

## Torbay Council – Corporate Risk Management Methodology

1. A **risk** is anything that could affect the ability of a service to meet its business objectives. Risks include bad things that do happen and good things that don't happen. This methodology provides a means of assessing risks consistently to enable fair comparisons to be made of the diverse risks occurring across the Council. This will help Members and employees prioritise actions and the allocation of resources. This methodology is to be used in assessing corporate risks, not day-to-day operational risks. It is not to be used in assessing, for example, the appropriateness of a care package for an individual. Nor should it be confused with the duty to carry out Health & Safety risk assessments. It is to be used, for example, in assessing the risks that may affect the ability of Adult Services to meet the objectives in its Business Plan.
2. Risk is measured through a combination of **likelihood** of occurrence and severity of **impact**. This methodology gives numerical values to six levels (1 to 6) of likelihood (from "almost impossible" to "very significant") and four levels (1 to 4) of impact (from "negligible" to "catastrophic"). The higher the numerical value the greater the likelihood or impact. Multiplying the numerical values for likelihood and impact produces a numerical value for the **Initial Risk** (between 1 (1 x 1) and 24 (6 x 4)). The levels of likelihood and impact are all described (see page 3) to help achieve corporate consistency in what are largely subjective judgements. Impact is also assessed under seven headings (provision of service, legal (including equalities), reputation, financial, strategic, environmental, and other) (again, described on page 3). Where a proposal involves multiple risks, each must be individually assessed. An Evaluation Sheet is set out on page 4 to help you document your initial assessment of the risk, and for subsequent review of risks if the proposal is implemented.
3. Applying **control measures** may reduce the likelihood and/or the impact of the Initial Risk. For example, decreasing the frequency of a high-risk activity will reduce the likelihood of occurrence, whilst insuring against a risk will reduce the potential financial impact on the Council. Appropriate control measures must always be considered when assessing risks. The higher the Initial Risk, the more rigorous must be the consideration and application of control measures.

Some examples of control options are:

Reduce:	Devise controls to reduce the risk to an acceptable level.
Eliminate:	Remove the risk by totally stopping/avoiding the activity which gives rise to the risk.
Transfer:	Provide insurance to cover the risk should it occur or transfer to third party.

(If control options are not applicable, it may be appropriate to accept the risk because the benefits of doing so outweigh the potential risks).

4. Multiplying the numerical values for likelihood and impact **after** applying control measures produces a numerical value for the **Final Risk** (between 1 (1 x 1) and 24 (6 x 4)). Where a proposal involves multiple risks the highest figure determines the overall Final Risk. Again, use the attached Evaluation Sheet.
5. The decision must now be made on proceeding with the proposal (i.e. **accepting** the

Final Risk). This judgement will depend upon the level of benefit to be derived compared with the risk to be accepted. Final Risks are split numerically into three categories. This determines who may take the decision to accept the risk and proceed. Service Managers may accept **Low Risks** (1 to 7). Directors and Assistant Directors, in consultation with an Executive Member, may accept **Intermediate Risks** (8 to 14). However, only the Executive, Council or a Committee may authorise acceptance of **High Risks** (15 to 24). This is summarised in the **Risk Matrix** below:

L i k e l i h o o d	6	6	12	18	24
	5	5	10	15	20
	4	4	8	12	16
	3	3	6	9	12
	2	2	4	6	8
	1	1	2	3	4
		1	2	3	4
I m p a c t					

### Key

Final Risk Score	Final Risk Category	Decision Maker
1-7 (Green)	Low	Service Manager
8-14 (Amber)	Intermediate	Director or AD in consultation with Executive Member Add to Directorate Risk Register
15-24 (Red)	High	Council/Executive/Committee Add to Strategic Risk Register

- Risks change over time and they need to be monitored and kept under **review** by managers. The more serious and/or the more volatile the risk the more frequently it should be reviewed. A review date should be included on the evaluation sheet and at the review a further full evaluation should be recorded on a new form using the same methodology. The results of the original assessment and subsequent reviews should be sent to the **Directorate or Corporate Risk Co-ordinator** for addition to the **Directorate or Corporate Risk Registers** as appropriate.

30 July 2004

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The following definitions are intended to give general guidance by way of descriptions and examples. They should be applied with common sense. In particular, the definitions of Impact may need to be adapted where the proposals involve strategic corporate issues. If in doubt, please consult the relevant Director (e.g. the Director of Finance in the case of Financial Risks).

If a proposal creates multiple risks, the highest score determines the overall risk level. E.g., if a proposal (after applying appropriate control measures) leaves a borderline likelihood (4) of a marginal financial loss (2) (i.e. an Intermediate Final Risk ( $4 \times 2 = 8$ )) *and* a significant likelihood (5) of a serious adverse impact on the environment (3) (i.e. a High Final Risk ( $5 \times 3 = 15$ )) the overall Final Risk of the proposal is 15 (“High”) and the decision *must* be taken by Members.

### Likelihood

<b>Almost Impossible (1)</b>	A risk that has not occurred before and which may reasonably be regarded as extremely unlikely (less than 1% chance) to occur within the next 10 years	<b>Borderline (4)</b>	A risk that may have occurred before and is more likely to happen than the “Insignificant” category; but which may reasonably be regarded as unlikely to happen (less than 50% chance) within the next 2 years
<b>Very Insignificant (2)</b>	A risk that may have happened before and/or is more likely to happen than the “Almost Impossible” category; but which may reasonably be regarded as very unlikely (less than 5% chance) to occur within the next 10 years	<b>Significant (5)</b>	A risk that may have occurred before and is more likely to happen than the “Borderline” category; but which may reasonably be regarded as unlikely (or no more likely than not) to happen (50% chance or less) within the next 12 months
<b>Insignificant (3)</b>	A risk that may have occurred before and is more likely to happen than the “Very Insignificant” category; but which may reasonably be regarded as unlikely to happen (less than 50% chance) within the next 5 years	<b>Very Significant (6)</b>	A risk that may have occurred before and is more likely to happen than the “Significant” category: i.e. that is more likely than not to happen (greater than 50% chance) within the next 12 months

### Impact

	<b>Provision of Service</b>	<b>Legal (including Equalities)</b>	<b>Reputation</b>	<b>Financial</b>	<b>Strategic</b>	<b>Environmental</b>
<b>Negligible (1)</b>	Negligible or no adverse impact on services or stakeholders	No reprimand or sanctions	Negligible or no adverse effect to reputation	Overspend or loss of under £3,000 or (if greater) under 5% of project value. And, no impact on financial standing of Council.	Negligible or no adverse impact on strategy	Negligible or no adverse impact
<b>Marginal (2)</b>	Minimal adverse impact on services or stakeholders	Minor or technical reprimand or sanctions	Some adverse effect, short term impact	Overspend or loss of between £3,000 to £25,000 or (if greater) between 5 and 10% of project value. And, little impact on overall financial standing of Council.	Minor part of strategy delayed or not delivered, no adverse effect on total strategy	Marginal adverse impact on small part of transport infrastructure, minor, localised damage to 1 area, short term harm to natural environment, transport network or buildings or localised weather damage
<b>Serious (3)</b>	Significant adverse impact and/or some material loss of services or serious impact on stakeholders	Significant breach leading to reprimand or sanctions; finding of maladministration by Ombudsman; challenge to accounts	Adverse effect that leads to sustained adverse coverage in local press	Overspend or loss of between £25,000 to £100,000 or (if greater) over 10 but under 20% of project value. And no serious impact on overall financial standing of Council.	Main component of the strategy significantly delayed or not delivered leading to short term impact. Failure to meet non-key local and national PIs	Loss or long term disruption to important part of transport infrastructure, material damage to a significant part of built environment, significant long term harm to natural environment, or severe weather damage

<b>Catastrophic</b> <b>(4)</b>	Major disruption or critical adverse impact on services or stakeholders	Major breach leading to Government intervention or discontinuance of service or prosecution	Adverse effect with long term impact, e.g. Government intervention or adverse CPA rating	Overspend or loss of over £100,000 or (if greater) over 20% of project value. Serious impact on overall financial standing of Council.	Key part of Strategic Plan, or Community Plan materially delayed or not delivered, resulting in key priorities not being delivered. Failure to meet key local or national PIs	Major loss of or very serious long-term disruption to transport infrastructure, major damage to very significant part of the built environment, landslide affecting a large area, or very severe weather damage
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**Risk Management Matrix – Evaluation Sheet**

<b>Directorate:</b>		<b>Section:</b>		<b>Date:</b>	
<b>Member/Officer responsible</b>			<b>Position:</b>		
<b>Activity/Process:</b>					
<b>Relevance to Corporate Priorities</b>					
<b>Initial Risk Score</b>					
<b>Risk</b>	<b>Likelihood rating</b>		<b>Impact rating</b>		<b>Score (Likelihood x Impact)</b>
Provision of service					
Legal (including Equalities)					
Reputation					
Financial					
Strategic					
Environmental					
Other					

<b>Details of control/s to be applied: (Reduce/Eliminate/Transfer):</b>	
Provision of service	
Legal (including Equalities)	
Reputation	
Financial	
Strategic	
Environmental	
Other	

<b>Final Risk Score (after applying controls)</b>			
<b>Risk</b>	<b>Likelihood rating</b>		<b>Score (Likelihood x Impact)</b>
Provision of service			
Legal (including Equalities)			
Reputation			
Financial			
Strategic			
Environmental			
Other			

<b>Transfer to Risk Register</b>		
<b>Final Risk Score</b>	<b>Final Risk Category</b>	<b>Directorate/Strategic Risk Register</b>
8-14	Intermediate	Copy to Directorate Risk Co-ordinator for inclusion on Directorate Risk Register
15-24	High	Copy to Corporate Risk Co-ordinator for inclusion on Strategic Risk Register

<b>Review (complete new Evaluation Sheet)</b>			
<b>Review due:</b>			
<b>Responsible Officer</b>			
<b>Date of Review:</b>		<b>Outcome of review:</b>	<b>Final risk score still applies Y/N:</b>
			<b>Final risk score now changed to:</b>
			<b>If applicable, refer to:</b>