, security, accident prevention and health and safety.
  - **Contractual** Those associated with the failure of the contractor to deliver services or products to the agreed cost and specification.
  - **Reputation** Those relating to the organisation's reputation and the public perception of the organisation's efficiency and effectiveness.
  - **Technological** Those relating to reliance on operational equipment (IT systems etc.)
  - **Environmental** Those relating to pollution, noise or energy efficiency.
- vi) Strategic risks on the other hand are usually better described by the use of the PESTLE model as follows:
  - **Political** - Those associated with failure to deliver either central government policy, or the administration's key or headline manifesto commitments.
  - **Economic** - Those affecting the ability of the organisation to meet its financial commitments. These include internal budgetary pressures, failure to purchase adequate insurance cover, external macro economic changes, or the consequences of proposed investment decisions.

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- **Social** - Those relating to the effects of changes in demographic, residential or socio-economic trends on the organisations ability to deliver its objectives.
- **Technological** - Those associated with the capacity of the organisation to deal with the pace/scale of technological change or its ability to use technology to address changing demands.
- **Legislative** - Those associated with current or potential changes in national or European law.
- **Environmental** - Those relating to the environmental consequences of progressing the organisation's strategic objectives (e.g. in terms of energy efficiency, pollution, recycling, landfill requirements, emissions etc.).
- **Competitive** - Those affecting the competitiveness of the service in terms of cost or quality and/or its ability to offer best value.
- **Customer/Citizen** - Those associated with failure to meet the current and changing needs and expectations of customers and citizens.

vii) The categories described above are neither prescriptive nor exhaustive. However, they should provide a framework for identifying and categorising a broad range of strategic and operational risks and for the entering of data onto the database. It is not prudent to consider these risks in isolation as, for example, changes in employment legislation could effect the competitiveness of a service or physical damage to a school could have professional and/or financial consequences. The interrelationship of the different categories must be considered if a full risk assessment is to be undertaken.