MANAGEMENT BOARD

RISK MANAGEMENT UPDATE

Paper from the Office of the Chief Executive

Purpose

1. This paper updates the Board on the risk management project, explains the practical application of the *'single platform risk management model'* agreed by the Board in June 2010, and briefly sets out possible areas for discussion at the Board's workshop in January 2011.

Actions for the MB

2. The MB is asked to:

   i. note the update on the risk management project (paras 3-4 and Annex);
   ii. note the comments on the implementation of the single platform risk management model (paras 5-8);
   iii. agree the main areas for discussion at the MB workshop on 21 January 2010 (paras 9-14).

The Risk Management Project

3. In June 2010, the Management Board agreed that the OCE's risk management project should proceed with a revised timescale and scope, and with an immediate focus on the system of risk management at the highest level of the House Service. A new project team was appointed in July and a detailed project and action plan was developed. DG Facilities was appointed Board-level champion for risk. The Head of OCE is SRO for the project and the project team is provided by the Corporate Risk Management Team (CRMT) and other OCE staff. At is meeting in July, the Board also adopted the "single platform risk management model". (This approach to risk was also reflected in the paper on the revised Balanced Scorecard taken by the Board in October 2010.)

4. Since July, the project team and project board have agreed detailed project documentation and the project has established three work streams: Risk tools and techniques; Communications; and Training. OCE has worked with the Risk Champion, the risk forum and other stakeholders and the project is on schedule to achieve its aims and objectives within its agreed target dates. Detailed information about the progress of the project is given in the Annex to this paper.

‘Single Platform’ Risk Management Model

5. The Corporate Risk Management Team have held regular discussions with the risk champion to clarify the practical application of the risk management ‘single platform’ model. The ‘single platform’ model of risk management seeks to add value to the organisation by driving risks down to be managed at the lowest appropriate level across the organisation.

6. On a practical basis, this means that risks will be delegated within the organisation to be owned and managed by the part of the business closest to the area of risk. For example, the current corporate ‘business continuity’ and ‘business as usual’ risks, e.g. IT breakdown, procurement, etc (currently owned by individual MB members) would be owned and managed by the most appropriate members of staff in PICT & Commercial Services Directorate. As noted in the October paper on the revised Balanced Scorecard, such risks would be escalated to the Board when they cannot be managed at a lower level. The Board would then take the decisions necessary to address these “red” risks. This approach does not preclude the Board from continuing to own certain strategic risks, where this is the appropriate level for them to be owned and managed.

Benefits of the ‘Single Platform’

7. By implementing the “single platform” through the House, we will be one step further towards the goal set by the Board of making the cultural change required to achieve best practice in risk management by March 2012. In particular, the “single platform” should:

   a) enable the Board to concentrate on those strategic ‘*board’* risks for which it will retain direct responsibility;

   b) ensure risks are owned and managed by the staff closest to the relevant areas of uncertainty;

   c) introduce a more ‘dynamic’ risk culture, in which most risks will only come up to the Board if they are scored in the “red” quadrant of the 5 x 5 risk matrix, i.e. they need urgent attention, remedial action and monitoring at Board level;

   d) encourage greater visibility for the risks associated with programmes and projects, as these would come to the Board if intervention is required, as opposed to the current model of a “static” set of risks reviewed by the Board each month; and help ensure that the Board can intervene at the right point in the management cycle to add the most value.

Implementation of the 'Single Platform'

8. Some of the current risk management processes will change as a result of implementing the single platform model. Under the new single platform structure:

    i. all risks would be assigned to risk owners who have responsibility for that area of risk;
    ii. all residual risks scored as "red" would have to be escalated to the next management level in the organisation;
    iii. the Board would own and manage only the strategic risks which the organisation faces, i.e. not the "business as usual" risks; the summary risk register template used in the corporate Balanced Scorecard would be made available to departments and directorates for them to record their red risks in summary form. (Feedback from across the organisation on this summary risk template has been positive: it is regarded as easy to read and provides a "sense check" on the scoring of the risks. Members of the Administration Estimate Audit Committee also commented positively on the summary template);
    iv. a standard risk register template would also be introduced, supporting the summary risk register, which will record detailed information on the mitigations and action plans in place.

Risk workshop: Possible areas for discussion

9. At its meeting on 18 November, the Board agreed that the OCE should organise a workshop on risk, which would also be an opportunity to discuss related issues of strategic planning and the new Balanced Scorecard. The Board also agreed that the workshop could discuss the new ICT strategy. The workshop is now scheduled to take place on 21 January. This section of the paper highlights possible areas for discussion about risk identified by the OCE.

Identification of strategic risks

10. One key aim of the workshop would be to identify the strategic risks arising from the new Strategy for the House Service. (The current corporate risks were last reviewed in December 2008.) This could be done by:

    - Identifying the risks that will stop the Board from achieving the objectives of the Strategy;
    - Identifying which of those risks worry the Board the most;
    - Taking a sense-check on the risks - are they really the significant threats to the business?
    - Decide which of these risks are strategic risks to be managed by the Board and which could be better managed at departmental level (under the single platform model).

Risk Appetite

11. The workshop will also provide an opportunity for the Board to consider the concept of “risk appetite”. Risk appetite is inherent in the risk management process, but the House Service does not have a formal statement of risk appetite. Such a statement from the Board would assist staff in making effective risk management decisions, based on the level of risk considered acceptable by the Board. For example, a risk appetite statement can be used as a framework to identify when the House Service is accepting more risk than the Board have deemed appropriate (or alternatively when insufficient risk is being taken to meet business expectations. Issuing a risk appetite statement does not mean that risk appetite is static: the Board will have the freedom to vary the amount of risk it wants to take, depending on the circumstances at the time. In doing so, it would give each level of the organisation a clear steer as to the parameters within which they can take risks.

Risk assessment/scoring

12. The Board has yet to agree a consistent and objective process for assessing the effectiveness of the management of its risks, which takes account of the Board’s risk appetite for both the individual risk and for each risk in the context of all of the risks being managed at Board level.

13. A clear example of this is shown by those four corporate risks which have been assessed as being “unacceptably managed”, by being scored in the red quadrant of the corporate 5 x 5 risk matrix, for many months. In each case, it has been decided to manage down these risks by introducing a series of internal controls to reduce the likelihood of the risks materialising and the impact if they did. In risk management terms, the assessment of the level of residual risk should always reflect the effectiveness of the internal controls in reducing the inherent risk down to its acceptable or target level. The gap between the actual residual risk and target risk should reflect that risk that is left for the organisation to manage.

14. The current assessments for these four risks suggest either that the risk scoring is at fault, or that the internal controls put in place to manage these four inherent risks are not working effectively - hence the red residual scores. This raises the question: ‘what is the value of these internal controls if they do not proportionately reduce the risk to the organisation?’ If a residual risk is rated red for a considerable period of time, the Board ought to consider whether it should be continuing with this activity which it cannot effectively manage. An ongoing red residual risk would also indicate that the current risk owner cannot manage the risk adequately and that it needs to be escalated up the organisation. In the case of the Board, this would ultimately mean escalating the risk to the House of Commons Commission.

Action

14. Board members are asked to agree the following areas of discussion for the workshop in January:

    a) Identification of strategic risks
    b) Risk appetite
    c) Risk assessment

    Board members are also invited to suggest other risk-related issues they would like to discuss. OCE will prepare an agenda for the workshop based on feedback from Board members, and circulate for comment in the New Year.

Corporate Risk Management Team
Office of the Chief Executive

2 December 2010

ANNEX: PROGRESS OF THE RISK MANAGEMENT PROJECT

1. The project has three work streams: Risk tools and techniques (CRMT); Communications ([s.40]); and Training ([s.40]). The project manager to date has been [s.40]. Following a review of demand and resourcing within the OCE, [s.40], Project Officer, will take over this role during December 2010.

Risk tools and techniques

2. The Corporate Risk Management Team has made significant progress over the recent months. Main achievements have included:

- regular meetings/discussions with the risk champion to discuss and clarify the risk management 'single platform' concept and how it would work through the House – a systematic approach to risk is being developed;
- new detailed guidance has been prepared (Risk Management Handbook) and has been reviewed by colleagues/internal audit and Deloittes;
- a new risk register template has been developed – the project uses the new template for recording project risks and the template is currently being tested by the risk project board;
- the team has been proactive in talking to colleagues across the House with the aim to disseminate good practice – a 'challenge' approach to risk management has been adopted and promoted by the team;
- the team has made significant improvements in assessing mitigation evidence with risk owners and addressing/reporting inconsistencies in the management of risk within the Balance scorecard.

Communications

3. The project team has also been working closely with the central communications team to develop and deliver a communication strategy to promote the benefits of risk management to everyone in the organisation. Key messages, means and frequency of communication to identified audiences, and a detailed timetable have been agreed with the project board.

Main communications achievements over the recent months include:

- elements of risk management were included in the senior leaders' group exercises during the senior leadership event in October;
- the Clerk's message to all staff (launching the consultation period on the House's savings proposals) has made a direct reference to risk management by asking staff to identify risks associated with making saving proposals/changes and how the risks might be mitigated;

- Parliamentary News and Commons Digest: regular features on risk management have been included in newsletters to staff and senior managers;
- a meeting with key risk management practitioners (Risk Forum) has taken place aiming to involve the group in the project, establish a common approach and best practice;
- the project team has booked meetings with all departmental boards in January and February 2011 to update them on the project and consult/communicate next steps in risk management;
- a series of briefing sessions with all risk owners are being planned for March 2011 – this is timed to coincide with launching the project at departmental level.

The project communications strategy is aligned to the wider communications strategy (Strategy/new balanced scorecard/savings programme) to ensure coherence and consistency of message, while maximising effectiveness and taking advantages of communications opportunities as they arise.

Training

4. A training plan has also been developed for implementation in the New Year. Key targets in this area include:

- a new module on risk for all new managers will be developed by January 2011, will be tested in February 2011 and will be made available in the new financial year;
- the module will also be made compulsory for all risk owners (from April 2011); this will ensure a consistent approach throughout the House and will promote further integration of risk management with business planning processes (Stage 3 aim);
- new risk webpages will be in place by January 201; there are plans for piloting on-line “dynamic” e-learning;
- training material will be made available between January and February 2011; there will be a different approach/packaging depending on audiences;
- there are plans for using Sharepoint as a tool to assist the risk management process (currently under discussion with PICT).