

Risk Identification

Risks should be identified that may affect the Council's ability to achieve its business objectives, execute its strategies successfully or limit its ability to exploit opportunities.

Risks can be identified through a number of methods, including:

- A 'brainstorming' session or workshop with the whole management team and relevant stakeholders
- Interviews or questionnaires with key stakeholders
- Meetings with smaller groups of people

There are a wide range of methods available that can be used to identify and understand risks. The method that you select will depend upon the type of risk(s) that you are dealing with but typically a management team workshop is the method most commonly used.

Additionally, existing sources of information could help inform this stage. Some examples are listed below:

- Service / corporate plans, strategies and objectives
- Existing risk registers
- Risks or issues raised by internal audit or other scrutiny body
- Risks identified through budget setting processes
- Health & safety risk assessments
- Business continuity risk assessments
- Partnership, programme or project documentation (e.g. business case or project risk register)
- Experience of those participating in the risk identification process

It is the responsibility of those identifying risks to decide which sources of information they should consult. This may be one or more of the sources listed above or it could be something else you think is appropriate.

As well as direct risks to the achievement of our objectives it is important to think broadly about uncertainties that may have an impact on the organisation. The diagram shown below illustrates a variety of different risk themes, expanding on PESTLE prompts, which the organisation could face. Think also in terms of these themes when identifying risks.



Once identified, the risks need to be described in sufficient detail and recorded in a consistent format to support effective decision making on the way that the risk is managed. It is crucial for risks to be defined properly at this stage. Failure to do so can result in confusion about the exact nature of the risk, ineffective risk controls being implemented, or the risk analysis being over or underestimated.

The description of the risk should include the following elements:

- Risk Title – a short and concise header for the risk
- Description – expanding on the risk title outlining the situation or event that exposes us to a risk.
- Risk Cause – also known as the trigger event. Situations or factors which result in the risk becoming a reality.
- Risk Effect – the likely consequences if the risk materialises (The negative impact - consider worst likely scenario)

When describing a risk try not to describe the impact of the risk as the risk itself or define risks with statements which are the converse of objectives. Focus upon the uncertain event that would result in those impacts.

| Types of Risk to consider | |
|--|--|
| Strategic / Commercial | |
| 1 | Under performance to specification |
| 2 | Management will under perform against expectations |
| 3 | Collapse of contractors |
| 4 | Insolvency of promoter |
| 5 | Failure of suppliers to meet contractual commitments (quality, cost, time) |
| 6 | Insufficient capital |
| 7 | Market fluctuations |
| 8 | Trade/Banking crises |
| 9 | Fraud/theft |
| 10 | Partnership failing to deliver desired outcomes |
| 11 | Situation is not insurable (cost of insurance outweighs the benefit) |
| Economic / Financial / Market | |
| 1 | Exchange rate fluctuation |
| 2 | Interest rate instability |
| 3 | Inflation |
| 4 | Shortage of working capital |
| 5 | Failure to meet projected revenue targets |
| 6 | Market developments will adversely affect plans |
| Legal and Regulatory | |
| 1 | New or changed legislation may invalidate assumptions upon which the activity is based |
| 2 | Failure to obtain appropriate approval e.g. planning consent |
| 3 | Unforeseen inclusion of contingent liabilities |
| 4 | Loss of intellectual property rights |
| 5 | Failure to achieve satisfactory contractual arrangements |
| 6 | Unexpected regulatory controls or licencing requirements |
| 7 | Changes in tax or tariff structure |
| Organisational / Management / Human factors | |
| 1 | Management incompetence |
| 2 | Inadequate corporate policies |
| 3 | Inadequate adoption of management practices |
| 4 | Poor leadership |
| 5 | Key personnel have inadequate authority to fulfil their roles |
| 6 | Poor staff selection procedures |
| 7 | Lack of clarity over roles and responsibilities |
| 8 | Vested interests creating conflict and compromising overall aims |
| 9 | Individual or group interests given unwarranted priority |
| 10 | Personality clashes |
| 11 | Indecision or inappropriate decision making |
| 12 | Lack of operational support |
| 13 | Inadequate or inaccurate information |
| 14 | Health and Safety constraints |
| Political | |
| 1 | Change of government policy |
| 2 | Change of government |
| 3 | War and disorder |
| 4 | Adverse public opinion/media intervention |
| Environmental | |
| 1 | Natural disasters |
| 2 | Storms, flooding, tempests |
| 3 | Pollution incidents |

| | |
|---|--|
| 4 | Transport problems (including aircraft/vehicle collisions) |
| Technical / Operational / Infrastructure | |
| 1 | Inadequate design |
| 2 | Professional negligence |
| 3 | Human error/incompetence |
| 4 | Infrastructure failure |
| 5 | Operation lifetime lower than expected |
| 6 | Increased dismantling/decommissioning costs |
| 7 | Safety being compromised |
| 8 | Performance failure |
| 9 | Residual maintenance problems |
| 10 | Scope creep |
| 11 | Unclear expectations |
| 12 | Breaches in security/information security |
| 13 | Lack or inadequacy of business continuity |

Risk Evaluation and Prioritisation

Once risks have been identified the risk matrix is the main tool for prioritising risks so we can establish which risks are most significant and therefore are in need of greater attention and resources. It also allows us to compare different types of risk with each other across the council.

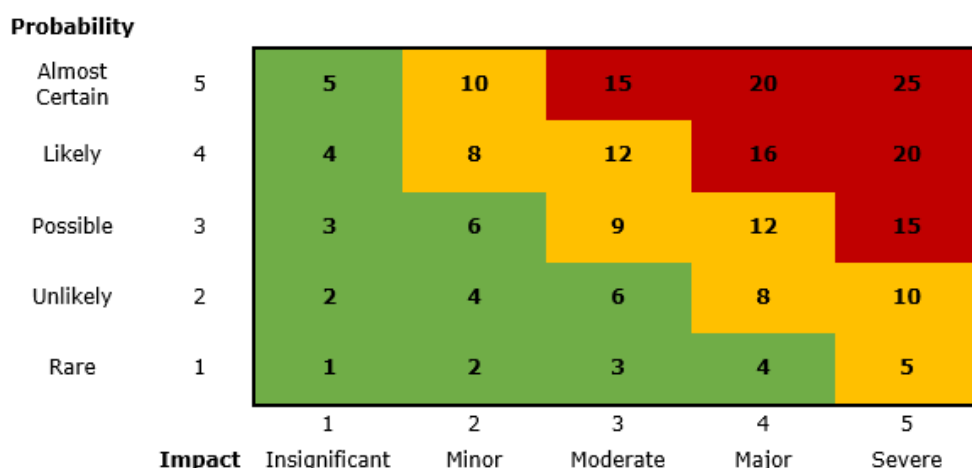
Each risk should be analysed using a five by five matrix for (1) the likelihood it will happen and (2) the impact if it did occur. This assessment should be made on three different basis:

- Gross risk – risk level if existing key controls and mitigations were not in place or not effective.
- Current risk – risk level after existing controls and mitigations are taken into consideration.
- Target risk – anticipated risk level following the introduction of planned controls and mitigations.

Assessing the gross risk allows consideration of the dependency the organisation has upon the existing key controls and informs decisions around risk treatment, and selection of an appropriate target risk level, considered in the next section of this toolkit. It is often helpful to consider the Current Risk first, and then ask yourself what the impact and likelihood of the risk might be if the key controls were not in place.

It is the risk owner's responsibility to ensure the controls they believe are reducing the risk are effective and are working in practice. Controls that are not yet in place should not be considered within the current risk.

Each identified risk should then be plotted onto the risk matrix.



When considering the likelihood of a risk happening you should select the number from 1 to 5 from the risk matrix that you think it will be over the next 12 months (it can be longer or shorter; some risks in the Strategic Risk Register are better considered over 3 to 5 years, some operational risks will be considered over 3 to 6 months). This score will require an element of judgement when considering how likely an event is to occur and you should consider the following:

- Has this event happened before in the Council? (How frequently?) Has this event happened elsewhere? (How frequently?)
- How likely is it that one or more of the causes/ triggers of the event will occur?
- Has anything happened recently that makes the event more or less likely to occur?

The following tables provide some support in quantifying the risk in terms of likelihood and impact.

Risk Probability Assessment Criteria

| Scale | Description | Likelihood of Occurrence | Probability of Occurrence |
|----------|----------------|--------------------------|--|
| 1 | Rare | 1 in 10 years | The event may occur in certain circumstances |
| 2 | Unlikely | 1 in 3 years | The event could occur |
| 3 | Possible | 1 in 2 years | The event should occur |
| 4 | Likely | Annually | The event will probably occur |
| 5 | Almost certain | Monthly | The event is expected to occur or occurs regularly |

When you select the impact you should give consideration to the factors outlined in the risk matrix. For example, if the risk you are scoring has a low financial impact but a high impact on our reputation then you would select the most appropriate number between 1 and 5 that relates to the level of reputational impact. Once again, this score will have an element of judgement.

Risk Impact Assessment Criteria

| | Insignificant | Minor | Moderate | Major | Severe |
|------------------------------------|---|---|--|---|--|
| Financial | <£50k per annum | £50k - £250k per annum | £250k - £500k per annum | £500k - £750k per annum | >£750K per annum |
| Service Delivery | No impact to service quality, limited disruption to operations | Minor impact to service quality, minor service standards are not met, short term disruption to operations, minor impact on a partnerships | Significant fall in service quality, major partnership relationships strained, serious disruption in service standards | Major impact to service quality, multiple service standards are not met, long term disruption to operations, multiple partnerships affected | Catastrophic fall in service quality and key service standards are not met, long term catastrophic interruption to operations, several major partnerships are affected |
| Reputation | Public concern restricted to local complaints which do not attract local media attention. | Minor adverse local / public / media attention and complaints | Adverse national media public attention | Serious negative national or regional criticism | Prolonged, regional & national condemnation |
| Compliance & Regulation | Minor breach of internal regulations, not reportable | Minor breach of external regulations, not reportable | Breach of internal regulations leading to disciplinary action Breach of external regulations, reportable | Significant breach of external regulations leading to intervention or sanctions | Major breach leading to suspension or discontinuation of business and services |
| Strategic | Little impact on the organisational strategy | May have an impact on achieving organisational strategy | Would impact on the organisational objectives | Would require a significant shift from current strategy and objectives | Would require a fundamental change in strategy and objectives |

Risk Treatment

Once risks have been identified and scored based on current controls the next step is to decide what action needs to be taken to manage them. Generally speaking, there are four approaches to treating risk: Treat, Tolerate, Terminate or Transfer:

| Action | Description | Options |
|--------------------------|---|---|
| Treat / Reduce | Controlling the likelihood of the risk occurring, or controlling the impact of the consequences if the risk does occur | Reducing the likelihood of the risk occurring AND / OR Mitigating the impact if the risk does occur |
| Tolerate / Accept | Acknowledging that the ability to take effective action against some risks may be limited or that the cost of taking action may be disproportionate to the potential benefits gained. | The ability to take effective action against some risks may be limited or the cost of taking action may be disproportionate to the potential benefits gained in which case the risk is accepted on an "informed" basis. |
| Terminate / Avoid | Not undertaking the activity that is likely to trigger the risk | Changing the direction or strategy and revisiting objectives or improving channels of communication Obtaining further information from external sources or acquiring expertise Reducing the scope of the activity or adopting a familiar, proven approach Deciding not to undertake the activity likely to trigger the risk |
| Transfer | Handing the risk on elsewhere, either totally or in part – e.g. through insurance. | Financial instruments such as insurance, performance bonds, warranties or guarantee. Renegotiation of contract conditions for the risk to be retained by the other party. Seeking agreement on sharing the risk with the other party. Sub-contracting risk to a consultant or external suppliers. NB. It may not be possible to transfer all aspects of a risk. For example, where there is or reputational damage to the organisation. |

When considering further action required to manage the risk, and indeed the appropriateness of existing controls, an assessment of treatment options should be made alongside a consideration of the Council's risk appetite and tolerance for the current level of risk.

A further consideration is the efficiency of risk treatment in relation to the cost effectiveness of the proposed actions to be taken. Firstly the cost of implementation has to be considered (time, manpower, budget, etc.). The impact expected if no action is taken, should be weighed against the cost of action and the reduction of the impact. There should be a direct benefit from the cost implementation in terms of the reduction of the level of the risk.

Plans should then be put into place to manage the risk with key milestones identified and clear owners – ensuring that they are 'SMART' – Specific, measurable, achievable, realistic, time bound.

Oxford City Council has focused on the Red, Amber, Green status of risks in determining the risk appetite of the organization. Red risks are considered unacceptable and every effort must be made to reduce the risk to the organization.

The risk appetite is reviewed periodically or when there are significant changes to the organisation. Changes to the risk appetite level would require a change to strategy and would therefore require approval of the Cabinet.

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