Managing Risks to Improve Public Services

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
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Preface

In recent years a great deal of effort has been put into improving risk management in departments. The need for a more structured approach to risk has been highlighted by some costly and high profile failures in projects and policy implementation and events of unprecedented scale such as foot and mouth disease. Improved risk management has also been necessary to support the innovation and change needed to deliver better public services. In November 2002, therefore, a two year Risk Programme was launched by the Prime Minister to give focus and drive to departments in the development of plans and frameworks designed to make effective risk management a reality.

Departments generally have responded well to the Risk Programme; good progress has been made in putting in place the machinery to manage risk better. Examples of good practice are significantly more widespread than at the time of the previous NAO report published in August 2000. But the Risk Programme, which has created much of the recent momentum and focus for change, ends in December 2004. This is a critical time for departments; in order to secure the benefit of the processes and structures they have put in place, risk management must become increasingly an integral part of wider management, signalled by board level commitment and informed by clear lines of risk ownership and reporting. Where this does not happen, risk management practices will fail to deliver maximum benefit and may even fall into disuse or become pointless additional bureaucracy. This would be a missed opportunity for departments, already faced with a pressing need to deliver improved public services, often through increasingly complex delivery networks, while at the same time securing increased efficiency.

The Government announced in the Spending Review in July 2004 its intention to achieve savings of £21.5 billion a year, staff reductions of 84,000 in support functions by 2008, and sales of £30 billion of assets by 2010. If this is to be successfully implemented, whilst also delivering Public Service Agreement targets, risks will need to be successfully managed. This report is about how to do this, based on case study examples of effective risk management.

Our general conclusion is that while significant progress has been made by departments to improve their risk management, they have further to go to demonstrate that they have made effective risk management a central part of their day to day general management processes in a way that can fully deliver improved performance and other benefits. They need to continue to develop their ability to take risks and innovate, to keep projects and programmes on track, to handle complex service delivery networks, and to be ready with the means to respond to the fast-moving and unexpected turn of events.

In this report there are many examples of where departments and organisations have adopted innovative approaches to risk and risk management. However, there is more to be done if departments are to ensure that a culture of active, explicit and systematic risk management exists, where well managed risk taking is fully encouraged and supported, and where decisions made by civil servants and other public officials are routinely based around accurate and well informed judgements about risk. Good progress has been made - but the key is now to maintain the momentum.

executive summary

In this report 'Risk' is defined as something happening that may have an impact on the achievement of objectives as this is most likely to affect service delivery for citizens. It includes risk as an opportunity as well as a threat.

1 All departments face risks. These may be external such as terrorist threats, public health issues such as a flu epidemic, or instability arising from climate change. Such risks usually require a co-ordinated response involving more than one department. Risks may also arise from the capacity of departments to handle incidents or developments which have an impact on their core responsibilities such as the foot and mouth disease outbreak in 2001, which had an economic cost of £8 billion.

2 Well managed risk taking also presents opportunities to innovate, experiment and develop new ideas where more traditional ways of working are not able to deliver real change; for example, in providing an environment where radically new or different approaches can be developed in the confidence that the associated risks will be well managed. Indeed the greatest risk of all may be not taking any risks, where services and the way they are delivered do not anticipate change or evolve to meet new demands from citizens.

3 This report assesses the progress which departments have made since our report[1] published in August 2000 and the Committee of Public Accounts report[2] published in 2001. It focuses in particular on the resilience of departments' risk management to prevent adverse impacts on service delivery or value for money.

4 In their 2001 report, the Committee emphasised their support for well managed risk taking:

"Innovating to improve public services entails risk. We are rightly critical where risks are ignored, for example where major IT projects are poorly specified and managed; but we give due credit where risks are carefully identified, evaluated and managed recognising that good management reduces but does not eliminate the possibility of adverse outcomes."

Appendix 4 assesses the action which departments have taken in response to the Committee's recommendations to strengthen risk management. Good progress has been made against most of the recommendations, but there are some significant further challenges to address.

5 Our examination is based on a survey of the 20 main Whitehall departments, focus groups of 27 departmental risk managers, comparisons with private sector organisations (GlaxoSmithKline, Nomura, Prudential and Reuters) and internationally, academic research[3] and five case studies - Department of Trade and Industry, HM Customs and Excise, National Savings and Investments, Department for Culture, Media and Sport and Office for National Statistics. Summaries of the case studies and private sector organisations are published in a separate volume.

1 *Supporting Innovation: Managing Risk in Government Departments. NAO, 1999-2000 (HC 864).*

2 *Managing Risk in Government Departments. Committee of Public Accounts First Report, 2001-02 (HC 336).*

3 *Risk Based Decision-Making: Mitigating Threat - Maximising Opportunity. Report prepared for the National Audit Office by Professor Rhona Flin and Dr Margaret Crichton, Industrial Psychology Research Centre, University of Aberdeen. (Appendix 2 of this Report.)*

6 Risk management is an evolving capability and as well as assessing progress the report highlights a range of good practice. If more widely applied this good practice would better equip public sector organisations to deliver improvements in both public services and their overall efficiency.

Improving risk management is a key government priority

Risk management means having in place a corporate and systematic process for evaluating and addressing the impact of risks in a cost effective way and having staff with the appropriate skills to identify and assess the potential for risks to arise.

7 Many failures in service delivery have arisen from a lack of effective risk identification and management. This has often resulted in poorly thought through plans, unrealistic timetables for programmes and weak controls, delays in delivery and wasted money. On the other hand, effective risk management has provided the means to develop successfully new services or new ways of working. For example, National Savings and Investments (NS&I), which secures finance for the Exchequer by offering a range of savings products to citizens, entered into a joint Public Private Partnership venture with Siemens Business Services. Four years on, NS&I has modernised its operations in ways that could not otherwise have been realised. Service to customers has improved and there have been savings for the taxpayer.[4]

8 The greater financial certainty now provided by three year spending settlements should make it easier for departments to invest to improve the underlying infrastructure and capability of public services. This means, however, that in managing risks departments need more than ever to take a longer term perspective. They need to focus attention not only on ensuring that existing services remain reliable and resilient to risks but also that planned improvements are fully achieved and sustainable.

9 Departments are also under pressure to make more efficient use of resources which will require them to embrace even more the principles of good resource management and budgeting, while at the same time requiring in some cases radical rethinking of how services are delivered, for instance how departments' back office functions are organised (as part of Sir Peter Gershon's Efficiency Review). Today's civil servants, therefore, need to have the skills to exploit new opportunities by, in turn, having the skills to identify the risks they run and to manage those risks, which include dealing with increasingly complex networks of partners and contractors.

10 A number of important Government initiatives are seeking to achieve a step change in the way departments manage risk. In November 2002, the Prime Minister launched a two year Risk Programme overseen by Sir David Omand, Permanent Secretary and Security Intelligence Co-ordinator at the Cabinet Office. This is supported by a Treasury team providing advice and guidance through a network of departmental risk improvement managers. The Civil Contingencies Secretariat co-ordinates cross-departmental responses to significant emerging risks, such as SARS[5]. The Office of Government Commerce through Gateway[6] scrutinies conducts and facilitates reviews of major projects. Since 2001-02, Departmental Accounting Officers have also had to sign Statements confirming that they have reviewed the effectiveness of the system on internal control. Since 2003-04, they also have to confirm that they have discussed the result of the review with the Board, the Audit Committee and the Risk Committee if appropriate. In addition, the Prime Minister's Delivery Unit works with departments to help ensure the effective management of risks to the delivery of key public service priorities.

4 National Savings and Investments' Deal with Siemens Business Services, Four Years On. NAO, 2002-03 (HC 626).

5 Severe Acute Respiratory Syndrome.

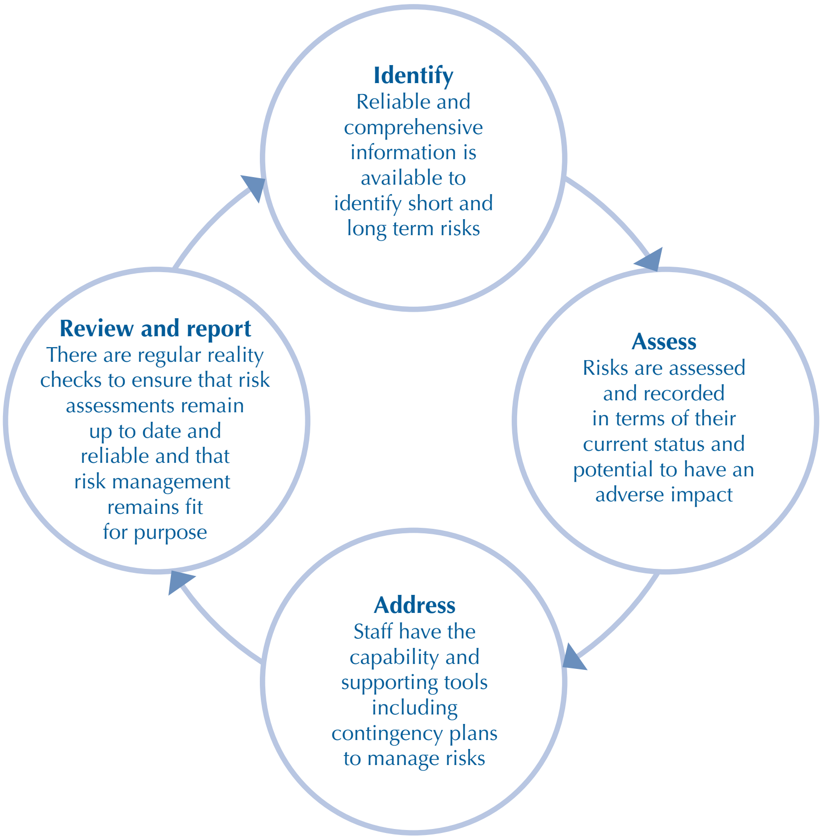
6 The Gateway Review process was introduced in February 2001. It provides for detailed scrutiny of major procurement projects at critical stages in their development so that significant risks can be identified sufficiently early to be managed.

11 This report adds further weight to the analysis of NAO's earlier report, and reports from the Strategy Unit and the Risk Programme by providing clarification of the challenges departments face and further practical illustration of how to get to grips with them.

Findings

12 There are four key stages to risk management **(Figure 1)**.

1 Four key stages of risk management[1]



NOTE

1 There are different models of risk management. This Figure reflects the key stages of risk management set out in the Treasury's Orange Book.

Source: National Audit Office

13 Each of these stages needs to be supported by robust processes but they should not be applied mechanistically to the extent that staff perceive them to be no more than an administrative burden. To be effective, departments need to have a well developed capability to manage risk through the exercise of intelligence and sound judgement. To help achieve this, the Risk Programme has focused on developing five aspects of risk management - leadership, risk strategies, skills, managing partnership risk and processes which incorporate effective risk management. The Treasury has developed, with departments, a Risk Management Assessment Framework to help departments judge, on a common basis, these risk management capabilities and progress in developing them over time. Our examination[7] indicated that:

7 *Covering the 20 main Whitehall departments.*

14 **Risk management processes are either fully embedded or implemented but more progress is needed in developing departments' capability to handle risk**. In the Risk Programme's Interim Report to the Chief Secretary in June 2004, just over 10 per cent of departments considered that processes were fully embedded and three quarters stated they had been implemented in key areas. Our independent survey confirmed this. In the Interim Report, one third of departments reported that they had clear evidence that risks were being handled effectively. No departments were fully confident of their capability to handle risk.

15 **Departments have made progress since 2000, particularly in defining risk objectives, having processes to report changes in risks and in regarding risk as an opportunity as well as a threat**. Over 70 per cent of departments report that they now have clearly defined risk policies compared to under 10 per cent in 2000. Departments also appear much clearer about what risk management is intended to achieve - 95 per cent reported that they had defined risk objectives compared to 19 per cent in 2000. In 75 per cent of departments, senior managers discuss overall risks and how they are changing at least quarterly.

16 **Staff have greater access to training and guidance on risk management**. Compared to 2000 when no department considered that this was adequate two thirds now rate training as effective or very effective. While there is more support within departments to encourage innovation in the spirit of well managed risk taking, there needs to be more support and incentives for staff so that the willingness to embrace innovation becomes much more widespread.

17 **The Risk Programme has improved communication between departments about risk and a common understanding of risk has developed within and between departments**. Our focus groups considered that the programme had enabled departments to benchmark their respective risk management approaches to learn lessons and share good practice.

18 While there is therefore evidence of good progress in many respects, more needs to be done particularly in how risk management is used to improve service delivery.

19 **Many departments have yet to establish an overall view about their exposure to risk**. Departments are less confident about their understanding of the total range of risks they have to manage; for example, just one quarter of departments consider they know how much risk they can take to achieve objectives. This concern is greater where departments have complex delivery chains and depend on a large number of contractors or partner organisations.

20 **Managing the working relationship with partner organisations requires strengthening**. In 2000, some 20 per cent of departments were confident they understood the strengths and weaknesses of their partner organisations' risk management approaches. By the time of our May 2004 survey, some 30 per cent were confident. Issues of particular concern to departments were the difficulties of communicating through complex delivery chains and lack of clarity about which delivery organisation was responsible for different risks.

21 **More progress is needed to embed risk management in the day to day activities of departments**. Three quarters of departments consider they face more risk than they did three years ago. While three quarters of departments have implemented risk strategies in key areas, these are not always sufficiently well developed or understood by key staff. Training has yet to have the widespread impact so that there is a sufficient critical mass of staff who have well developed skills and expertise with the confidence to manage risks effectively.

22 In summary, the Risk Programme has been influential in supporting departments in establishing the overall framework, mechanisms and tools for managing risks. In addition structures, such as the Civil Contingencies Secretariat, should enable departments to respond in a co-ordinated way to wider cross-cutting risks of national strategic importance. The main aspect requiring further development if departments' risk management is to be sufficiently resilient is the capability of staff to apply risk management skills effectively by making good use of the tools and processes that are in place. Change of this magnitude is likely to take some time given the size of some departments and agencies. But as reflected elsewhere in this report, there are increasing examples of where good progress is being made.

Risk management can deliver tangible benefits

23 The importance of departments having a well developed capability to manage risk is clearly demonstrated by some of the benefits secured by the five departments included in this study and the private sector companies which we consulted **(Figure 2)**. In particular risk management can help departments:

i) **Deliver better public services**. For instance, it can help ensure that departments' Public Service Agreement targets, programmes and projects deliver what they are intended to, on time and within budget, by early identification of potential risks and having the means to take early action to deal with them. Often, these are complex and challenging issues. Failure to anticipate and grip risks quickly may put delivery in jeopardy. Risk management can also contribute to sustained improvements in services by bringing a flexibility and resilience to the way services are delivered. This may include, for example, adapting to changes in expectations of citizens or other service users, or maintaining services through regular appraisal of delivery mechanisms and being ready to act in the event of the unexpected, by careful planning and testing of business continuity arrangements.

2 Benefits of reliable risk management

Risk management can contribute to

Better public services

through

Improving efficiency

By 2000, 1 in 5 cigarettes smoked in the UK was smuggled, costing around £2.5 billion in lost revenue. Through a comprehensive risk assessment **HM Customs and Excise** refocused its efforts from just increasing the number of seizures of smuggled cigarettes to disrupting supply routes. Risk based resource allocation has resulted in a more efficient and effective use of resources. The previous rapid growth in the market share of illicit/smuggled cigarettes has been successfully slowed and then reversed so that by 2002-03 it had been reduced to 18 per cent, compared to 34 per cent projected by this time without action, saving over £3 billion in revenue.

Making more reliable decisions

Departments rely heavily on accurate and comprehensive data to take decisions. For example, unreliable statistics on the UK economy can affect decisions on interest rates. The **Office for National Statistics** has a risk management programme which includes the need to minimise the likelihood of errors which would undermine the UK's economic performance and public confidence.

Supporting innovation

Drawing on private sector experience, **National Savings and Investments** launched a new type of savings account - the Easy Access Savings Account which is accessible through automated teller machines - thus improving convenience to customers.

The **four UK authorities for education qualifications,** working in partnership with funding by the Invest to Save budget, are acquiring new technology for managing the centralised collection and marking of examination scripts. This is intended to improve the quality and speed of marking while reducing risks to security and confidentiality of scripts.

The **Department for Culture, Media and Sports'** Culture Online is making a range of arts events much more accessible through new technologies, including the internet, digital television and mobile devices.

The **Prescription Pricing Authority** has successfully implemented the issuing of plastic entitlement cards for the purposes of providing patients with evidence of prescription charge exemption or prepayment.

Source: National Audit Office case study examinations

ii) **Improve efficiency**. Departmental procedures have often developed over many years and as a result some have become multi-layered and sometimes unnecessarily complex, which inevitably increases costs. In some cases they can be gold plated to deal with every conceivable circumstance and need however small or remote. A good test of whether a process is fit for its intended purpose is to review it periodically from the perspective of risk: that is, forming a judgement on what is an acceptable level of risk. This will be largely influenced by the potential service delivery or monetary implications should the risk mature and the likelihood of this occurring, and then assessing whether the supporting processes are likely to be able to handle such an occurrence. Examples include systems intended to prevent error in processing a claim or making a payment, a key IT system failing, an unacceptable increase in waiting times for a service, or significant variations in the quality of a service. By adopting a risk based approach, managers can make better judgements about how systems can be improved and new ways of working developed to reduce unproductive overheads or overly cautious delivery mechanisms.

iii) **Make more reliable decisions**. In developing new policies, decisions often have to be made about the needs of the people intended to benefit and the most cost effective means of meeting these needs. Such decisions can involve a degree of uncertainty and much depends on the reliability of the information available to take such decisions. For example, a key aspect might be understanding the characteristics and preferences of a specific client group to avoid any potential exclusion from the intended benefits. Risk management can be very useful in such circumstances by helping to test the rigour of underlying data and minimise the possibility of any misinterpretation or inaccuracy which could have adverse consequences. It can also be used to assess the probability of both intended and unintended outcomes occurring so that action can be taken to ensure that the policy is implemented in a way to ensure its success.

iv) **Support innovation**. Applying a systematic risk management approach can help to weigh risk against potential reward and turn theoretical ideas, new technologies or novel means of delivery into practical propositions. For example, Culture Online - developed by the Department for Culture, Media and Sport - is making available different arts events online to reach groups of people who would normally have little contact with the arts. There are linkages with the National Curriculum to encourage greater awareness and take up among children as well as adults.

What more needs to be done

24 Drawing on good practice in both public and private sector organisations and building on existing progress, there are five key aspects of risk management which, if more widely applied, could substantially help secure these benefits and contribute to better public services and increased efficiency.

25 **First - Sufficient time, resource and top level commitment needs to be devoted to handling risks**. Reliable processes and procedures, however well developed, are not enough; they need to be applied with skill and judgement. Over reliance on process can create false confidence that risks are under control and at worst result in a "tick box" culture. Risk management needs to be ongoing to deal with often rapidly changing events and circumstances; it is rarely static. Changing behaviours so that key staff understand how to identify and respond to risk is a major task which inevitably takes time. It needs concerted and sustained leadership with well publicised role models from which others can learn. A key issue is the extent to which staff feel confident that they can report problems, failures and threats without fear of unjustified censure or penalty. Moreover, a mature risk culture recognises that when risks are taken they will not always succeed and creates a greater incentive for all staff to acknowledge and learn from difficulties rather than conceal them, and to report threats to delivery sooner rather than later. If such a culture exists problems are more likely to be identified before they become unmanageable and spiral out of control.

Recommendation

26 **To help achieve this cultural change, departmental boards need to spend time anticipating risks and judging what actions need to be taken, including involving Ministers where appropriate. This includes**:

i) assessing the development of staff skills in relation to risk management and whether learning activities give sufficient prominence to risk management;

ii) forming a view about the department's risk appetite at the outset of policies, programmes and projects by considering where it is willing and prepared to take risks, for example in new policy initiatives, and where it should be risk averse and needs to monitor closely or minimise risks being taken, for example in essential service delivery or corporate governance;

iii) re-emphasising their support for risk management periodically, including the need for staff to be open about challenges they face without fear of censure or blame, in order to inform better decision-making;

iv) encouraging innovation and well managed risk taking by applying sufficient management grip to new or risky ventures and ensuring a systematic risk management approach is in place so that benefits from innovative or novel approaches to developing and delivering services are more likely to be secured.

27 **Second - Responsibility and accountability for risks need to be clear, backed up by scrutiny and robust challenge to provide assurance**. If staff were not clear about their responsibilities risk management would be weak and ineffective. At worst, important aspects of service delivery could fall "between the cracks" with no one taking responsibility. Lack of clarity could lead either to staff being unduly risk averse for fear of blame if things go wrong or to excessive risks being taken when staff are not clear about the limits of their authority at which decisions should properly be referred to more senior staff.

Recommendation

28 To help achieve effective responsibility for risk management, departments need to ensure that they have clear structures of delegation which provide staff with clarity about the risk decisions they can take, but not in so much detail that this stifles initiative. They should continue to clarify the extent of risk which can be managed at each level in the department and check that appropriate procedures for escalating risk management decisions are in place.

29 **Effective accountability** needs (i) an environment which encourages staff to be open in explaining their risk management decisions and (ii) processes which help ensure risk management decisions are adequately reviewed. Review of risk management decisions should be based upon consideration of the evidence that was available on which to base the decision and whether the decision was within the authority of the person who took it. **Robust constructive challenge** can support effective accountability and provide assurance about the reasonableness of risk management decisions. It also promotes opportunities for lessons to be learned from experience. Audit Committees are a key element of a robust constructive challenge process; their effectiveness is frequently enhanced by having non-executives in their membership. They can provide effective overall assurance on the way in which departments manage their risks. Such assurance also underpins the Accounting Officer's annual Statement on Internal Control.

30 There are various ways in which robust challenge can be provided. GlaxoSmithKline's business, for example, is supported by a number of groups overseeing activities such as regulatory compliance and research and development. The work of these groups is subject to independent scrutiny and discussion by the Audit Committee, in this case consisting entirely of non-executive directors.

Recommendation

31 To help achieve effective accountability and challenge departments need to develop a culture that encourages staff to account for their management of risk, whether or not it was successful, by explaining the reasons behind decisions and the evidence on which they were based. Departments should also consider whether their Audit Committees are adequately resourced to provide sufficient objective assurance about the effectiveness of risk management and to undertake constructive challenge in a way that supports effectively the business of the department.

32 **Third - Departments need to base their judgements about risks on reliable, timely and up to date information**. Reliable data are the life blood of risk management. But departments must also have the capability to assimilate and interpret often complex information quickly and use this to make reliable decisions. Professor Rhona Flin's and Dr Margaret Crichton's paper[8] prepared for the NAO draws comparisons with ensuring safety in high reliability organisations, such as offshore oil, aviation and nuclear power. In these, often highly time pressured industries, much attention is given to ensuring that information is comprehensive enough and presented in a way that supports real time decision-making. If such information is unreliable, lacking in sufficient precision or not interpreted quickly, human life can be put at risk, for example the Piper Alpha disaster. While the risks government faces may often be different, the principles are very similar, with the need for departments to support a culture where emerging or changing risks and 'near misses' are reported openly so that they can be addressed promptly and learned from.

8 *Risk Based Decision-Making: Mitigating Threat - Maximising Opportunity. Report prepared for the National Audit Office by Professor Rhona Flin and Dr Margaret Crichton, Industrial Psychology Research Centre, University of Aberdeen. (Appendix 2 of this Report.) Professor Flin and her team already contribute their insights to the Senior Civil Service Successful Delivery course on Risk Management set up by the Centre for Management and Policy Studies and the Risk Programme.*

33 Departments are also more likely to make better decisions on risks if they understand how best to respond to different circumstances. Professor Flin highlights different types of decision-making which are best suited to different risk circumstances. For example, where an event has occurred previously an experienced decision-maker should be able to "read the situation" and draw on past experience. This depends, however, on the fast retrieval of information or corporate knowledge of what worked well before. An example of this is the major flooding in the autumn of 2000[9] when the Department for Environment, Food and Rural Affairs needed to retrieve knowledge quickly of how flooding on this scale had been dealt with many years before.

34 Conversely a department may be faced with a new or unfamiliar situation requiring the design of a completely new and untried course of action where no accumulated rules or corporate memory of suitable actions are available. Depending on time pressures this can be where opportunities for innovation may arise. The key point is, however, that in responding to risk, potential courses of action are considered very much in the context of the situation and whether there is prior experience to learn from.

Recommendation

35 To help ensure that information is reliable departments need to subject their data requirements and sources to regular review. They need to be confident that their information about risks to performance is fit for purpose, that their staff, in particular those with delivery and budgetary responsibilities, are both aware of the risks and how they are being managed and that the early warning "signals" and "messages" from staff at the front line highlighting emerging risks reach those in the management hierarchy with the power to act. Departments also need to avoid information overload - too much information about risks can undermine the effectiveness of decision-making because of the time it may take simply to assimilate, filter and focus material. But too little data can result in fundamentally flawed decisions.

36 Assessments of the extent to which information about risks and how to manage them is fit for purpose should include:

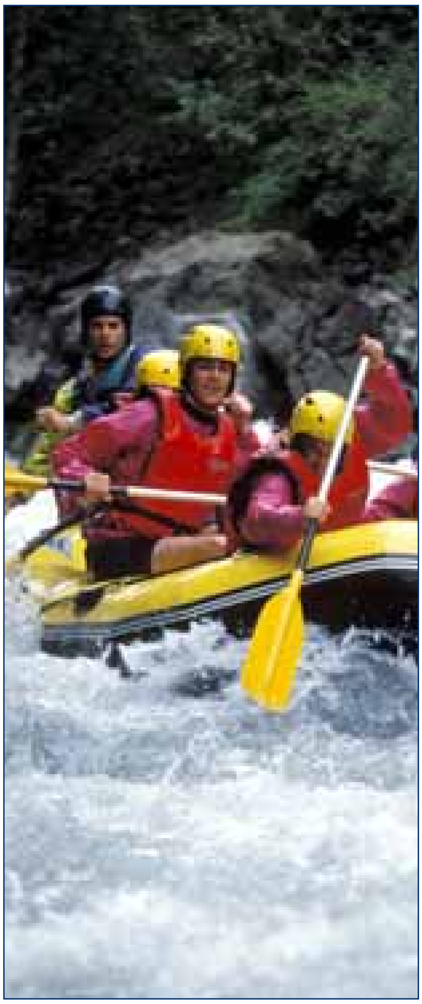
i) risk identification - departments need information about the kind of risks they face using, for instance, horizon scanning or analyses of trends in data, or feedback such as customer surveys about service delivery;

ii) likelihood and impact - departments should check that they have sufficient timely information to assess the likelihood and impact of risks materialising, by analysing, for instance, data from past experience in projects and programmes or, for key service delivery, from tests of continuity and contingency plans. The costs of improving information about risks need to be considered against the likely savings which could be derived from managing risks effectively and having sufficient information to avert service delivery failures;

iii) addressing risks - once risks have been assessed, departments need to determine how to address them on a portfolio basis, in the context of achieving the overall objectives of the department. To do this they should have good quality information to monitor changing risks which can be promptly collated or triangulated with other data to inform judgements, for example external perspectives on risks to delivery;

9 *Inland Flood Defence, Committee of Public Accounts Eighteenth Report, 2001-02 (HC 587).*

iii) review - the way in which information is communicated is also important; it should be presented so that it can be easily understood to facilitate effective decision-making and, in particular, provide early enough warning of potential risks to trigger action at sufficiently senior levels in the department.



37 **Fourth - Risk management needs to be applied throughout departments' delivery networks**. Departments' responsibility for, or oversight of, a range of public services mean that they often depend on a network of organisations including local authorities, non-departmental public bodies operating at arm's length, private sector suppliers and voluntary organisations. Poor quality services can often arise because one organisation in a complex delivery chain makes incorrect assumptions about the activities of another or fails to share vital information. Departments' risk profiles are therefore often influenced by decisions taken by others, over which they may have limited control. Prior to 2004-05, for example, the Department for Education and Skills had little control over the funding allocations made by local education authorities to schools. In some cases some risks can be handled through contractual arrangements such as in Private Finance Initiative deals. But in others, departments have to work more informally with organisations to achieve common agreement as to how key risks should be handled.

Recommendation

38 **Departments need to test the resilience of their delivery chains by**:

i) checking that the department's and its partners' objectives are sufficiently aligned, that partners have 'buy in' to the department's objectives, and that there is a common understanding of risks and how they can be managed, for example whether a joint risk register, or sharing of risk registers, is appropriate;

ii) reviewing whether there are adequate incentives for partners to manage effectively the risks for which they are responsible;

iii) being alert to changing circumstances such as increasing or changed demand for a service and having adequate information to monitor such circumstances and anticipate potential shortfalls in performance;

iv) assessing potential shortages in key skills and whether the department has staff who have sufficient experience of working with delivery bodies and vice-versa (which may often require taking a much longer time perspective); and,

v) evaluating cost effectiveness, particularly, if too many resources are being consumed by successive tiers of administration.

39 **Fifth - Departments need to continue to develop their understanding of the common risks they share and work together to manage them**. Action by one department can have implications for another; for example, the emphasis which schools give to physical fitness will influence levels of obesity and children's general well-being. The complex interconnections between key government policies particularly in health, education and tackling social deprivation means that departments need to share their understanding of key risks. Not to do so can have significant implications for public services and also for value for money, particularly, in departments' commercial dealings. A good example of addressing common risks is work being done by the Office of Government Commerce to ensure that departments adopt a more strategic approach to individual market sectors and by co-ordinating the management of key suppliers, as well as by taking advantage of their collective buying power to secure better deals. At a strategic level the Civil Contingencies Secretariat co-ordinates cross-departmental responses to significant emerging risks, and other bodies examine interdependence of common risks in areas such as social exclusion or fraud. Shortfalls in other aspects of performance, such as major IT projects, however, indicates that there is scope for greater shared understanding of risks and how best to tackle them; as set out by the Committee of Public Accounts in its January 2000 Report *Improving the Delivery of Government IT Projects*.[10]

Recommendation

40 **In assessing risks, departments need to be confident that they have considered the implications of their policies and programmes for other parts of the public sector, by developing networks to help foster understanding of the risks that they face. The risk improvement managers network set up under the Risk Programme, for example, provides one such forum, and could continue to be developed as a means of exchanging good practice beyond the end of the Risk Programme. Developing further experience of how to address common risks should include, for example, risk communication - building on the work promoted by the Risk Programme[11] to help departments to develop a common understanding of how they can best engage with the public and learn from each other to address issues of public concern about risks so that the public has confidence that risks are being well managed; service delivery - the need to share experience of how opportunities have been exploited and how well managed risks have been taken to improve public services; and innovation - the need to secure ideas and good practice in innovation from departments' activities so that they can be learned from and acted on elsewhere.**

41 In December 2004, the Risk Programme comes to an end. Departments, with support of the Treasury and the Cabinet Office, need to ensure that the momentum to improve risk management continues. The examples of good practice in this report are intended to assist this. In addition, Annex 1 sets out a simple check list to help departments assess whether their risk management is fit for purpose to deliver the benefits identified in this report. Treasury intends to incorporate this into its risk management assessment framework.

10 *Improving the Delivery of Government IT Projects, Committee of Public Accounts First Report, 1999-2000 (HC 65).*

11 *See for example: guidance on Communicating Risk at http://www.ukresilience.info/risk and Principles of Managing Risk to the Public at http://www.hm-treasury.gov.uk/media/CBD/D8/risk_principles_220903.pdf*

Annex 1

Good practice in the application of risk management - self-assessment questions for departments

Has the Department...	Benefit	Example	
	Delivering better public services		
1 ... assessed the risks to delivering its Public Service Agreements, policies, projects and programmes inherent in the day to day actions of staff, and is it addressing these?	Assessing risks puts departments in a better position to deliver improved services	NHS	Assessing risks to the quality of care provided to patients has resulted in changes to delivery in some NHS trusts, for example the introduction of contact cards so patients can raise concerns they have after treatment, improved facilities for parents on children's wards, and immediate referral to a senior doctor of any patients who return to the Accident and Emergency department within six weeks.[1]
2 ... checked that staff have clear reporting chains and mechanisms to alert senior management to new and changing risks?	Active and open management encourages delivery networks to work effectively	HM Customs and Excise	To keep abreast of changes to smuggling operations, Customs staff are actively encouraged to complete reports on any new risks identified so that new types of smuggled goods, methods of concealment, or new sources of origin can feed into overall intelligence assessments to aid detection.
3 ... tested regularly its contingency and business continuity plans to check that service delivery can be maintained in the event of disruptions beyond the Department's control?	Effective continuity planning maintains service delivery in the face of the unexpected	DWP Department for Work and Pensions	To maintain payments to claimants in the event of a major IT failure, the Department for Work and Pensions tests, with Executive Team level ownership, the robustness under various disaster scenarios of its outsourced IT services. Effectiveness of tests is assessed by internal audit.
	Improving efficiency		
4 ... identified where its systems of oversight or control are unnecessarily elaborate, and where scope exists to reduce costs through taking well managed risks?	Taking well managed risks can help reduce costs	dti	To reduce the time taken to complete specific stages of the process for personal injury claims from ex-miners, the Department of Trade and Industry's Coal Liabilities Unit launched a website enabling solicitors acting for claimants to complete claims forms electronically, to obtain management information on progress of their claims caseload and to target their highest priority claims, for example in respect of seriously ill claimants.
5 ... deployed resources where they are likely to have the most cost effective impact on addressing risks, for example on the basis of thorough risk assessments at the outset of policies, programmes and projects?	Identifying key risks to delivery leads to better deployment of resources	HM Customs and Excise	To reduce the market share of smuggled tobacco and to protect tax revenues, HM Customs and Excise identified and analysed the risks to achieving reductions in illegal tobacco imports and devoted £209 million to tackle the problem. It used intelligence to refine its risk assessments and direct its interventions to supply routes, activities and ports of entry where illegal importation was most likely.

NOTE

1 *Achieving Improvements through Clinical Governance: A Progress Report on Implementation by NHS Trusts. National Audit Office, 2002-03 (HC 1055).*

Source: National Audit Office

Has the Department…	Benefit	Example	
	Making more reliable decisions		
6 ... assessed how much risk it can take when seeking to improve services?	Deciding how much risk to take enables better management of change	PRUDENTIAL	To inform decisions about whether there is scope to manage the overall portfolio of risks to exploit opportunities but not become overly exposed, Prudential plc's Group Operational Risk Committee reports to the Chief Executive on risks arising in different parts of the business which, when taken together, may present an overall risk. It also identifies risk which may arise in one area but have the potential to affect the Prudential brand more generally.
7 ... encouraged all staff to report risks without fear of blame or censure?	Openness about risk makes for precision decision-making	NOMURA	To enable senior management to assess and take decisions on the overall risk the company is taking, Nomura, in its induction training, promotes from the outset a culture that encourages staff to be open about the potential risks they run in their day to day activities in the financial markets.
8 ... secured lessons from within the Department and drawn from the experience of other departments about how risks have been managed, in particular for new or untried service delivery?	Learning lessons from others helps anticipate risks, particularly with new and untried methods of service delivery	dti	To enable others to draw from their experiences in setting up and running major and complex compensation schemes, staff in the Coal Liabilities Unit keep 'Storybooks' documenting work done in areas such as risk and audit, efficiency, stakeholder communications, learning and fraud. The Storybooks are updated every six months or so and will be made available for wider dissemination within the Department.
	Supporting innovation		
9 ... conducted risk assessments on the cost effectiveness of developing new services, including the opportunities for improved value for money?	Good risk management provides the means to develop new services successfully	ns&i	National Savings and Investments launched a new product, the Easy Access Savings Account, which required creating a system for customers to access the new account through automated teller machines. Its staff's experience of launching financial products in the private sector enabled effective management of the risks of over stimulating demand and not being able to deliver the products to customers in a timely fashion.
10 ... satisfied itself that its approach to managing risks nurtures new ideas and secures their benefits?	Sound risk management can help harness the benefits of new ideas	cultureonline Department for Culture, Media and Sport	To develop the confidence of partner organisations to undertake risky, innovative projects that are well managed, Culture Online commissions projects on the basis that the risks and costs are commensurate with audience or strategic benefits and devotes significant up front time with bodies prior to funding to assess risks to delivery and how they will be managed.
11 ... when assessing new ways of working, checked that its plans allow sufficient time and resources for staff to learn new working methods?	Risk management enables new ways of working	NHS Prescription Pricing Athority	To utilise expertise in and knowledge of risks associated with high volume issuing of plastic entitlement cards gained from its Patient Services work, the Prescription Pricing Authority is in a good position to take on for the Department of Health a new area of work - implementing the European Health Insurance Card (E-HIC). This will result in the issue of plastic cards to replace the E111 form currently used by UK travellers to obtain medical treatment in European Union countries.

Part 1

Why risk management is important

1.1 All government departments face risk. External threats such as climate instability and terrorist threats may be mitigated through departments' contingency plans, but may be outside the power of departments to change. Other external threats that form a direct part of departments' business, such as the 2001 foot and mouth disease outbreak, with an economic cost to the private and public sectors of some £8 billion, could be avoided or mitigated through better identification of potential risks and taking actions to manage them.[12] Other risks arise from internal activity, departments' day to day business: the risk of failure to meet policy objectives and programme and project targets through not identifying obstacles to implementation, project overrun, poor management of finance and resources, or fraud **(Figure 3)**.

1.2 Figure 3 shows a range of risks, which if not addressed, can escalate to become major threats and may create vertical and horizontal links between risks of different magnitude and apparent importance. Failure to implement IT change, for instance, could result in inadequate systems at operational level leading to poor delivery of services to the public, jeopardising the ability of partners in a department's delivery network to deliver and providing opportunities for fraud, resulting ultimately in damage to a department's standing with external stakeholders. Skills shortages might be seen as a minor risk in individual operational areas, but cumulatively across a department could severely limit its capacity to deliver. HM Treasury offers a summary of the most common categories or groupings of risk to help organisations to consider the range of risks they face **(Figure 4)**.

Well managed risk taking creates opportunities and delivers benefits to citizens and taxpayers

1.3 Risk is often associated with avoiding or mitigating obstacles to achievement and high risk awareness can lead to risk aversion - a motivation to avoid risk at all costs and to stick to tried and tested ways of working. Conversely, failure to seize new opportunities and to implement innovation also has risks - the risk of opportunity cost and of failing to implement changes that would improve service delivery and benefit departments' customers.

1.4 Departments have demonstrated that they can take well managed risks that improve service delivery and provide better value for money with tangible benefits for taxpayers:

a Through careful management of risks during the design and implementation of the policy, between November 1999 and December 2000, *the Department of Health's meningitis C vaccination programme* successfully distributed 18 million doses of meningitis C vaccine, sufficient for every child under 18 years of age.[13]

b *The former Radiocommunications Agency's joint venture company with CMG - Radio Spectrum International* - is a good example of identifying and managing opportunities. Radio Spectrum International is an innovative solution to the problem of the Agency obtaining IT services, provided by CMG, whilst allowing for commercial exploitation of the Agency's expertise in radio spectrum management by selling consultancy and IT systems to overseas administrations.[14]

12 *The 2001 Outbreak of Foot and Mouth Disease. National Audit Office, 2001-02 (HC 939).*
13 *Modern Policy-Making: Ensuring Policies Deliver Value for Money. National Audit Office, 2001-02 (HC 289).*
14 *The Radiocommunications Agency's Joint Venture with CMG. National Audit Office, 2000-01 (HC 21).*