

# Finding the right balance:

## The GLA’s framework for managing risk

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# Foreword

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Carrying out analysis. Making judgements. Taking decisions. Implementing policy. Running projects. We do all of these things – day in, day out – for the benefit of London and Londoners. It is why the Greater London Authority exists.

Of course we do not operate in a vacuum. Indeed the GLA serves perhaps the most dynamic city on the planet. Our environment is perpetually shifting. Events are constantly unfolding. Some of these events we can anticipate with a good deal of certainty. Others, conversely, are characterised by their uncertainty. Just as these events vary in their predictability, so they differ in their potential impact. At the positive end of the spectrum there are opportunities for us to grasp. And at the negative end there are threats which we must manage and mitigate.

We cannot eliminate this uncertainty. But we can use risk management to help us chart a course in an uncertain world. It allows us to scan the horizon, to understand our environment, to take informed decisions, and to identify where and how things might go wrong so we can put in place measures that will increase our chances of success. In other words, risk management gives us a framework within which we can try new things, be fleet of foot and find that difficult balance between boldness and caution, risk and reward, cost and benefit.

Good risk management practice is also about finding a different sort of balance: that between an approach which is excessively bureaucratic and burdensome and one which lacks rigour. The guiding principle of this framework is that risk management is most successful when it is interwoven with our existing decision making and management processes, rather than an add-on. That is why it is an integral element of Mayoral Decision forms and our project lifecycle, for example. And it is why this framework asserts that risk management must be owned and applied by managers in their own spheres, rather than being something that is left for the corporate centre to worry about.

We hope you agree that we have got this balance right – and that this framework helps you find the right balance between innovating and seizing opportunities on the one hand and guarding against threats on the other. We keep our approach under review. So if you have ideas about how it could be improved, do get in touch with the Governance Team.

Mary Harpley  
Chief Officer

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Director of Resources and GLA Risk Management Champion

# Section 1: The GLA's approach to managing risk

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## Why a risk management framework?

Serving a major world city is fraught with uncertainty – with the possibility that things could turn out differently from our expectations, for the better or worse; in other words, with risks.

A risk is defined as:

*an uncertain event or set of events that, should it occur, will have an effect on the achievement of our objectives*

We cannot avoid or eliminate risk entirely. Moreover to attempt to do so would be prohibitively costly – in money, time and opportunities foregone. But we can manage risk. We can identify and understand how, where and when threats and opportunities might arise. We can influence the likelihood of a given risk arising, together with the nature and extent of the impact. And we can consider when and how much calculated risk to take given the rewards at stake. Looked at another way, risk management helps us to act proactively to make the most of our circumstances.

The benefits of sound risk management, and the outcomes sought from GLA risk management practices, are:

- a broader and deeper understanding of our operating context;
- a reduced incidence and impact of threats;
- an enhanced ability to seize opportunities;
- a sharper assessment of the trade-offs between risk and reward, cost and benefit;
- better informed decision making;
- a corporate culture that promotes innovation, new ways of doing things, and organisational learning; and ultimately
- improved outcomes for London and Londoners.

This document helps us realise these benefits by:

- communicating the value derived from, and the importance the GLA places on, effective risk management;
- setting out ten principles to underpin the GLA's approach to risk management;
- highlighting the practices and mechanisms that are at the core of the GLA's risk management framework;
- being clear about what the GLA expects of its staff – our roles and responsibilities – in managing risk; and
- providing practical guidance, grounded in best practice, for staff to follow.

Risk management is one of a number of disciplines we use to determine strategy, implement Mayoral objectives and make the best use of our resources – while acting properly and transparently. It is therefore closely related to and interwoven with corporate governance, business planning and performance management. It also has close links with other GLA policies

and guidance, including those for project management, procurement, partnerships, information governance, data quality and business continuity.

## The GLA's risk management principles

The principles below underpin the GLA's risk management framework. They are both practical and aspirational: practical because they inform and guide our approach to risk management; aspirational in that they are objectives for us to progress towards.

- **Embedded** – Risk management is: an integral part of decision making; interwoven with governance, business planning and performance management disciplines; and rooted in and an influence on the GLA's culture.
- **Dynamic** – Risk management is ongoing and continuous, operating vertically and horizontally at different levels and across different areas.
- **Proactive** – Risk management is not seen as a compliance activity; rather it is actively used to look forward, to take charge of events and circumstances, and to mitigate threats and seize opportunities.
- **Proportionate** – Risk management focuses on the things that matter, adds value and helps ensure controls are commensurate with potential threats.
- **Enabling** – Risk management helps the organisation to be agile, to innovate, to take calculated risks and to learn from successes and mistakes alike.
- **Owned** – Risk management is owned and driven by everyone, but there are also clear and specific accountabilities for risk management processes, for individual risks and for their associated actions.
- **Communicated** – The importance the organisation places on risk management is effectively communicated, and different areas of the business talk to each other about shared and cross-cutting risks.
- **Understood** – There is a shared understanding of the GLA's approach to risk management, of the organisation's appetite for risk and the range and nature of risk it faces, and of strategies for minimising threats and maximising opportunities.
- **Robust** – GLA risk management practices are coherent, accord with best practice and are supported by helpful and practical guidance.
- **Evaluated** – The efficacy of the GLA's management of risk and the risk management framework are regularly reviewed, leading to improved approaches and practices.

## Looking at risk from different perspectives

Risk is ever present. It exists within and across all of those areas in which we seek to make a difference for London and Londoners. And it operates at and spans different levels. So our risk management approach must also be holistic and cross-cutting.

This framework identifies four specific levels, or perspectives, as a focus for risk management.

### Corporate risk

The GLA's most significant risks. While corporate risks come in all shapes and sizes, they tend to be either broad in impact (that is, they have the potential to impact extensively on the

capability, vitality or success of the Authority as a whole) or deep in impact (the effects of the risk event occurring are limited to a given area but especially serious).

A corporate risk is likely to have one or more of the following characteristics:

- strategic and cross-cutting, with the potential to impact on a range of different areas or functions;
- related to, and have a significant impact on, the GLA's ability to successfully deliver one or more high priority Mayoral objectives;
- affects significantly the outcomes sought from one of the GLA's major programmes;
- operates over the medium or long-term;
- has the potential to enervate significantly the organisation's capacity, for example by limiting, reducing or failing to maximise financial or human resources;
- linked to the organisation's ability to successfully deliver transformational change and major initiatives, while continuing with business as usual;
- concerned with the wellbeing of Londoners and/or GLA staff; and
- may impact significantly and broadly on the GLA's reputation.

The number of corporate risks should vary depending on the GLA's risk profile. But in normal circumstances it is helpful to think of corporate risks as the top 20 or so most serious risks faced by the Authority.

Corporate risks are captured on the corporate risk register, which is owned by the Corporate Management Team. The approach to corporate risks sets the context for decisions at other levels of the Authority.

The process for identifying and escalating corporate risks is as follows:

- every six months, the Governance team meets with the Executive Director of Resources to sense check the corporate register;
- this informs the identification of new risks and updates to extant risks;
- the Senior Leadership Team and risk owners are invited to provide updates and identify any other emerging risks;
- CMT reviews the register and confirms the changes made to it and identifies any further changes required (as well as identifying emerging risks that may need to be added at a future date). The Chief of Staff is also invited to provide input; and
- the Governance team ensures at all times the register is sense checked with reference to project monitoring information and decision forms.

While there is a formal, six monthly, senior managers should ensure risk management happens in real-time, with significant risks escalated up to the Corporate Management and Mayoral Teams as and when they arise.

### **Programme risks**

These are risks that relate to a specific GLA programme. They are likely to comprise a mixture of the most serious project risks (see below) and cross-cutting risks that could affect two or more of the projects within the programme. All major investment programmes must have a risk

register, maintained by the programme manager. It should be reviewed by the programme board and at the most senior level of the directorate in question. A risk register template can be found on the intranet [here](#).

The risks associated with the GLA's most significant, and riskiest, major programme should be captured on the corporate risk register – ensuring robust escalation arrangements. In most cases this is likely to be at a high-level for the programme as a whole. However, specific risks that are particularly serious should also be documented on the corporate register, particularly where they impact outside the scope of the programme.

### **Project risks**

These risks relate to or flow from a specific project. A project risk has the potential to impact on the project's scope, outcomes, budget or timescales. Where the risk could impact on other projects or objectives, or the project is considered a high priority and the level of risk is such that it could lead to a failure to deliver project objectives, the risk should be escalated to the programme level.

All investment projects must maintain a 'mini risk register', depending on the level of risk involved, as a minimum. The corporate project dashboard contains a mini risk register that can be used to fulfil the latter requirement. Projects that carry a significant amount of risk should use a full risk register instead of or in addition to a mini risk register.

### **Risks associated with decision making**

These are the potential risks that flow from a decision to pursue, or not to pursue, a particular course of action and which may impact on the delivery of the associated outcomes. Risk assessment at this level is likely to be at a relatively early stage, forming the basis of future risk management at one or more of the levels above. Considering risk whenever significant decisions are made is a central plank of the GLA's approach to risk management. A template for articulating risks in decision forms can be found in the Decisions 'Top Tips' document [here](#) and should be used where there are several risks flowing from a proposal.

The different levels described above do not exist in isolation or in a strict hierarchy. Indeed, it is a fundamental principle of this framework that risk management is dynamic. Risks must be escalated from bottom to top according to the risk characteristics highlighted above, and in turn cascaded down for management action.

Furthermore, these are not the only levels at which risk operates. We all manage risk on a daily basis to achieve our personal objectives. Directors, heads of unit and team managers will want to put in place mechanisms to monitor and manage risks that cut across projects and programmes and/or operate outside programmes/projects at an operational, unit and team level.

### **Risk management and quarterly performance reporting**

Those units selected to produce quarterly dashboards must report on their top risks through this mechanism (in a few cases, dashboards are maintained at a directorate or team level). These should not be simply those risks which are most severe, but instead risk reporting should be dynamic and bring any emerging and new risks to the fore.

Every six months, the risks contained in quarterly dashboards are reviewed against the corporate risk register to assess whether any should be escalated to the corporate risk register; and generally there is alignment. This task should, in the first instance, be undertaken by Assistant Directors and Heads of, but will be checked by the Governance Team.

## **The GLA's risk appetite**

In many ways, risk appetite is the backcloth to the GLA's approach to risk management. Without knowing how much and what types of risk are acceptable, we cannot expect to make sound decisions on the balance between risk and reward.

Risk appetite applies at the corporate, programme and project level. At the corporate level, it refers the overall exposure to risk the organisation is willing to accept; and at the programme and project level to the level of risk beyond which a programme and project would not be considered viable.

When risk appetite is defined rigidly it can impede innovation and make an organisation overly cautious. It can also fail to reflect the complexity and diversity of decision making in an organisation such as the GLA. However, as general rules, the GLA:

- will not tolerate risks rated red on the risk scoring matrix where they are avoidable – other than in exceptional circumstances that should be formally documented;
- has a near zero tolerance for risks that cannot be mitigated to avoid the potential for a breach of law / formal regulation;
- has an extremely low tolerance for taking risk where there is the potential to actively cause harm to individuals or groups – all such risks should be avoided as far as possible;
- has a low tolerance for risks that might cause harm to the environment; and
- has a relatively high tolerance for risk flowing from the delivery and communication of Mayoral priorities, and in particular where the work is innovative and with the potential to catalyse broader beneficial outcomes.

Where a given project is proposing to tolerate a relatively high-level of risk, the rationale must be outlined within the approving decision form.

The Corporate Management Team monitors risk exposure every six months as part of the periodic review of the corporate risk register. But the GLA also takes the view that risk appetite should be an integral part of strategic and financial planning and of decision making.

Below the corporate level, the guidance and tools that follow are designed to help managers and others consider risk appetite in a systematic way; in particular by categorising and scoring risks. Risk appetite should be considered at the very outset of project conception – and especially within the formal decision making process – and throughout delivery, actively guiding project management.

## **An overview of the risk management process**

Risk management is as much an art as it is a science. It relies first and foremost on good judgement. Yet by applying a recognised and methodical process, and grounding risk management in evidence based analysis, we can increase our chances of identifying and managing risk successfully.

The GLA uses a four stage process for managing risk. In summary, it involves:

- **identifying** what could happen;
- **assessing** the *probability* of a given thing happening and the extent of its potential *impact*;
- **addressing** the risk by taking steps to reduce its probability or constrain its impact; and
- **reviewing and reporting** on the efficacy of risk controls and mitigations.



Although the four stages are generally sequential, there will be times when it is necessary to return to earlier stages. As the diagram implies, the process should also be ongoing given that our risk environment is always changing.

The different stages, and techniques that can be used to support each stage, are explained in more detail in section 2 of this framework.

### Putting the GLA’s risk management framework into practice

Risk management cannot be effective if it is seen either as a function solely of the corporate centre or as a box ticking exercise. The GLA expects directors and managers, at team and project level, to take ownership of, drive and review risk management within their respective areas using this document as a frame of reference.

Yet equally risk management will be ineffective if it is devolved entirely or if robust, rigorous and consistent practices and mechanisms are not in place.

This section highlights those practices, together with related roles and responsibilities, that form the spine of our approach to risk management. It also identifies how we will evaluate and review the success of our approach. In most cases roles and responsibilities are integrated within existing remits. But there are three roles that exist specifically to support effective risk management: a GLA risk champion, risk owners, and risk action owners.

### **The Corporate Management Team must:**

- carry out horizon scanning and ensure there are early warning indicators;
- make active and ongoing use of risk management to effectively conduct the GLA's business;
- promote a culture in which risk management is used proactively, enables innovation and organisational learning, and is owned by everyone;
- help to review and monitor how much risk the GLA is willing to tolerate (the organisation's risk appetite);
- take an overview of and consider the top-level risks facing the authority, their likelihood and potential impact and the total quantum of risk faced by the authority;
- own the GLA's corporate risk register and formally review and refresh it every six months, facilitating the escalation of programme and project level risks to the corporate level;
- assign accountability for top level risks;
- cascade strategies for controlling risks;
- monitor the implementation of actions to improve risk management at the GLA, with progress formally reported to CMT at least annually; and
- review and sign off major updates to the GLA's risk management framework.

### **The Executive Director of Resources (the GLA's risk management champion) must:**

- ensure the risk management framework is aligned and embedded with the GLA's approach to and disciplines for sound corporate governance and strong internal control;
- review and sign off updates to the GLA's risk management framework; and
- champion the importance of effective risk management across the Authority.

### **Directors must:**

- work with their directorate management team to scan the horizon, put in place early warning mechanisms, and to take an overview of risk within their directorate;
- use information about risks to inform decisions (in particular via the Decisions process) develop strategy and implement policy;
- champion and embed proactive, enabling and robust risk management practices within their directorate, in line with the risk management framework;
- review and monitor risk appetite for their directorate;
- lead strategies to address corporate risks within their directorate;
- ensure risk registers are held for any major GLA programmes;
- assign responsibility for managing and controlling specific risks;
- serve as the primary link between risks emerging at the directorate level and the corporate risk register, cascading risks up and action down, including ensuring risks identified at the unit level through the quarterly performance reporting process are suitably reflected in and aligned to the corporate risk register;
- ensure top risks are reflected in quarterly corporate performance reports;

- monitor the implementation and efficacy of risk management within their directorate; and
- annually, and in consultation with their departmental management team, provide assurance that risk management within their directorate is robust and in line with this Risk Management Framework.

#### **Programme and project managers must:**

- embed risk management, in line with the GLA's risk management framework, within the programme/project lifecycle to support project definition, approval, change control, decision making and delivery;
- agree risk appetite with the programme/project sponsor and the overall approach for managing and escalating risk;
- maintain a project/programme risk register (at least a mini risk-register for projects and a full risk register for major programmes) and an overview of total risk exposure;
- align risks with programme/project objectives and outcomes;
- assign clear accountabilities for risk, including risk owners and risk action owners;
- put in place early warning mechanisms;
- communicate clearly risks to stakeholders and ensure risk is comprehensively covered in project initiation documentation and monitoring reports;
- escalate risks to directors and senior managers where appropriate, and if the overall risk exposure or a specific risk is particularly serious, to the corporate risk register;
- seek out expertise to help effectively identify and control risks; and
- maintain records of historic and current risk registers, forming an effective audit trail.

#### **Other managers must:**

- manage operational risk and the risks associated with policy implementation in accordance with the GLA's risk management framework;
- escalate serious risks to the directorate and corporate levels as appropriate, as well as advising when operational risk may impact on project delivery;
- use the GLA's competency framework and personal development plans to enhance risk management skills;
- identify training needs; and
- take account of risk management issues when setting staff performance targets.

#### **Risk owners must:**

- seek out relevant expertise to help in the assessment of risk and appropriate control measures;
- review and report on the proximity and status of assigned risks;
- identify risk action owners for implementing control measures; and
- escalate risks to the directorate or corporate level as and when necessary.

### **Risk action owners must:**

- put in place actions to control risks, drawing on the advice of relevant experts;
- monitor risk and control measures; and
- feedback on the progress in implementing controls and their efficacy.

### **Internal Audit is expected to:**

- use risk assessment to inform its annual audit plan;
- carry out risk-based audits, evaluating controls and providing an opinion of levels of assurance;
- carry out periodic audits to test the suitability and implementation of the risk management framework; and
- make recommendations for improving risk management practices.

### **The Audit Panel's remit includes:**

- reviewing the outcome of audits, highlighted risks and officer responses;
- reviewing the GLA's risk management framework documentation on a periodic basis; and
- reviewing and challenging the GLA's corporate risk register every six months.

### **The Governance team's remit is to:**

- own the GLA's risk management framework documentation;
- ensure there is clear and robust guidance for managing risk;
- keep abreast of best practice and draw on Internal Audit recommendations to review and coordinate improvements to the risk management framework;
- communicate and promote the GLA's risk management framework through regular updates to staff via blogs and Internal Comms publications, including through the induction process and corporate governance training;
- maintain a risk management intranet page;
- be available to provide support to those undertaking risk management;
- maintain and administer the corporate risk register and support CMT in ensuring it is comprehensive and accurate;
- report to CMT at least annually on progress in implementing any risk management actions;
- coordinate six-monthly reports to the Audit Committee on the corporate risk register;
- promote, integrate and reinforce risk management within other disciplines, in particular project governance and management and decision making (via Mayoral, Director and Assistant Directorate Decision Forms); and
- update associated risk documents on a regular basis, such as the fraud risk wheel, risk action plan and biannual risk timetable
- ensure there are clear and robust links between risk management and corporate performance reporting processes.

### All of us should:

- understand the GLA's approach to risk management;
- make active and effective use of risk management in our work;
- escalate risks to the project, directorate or corporate level as appropriate, via managers or, in the case of corporate risks, by liaising direct with the Performance and Governance Unit;  
and
- provide feedback to the Governance team on the usefulness of the risk management framework.

## Section 2: A guide to managing risk

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The guidance that follows is not intended to be a rigid instruction manual for managing risk. Different situations demand different approaches. But it does offer a process that can be adapted to different circumstances, together with tools and techniques that will help you at the different stages the risk management cycle. A risk register template is at Appendix A.

The risk management process is generally linear in the sense that each stage builds on the stages that preceded it. But, as the word cycle indicates, it is also ongoing. So the different stages will need to be revisited at different times.

It is important to remember that risk management should not be conducted in isolation. Involving different people increases the range of perspectives and leads to a deeper understanding of the operating environment, risks and how best to control them. It is also vital to draw on the expertise available to you within the GLA and the procurement and legal functions provided by Transport for London.

Furthermore, risks are often 'shared'. That is, they flow from the work of and have the potential to impact on two or more organisations. In these instances, the process below should be undertaken collaboratively. In such circumstances, it is especially important that risk and action ownership is clear. It may on occasion be difficult to agree a shared view of or approach to risk. In such instances, the GLA should maintain its own risk register detailing how it ranks and is responding to the risks in question.

### Stage 1: Identify

The first stage of the risk management process is, naturally enough, about understanding and identifying. There are three things in particular to understand and identify at the outset of a given project, work-stream or when implementing risk management afresh. The first is the context within which the activity is taking place; the second is the level of risk appetite; and the third is the risks themselves – i.e. the uncertain threats and opportunities.

You should seek to:

- clarify the scope and objectives of the activity/project/work and the outcomes that are being sought;
- use tools such as horizon scanning and SWOT<sup>1</sup> and PESTLE<sup>2</sup> analysis to help understand the wider operating context;
- identify and understand constraints and interdependences;
- consider the flow of cause and effect and any unintended consequences that might arise from pursuing the outcomes;
- use common and generic areas of risk as a stepping off point for identifying specific risks;
- align risks to objectives so that at the next stage it is easier to establish their potential impact;

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<sup>1</sup> Considering Strengths, Weaknesses, Opportunities and Threats.

<sup>2</sup> Considering the context from Political, Economic, Social, Technological, Legal and Environmental perspectives.

- involve a range of people with different perspectives and areas of expertise;
- establish a risk register and begin to record the risks; and
- describe risks clearly and plainly, setting out the cause, the 'risk event' and the potential impacts.

This stage of the process is not just about identifying risks. You should also identify:

- the risk appetite for the project or work area – i.e. the total quantum of potential risk that is tolerable given the benefits and/or opportunities at stake;
- a risk owner for each risk; and
- tolerances to trigger reporting or escalation of risk to the programme/project team and director (see pages 4 and 5 for an explanation of the different levels of risk).

Some common types and sources of risk are set out below. The list is neither prescriptive nor exhaustive.

Areas of risk	
<ul style="list-style-type: none"> <li>• Changes in government policy, legislation or regulation</li> <li>• Legislative breaches</li> <li>• Financial/funding threats and opportunities</li> <li>• Other limits on resources</li> <li>• Changes in the economic climate</li> <li>• Uncertainty arising from transformational change</li> <li>• Social or demographic flux</li> <li>• Technological change and failure</li> <li>• Environmental issues</li> <li>• Reputational impacts</li> <li>• Governance and internal control arrangements</li> <li>• Information governance</li> </ul>	<ul style="list-style-type: none"> <li>• Stakeholder and partner capacity and attitudes</li> <li>• Threats to the health and safety of employees and citizens</li> <li>• Business continuity and resilience issues arising from incidents such as fire, flood, terrorism and damage to buildings and/or plant</li> <li>• Organisational or service capacity and capability</li> <li>• Unintended consequences and externalities</li> <li>• Perverse incentives</li> <li>• Difficulties arising from working across organisational boundaries</li> <li>• Staff morale</li> <li>• Procurement</li> <li>• Shifting priorities</li> <li>• Changes in demand or citizen expectations</li> </ul>

By the end of this stage you should have:

- a partially populated risk register containing a long list of clearly articulated threats and opportunities with an owner for each;

- an agreed risk appetite for the area of work that is clearly documented, including within relevant project documentation (such as the project initiation document);
- clear thresholds for escalating risks to those with ultimate accountability for the work; and
- an understanding of when and how to escalate risks to the directorate and corporate levels.

## Stage 2: Assess

It is not enough to simply have a sense of the risks that might impact on a given area or activity. The risks need to be understood and prioritised. This involves assessing risks against two main dimensions:

- **probability**: the likelihood of a particular threat or opportunity actually occurring; and
- **impact**: the estimated effect on one or more objectives of a particular threat or opportunity actually occurring.

There is also likely to be merit in undertaking a proximity assessment to estimate when a risk might occur.

Risks are assessed using a probability/impact grid. By plotting a risk against the two different dimensions we can derive a score and associated traffic light, and therefore understand the seriousness of individual risks and also compare different risks. At this stage you are assessing the **inherent risk**; that is the probability and potential impact before any actions are taken to make the risk less likely to arise and/or to mitigate its impact if it does. You should draw on and develop the information gathered at stage 1.

Probability	4	Orange	Orange	Red	Red
	3	Yellow	Orange	Red	Red
	2	Yellow	Yellow	Orange	Red
	1	Yellow	Yellow	Orange	Orange
		1	2	3	4
		Impact			

The risk score is arrived at by multiplying the probability rating and the impact rating. Using the grid above, the possible scores therefore range from one to 16. The scores should be derived with reference to the following descriptors.

Probability scoring criteria		
Score	Level	Descriptors (life-time of project or five year period)
1	Remote	0 to 25 per cent chance of materialising
2	Improbable	26 per cent to 50 per cent chance
3	Probable	51 per cent to 75 per cent chance
4	Highly likely	76 per cent to 100 per cent chance

## Impact scoring criteria

Score	Level	Financial Impact	Health and Safety	Environment	Reputation	Legal/ Regulatory	Capacity	Schedule	Outputs and Targets
1	Moderate	Containable within budget	Minor injury	Temporary and localised damage or degradation	Temporary loss of standing among partners/ stakeholders Minor local adverse media coverage or complaints	Improvement/ prohibition notice	Short-term disruption or impairment to a non-critical work area / service	A delay of less than 10 per cent	Key target missed by up to 10% Lower priority output not delivered to the expected standard
2	Significant	Containable within overall budget but might require resources to be reprioritised	Major injury	Medium or long-term localised damage or degradation	Medium-term damage to reputation among partners Major local or minor London-wide adverse media coverage	Prosecution with fine	Short-term disruption or impairment to several non-critical work areas / services or to one critical work area / service	A delay greater than 10 per cent of original timescale	Key target missed by up to 20% Lower priority output not delivered
3	Substantial	Not containable within existing budget	Fatality or several major injuries	Long-term or permanent localised damage or degradation; or widespread short-term damage	Long-term damage to reputation among partners Significant London-wide, or national, adverse media coverage	Director charged Major compensation claims	Medium-term disruption or impairment to several non-critical work areas / services or to one critical work area / service	More than 25 per cent increase on original timescale <u>or</u> such that the work/project will fail to meet core objectives as a result of the delay	Key target missed by up to 30% Several lower priority outputs not delivered to expected standard <u>Or</u> Mayoral commitment not achieved
4	Catastrophic	Cannot be resourced, including within existing contingencies	Several fatalities or numerous major injuries	Long-term or permanent widespread damage	Permanent damage to reputation among partners/ stakeholders, which constrains future action Significant adverse national media coverage	Director convicted Major compensation claims exceeding available cover Central government action	A fundamental impact on the GLA's ability to achieve its objectives or to meet the needs of its service users	More than 50 per cent increase on original timescale <u>or</u> such that the work/project will be unable to achieve its primary purpose	Key target missed by > 40% Numerous lower priority outputs not delivered <u>Or</u> significant underachievement against a key Mayoral commitment

The impact criteria above are neither exhaustive or entirely prescriptive. Below the level of corporate risk they are intended as a guide. You should always use the 4 x4 scoring system – and apply it consistently – but at the same time you must take context into account. What is crucial is that risks are scored within the context they are reported. A risk may be ‘red’ in the context of a given project, but escalated to the corporate risk register it may only be ‘amber’.

You may wish to document your own descriptors at the start of the project.

By the end of this stage you should have:

- a risk register that has been updated to include scores for the probability of each threat and opportunity materialising, the potential impact and the overall risk (remember, these are the **inherent** risk scores; i.e. before the impact of controls has been taken into account);
- an overview of the aggregate amount of risk exposure, for example by putting a financial value on possible risk impacts or creating a heat map (this involves plotting all the risks onto a probability/impact grid to understand how they are distributed);
- a clearer sense of whether a given activity or proposal has a favourable balance between risk and reward, i.e. whether to accept the risks given the benefits that may be accrued and/or the outcomes that are planned to be delivered;
- a hierarchy of risks, and an understanding of the urgency associated with individual risks, so that effort and resources can be directed effectively;
- a better understanding of which risks might need to be escalated to senior managers and the corporate level; and
- an understanding of the correlation between risks.

### Stage 3: Address

Prevention is better than cure. That is the crux of this stage of the process, and indeed risk management in general.

Putting in place effective controls to address risks relies on good judgement and thorough analysis, which can be aided by drawing on the advice of experts. That is because there is an obvious trade-off between the time and cost of putting in place risk controls and the benefit derived from reducing the probability and impact of a given risk. There is no value in investing in controls if there is not a commensurate benefit. And the most extensive control measures may not offer the best balance between cost and benefit.

The best response is the one which has the biggest impact on the level of risk exposure for the lowest cost. That means putting in place controls that are proportionate, economical, efficient, effective, timely, straightforward and practical.

The key steps at this stage are to:

- determine which risks need to be controlled;
- identify and implement control mechanisms that strike the optimum balance between cost and benefit;

- using the probability/impact grid, assess and record the **residual**<sup>3</sup> probability, impact and overall scores for each risk, taking into account the likely efficacy of control mechanisms; and
- implementing the controls – to not do so would be to waste much of the time and effort expended up to this point.

The main methods for controlling risks are known as the ‘four Ts’. You may wish to use a combination of these for a given risk.

### Treat

Either the probability or the impact of the risk can be ‘treated’, as described below.

- Acting to reduce the risk probability by putting in place preventative controls is the most common response to risk. Examples include strengthening governance arrangements, putting in place new or more rigorous management practices, or enhancing quality controls.
- Acting to reduce the potential impact of a risk is about having a ‘Plan B’. This should be your chosen response when you cannot economically lower the probability of the risk to a tolerable level.
- Putting in place measures to detect when undesirable outcomes have occurred. This approach is appropriate only when it is possible to accept the loss or damage incurred up to the point of identification. Examples include financial reconciliation, monitoring and post implementation reviews.

Treatment is likely to be more effective when both the probability and the potential impact are acted upon.

### Transfer

Part or all of the risk may be transferred to another party, normally at a cost. This can be done through partnership agreements and commissioning where others are better placed to manage the risk. Purchasing insurance will transfer the financial impact of a risk. Be careful to avoid transferring control of the risk without also transferring the potential negative impacts, for example reputational damage – particularly when that party has a lower capacity and capability for managing the risk than the GLA itself.

### Terminate

In other words, eliminating the risk by not pursuing the activity in question. This could be done by changing the scope of the programme/project or the delivery mechanism. However, and unless done early on, this can be costly or difficult to achieve. It is likely there were good reasons for deciding on the original scope or delivery mechanism. And often it will not be a viable option, given political or regulatory considerations.

### Tolerate

This means accepting the risk without putting any controls in place, i.e. taking a calculated chance. This may be an appropriate response when:

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<sup>3</sup> While the residual risk rating is forward looking, in that it looks at the position once control measures are in place, you need to consider and be realistic about the likelihood of the controls being successfully implemented, in sufficient time and having the intended mitigating effect. If their success is uncertain, you need to reflect that in the rating.

- there is nothing that can be practically done to limit the risk;
- implementing control measures would shift the balance between costs and benefits from favourable to unfavourable;
- control of the risk is properly the responsibility of another party, for example central government; or
- the risk is of low probability and negligible impact.

By the end of this stage you should have:

- a residual probability and impact score for each risk;
- a completed (but not static) risk register;
- where risks are particularly complicated or involved, a risk response plan;
- escalated risks as appropriate to directorate and corporate levels;
- a good sense of the total quantum of risk (and an updated heat map, if you created one) associated with the activity; and
- where relevant, a sound basis for deciding whether overall benefits and rewards outweigh the potential threats and associated controls.

## Stage 4: Reviewing and reporting

New risks will continue to emerge, existing risks will change in nature, and the perceived efficacy of controls will also change based on experience and evolving circumstances.

It is essential, therefore, that risk is reviewed and reported on a periodic basis, but also flexibly when there are significant changes in circumstances or key decisions to take. Risk review, like risk identification and assessment, should be a collaborative exercise drawing on input from risk and risk action owners and from others involved in the project or work area.

Risk review and reporting should be integrated with other monitoring and reporting mechanisms, to help identify linkages and ensure there is a comprehensive picture of progress and future prospects.

Early warning mechanisms should also be monitored, and there may be merit in returning to some of those techniques deployed at stage 1, such as horizon scanning.

By the end of this stage you should have:

- refreshed your environmental analysis, if there have been changes in the operating context;
- added and removed risks from the risk register;
- assured yourself that controls are in place or that good progress is being made to implement them;
- reviewed the efficacy and impact of controls and considered different approaches where necessary;
- refreshed risk assessments, both inherent and residual;

- considered and where relevant amended the risk hierarchy;
- reassessed the overall level of risk, and in some cases risk appetite, associated with the activity; and
- decided whether or not to escalate any risks to the directorate or corporate level.

Note that historic risk registers and associated reports should be retained (rather than only the most recent being kept) so as to aid review of the efficacy of risk mitigation, facilitate project evaluation and serve as an audit trail. This requirement is also documented in the GLA's Record Retention Schedule.

## Appendix: Risk register template

Note that an Excel format risk register is available via the risk intranet page. This includes a format that allows more detailed information to be captured.

Risk #	Risk description and impact	Inherent risk assessment			Control measures/Actions	Action owner	Deadline/Completed	Residual risk assessment			Risk owner
		Prob.	Impact	Overall				Prob.	Impact	Overall	
1	[Cause, 'risk event', potential impacts]	[1-4]	[1-4]	[1-16]				[1-4]	[1-4]	[1-16]	
2											
3											
4											
5											
6											
7											
8											
9											

### Example risk

1	<b>Poor KPIs</b> Poor definitions, inadequate systems or shaky rationales mean that the GLA's suite of KPIs does not provide insight into the performance of the Authority in key areas. In turn, this will impair the organisation's ability to take remedial action, achieve its goals and celebrate success.	3	3	9	Consultation with Mayoral Advisors and senior officers on the scope of the KPIs.	Tim S	Completed 21/12/12	1	2	2	Tom M
					Named performance and data managers for each indicator.	Tim S	In progress. To complete by 25/1/13				
					Lead process to ensure systems are established, including data quality checks.	Tim S	Begin 28/1. To complete by 1/3/13				
					Put in place process to monitor KPI scope and data quality on an ongoing basis.	Tim S	To be in place by 1/4/13				