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strategy unit

Risk: Improving government's capability to handle risk and uncertainty

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In many ways life today is far less risky than in the past. Yet risk seems to matter more than ever, partly because we are so much more aware of the risks we face, and partly because of the sheer speed of change in science and technology.

It will rarely be possible for governments to eliminate risks entirely. All life involves some risk, and any innovation brings risk as well as reward – so the priority must be to manage risks better. We need to do more to anticipate risks, so that there are fewer unnecessary and costly crises, like BSE or failed IT contracts, and to ensure that risk management is an integral part of all delivery plans. But we also need to be sure that innovations are not blocked by red tape and risk aversion, and that there is a proper balance between the responsibilities of government and the responsibilities of the individual.

Over the last few years we have radically changed our approach to risk. Bodies like the Food Standards Agency, the Human Genetics Commission and the Monetary Policy Committee have shown that more open processes, based on evidence, are more effective at handling risks and winning public confidence than secrecy. More recently, through the Civil Contingencies Secretariat, we have improved the way we prepare for threats of serious disruption to the UK. Right across government too we have introduced more rigorous methods to manage risks in delivery and big contracts.

But there is more we can and should do. That is why I asked the Strategy Unit to carry out this study. It has drawn on good practice and thinking around the world – from across government, the private sector, and other experts and commentators. The report sets out how government should think about risk, and practical steps for managing it better. It proposes principles to guide handling and communication of risks to the public – on which we are seeking views from all interested parties.

Risk management – getting the right balance between innovation and change on the one hand, and avoidance of shocks and crises on the other – is now central to the business of good government. I see the agenda set out here as an important part of our reform strategy, and encourage all involved to play a full and active part in putting the conclusions of this report into practice.

Tony Blair

REPORT OUTLINE

Chapter 1 outlines the importance of government's risk handling and introduces the study's approach, defining key terms.

Chapter 2 distinguishes and explores three roles for government in handling risk and uncertainty: a regulatory role, a stewardship role and a management role.

Chapter 3 sets out the challenge faced by government and proposes a framework for improvements, which is developed in detail in the rest of the report.

Chapter 4 identifies the ways in which government needs systematically to develop its capacity to handle risk. This involves ensuring decisions take account of risk, firmly establishing risk management techniques, organising to manage risk, developing skills and ensuring quality through the application of standards and benchmarking.

Chapter 5 makes proposals for improving the way government handles and communicates about risk to the public. These include clearer guidelines on publishing assessments and supporting information; earlier involvement of stakeholders in decisions; greater use of impartial sources in risk communication; and underpinning by clear principles.

Chapter 6 highlights the critical importance of organisational culture in supporting a change programme for handling risk management and encouraging innovation. It recommends a leadership approach; and greater coherence and co-ordination of supporting programmes and bodies.

Chapter 7 summarises the main conclusions and recommendations of the study and proposes a plan for effective implementation.

The report is supported by a number of annexes, which provide additional material to underpin the findings including details of research undertaken, references to key documents and definitions of key terms.

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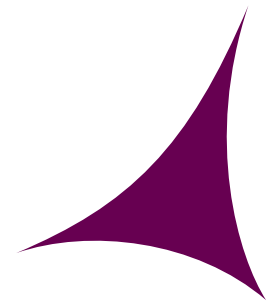
1. INTRODUCTION

Summary

Governments have always had a critical role in protecting their citizens from risks. But handling risk has become more central to the work of government in recent years. The key factors include: addressing difficulties in handling risks to the public; recognition of the importance of early risk identification in policy development; risk management in programmes and projects; and complex issues of risk transfer to and from the private sector. Together these factors have forced a reappraisal of how government handles risk in all its forms, and led to the Prime Minister announcing the Strategy Unit study in July 2001.

The Introduction explains the background to the Strategy Unit study, defines some common language for discussing risk and sets out some key aspects of the complexity of risk that are addressed in the report.

The importance of risk

1.1   Governments have always been concerned with the protection of citizens from risks. However, in recent years handling risk has become increasingly central to the business of government. The language of risk is used to cover a wide range of different types of issue:

- direct threats – from the events of 11 September 2001, to the threat of chemical and biological attack, or accident, and the potential vulnerability of IT systems;

- safety issues – from BSE; in connection with the Measles, Mumps and Rubella (MMR) vaccine; and other issues of risk to the public (rail safety, adventure holidays, flooding);

- risks to the environment (risks from climate change, CFCs);

- risks to delivery of a challenging public service agenda;

- continuing debate and growing experience over transfer of risk (in capital projects and service delivery) to and from the private sector;

- ambitions to make the public sector more innovative, and better able to judge risks that might deliver high rewards; and

- the risk of damage to government's reputation in the eyes of stakeholders and the public and the harm this can do to its ability to carry out its programme.

1.2   Together these have forced a reappraisal of how government does its business, and how it handles risk in all its forms.

1.3   These issues matter crucially to government because all states are at root guarantors of the security of their citizens – there to deal with the risks that individuals, families and communities cannot handle on their own. And expectations have risen – over time the public has come to expect fewer external risks (to health, physical security and financial security) while also wanting to be able to choose to take more risks which they themselves control, and to have access to high quality public services.

1.4   Governments have always faced risks and dangers of their own – unforeseen events, programmes going wrong, and projects going awry.

1.5   Such uncertainty is not new. But the nature of risk has changed for two fundamental reasons. First, the increasingly rapid pace of development of new science and technology has led to concerns about "manufactured risks". These require governments and regulators to make judgements about the balance of benefit and risk across a huge range of technologies – from genetically modified (GM) food and drugs, to industrial processes, or cloning methods.

1.6   The second new factor is the greater connectedness of the world, through an integrated global economy, communications system and a shared environment. This has brought huge opportunities. But it also means that citizens in the UK are potentially more vulnerable to distant events – ranging from economic crises on the other side of the world, attacks on IT networks, diseases carried by air travellers, to the indirect impact of civil wars and famines. Globally interconnected infrastructure brings with it increased exposure to catastrophic events elsewhere, as shown, for example, by the events of 11 September. These systemic risks are now high on the policy agenda in many countries.

1.7   As a result of all of these factors, governments are now trying to improve their handling of risk.

The Strategy Unit study

1.8   In July 2001, the Prime Minister announced the Strategy Unit (formerly the Performance and Innovation Unit) study on risk and uncertainty. Its origins were part of the response to the Phillips Report[1] on BSE, but it was established with a remit to look broadly across the whole of government's involvement in managing risk. It builds on a number of recent reports, for example by the National Audit Office (NAO)[2] and the Public Accounts Committee (PAC),[3] highlighting the need for improvements.

1.9   The study has developed in parallel with a number of other initiatives and changes within government, both influencing and feeding off them. The aim has been to develop recommendations that can complement and rationalise the current programme of public service reform.

[1]   **Lord Phillips**, *The BSE Inquiry, Volume 1, Findings and Conclusions,* Stationery Office, 2000.
[2]   **NAO**, *Supporting Innovation: Managing Risk in Government Departments,* August 2000.
[3]   **PAC**, *First Report Session 2001–02, Managing Risk in Government Departments,* November 2001.

1.10 The study has not sought to provide detailed technical advice on how to undertake risk management. Guidance already exists for this. Rather, it has developed: a broad framework for understanding risk; clarification of how risks can be managed and by whom; proposals for organisational coherence; and proposals for managing culture change. The methodology used is outlined at annex 1, along with details of the project team.

1.11 This report makes recommendations for government action to improve its handling of risk, and includes a high-level statement on risk to convey the guiding principles to a public audience.

Handling risk

1.12 The handling of risk is at heart about judgement. Judgement in the context of government decision making can, and should, be supported by formal analytical tools which themselves need enhancing. But these cannot substitute for the act of judgement itself.

1.13 This report seeks to explore how far formal risk analysis can be usefully enhanced and made systematic, so that there is greater clarity about where analysis ends – and judgement begins. It also explores and suggests what else we need to do to enhance our handling of risk and innovation.

1.14 In every area of government's work, effective risk handling depends on attention to five broad areas:

- what could happen (identification). In every area of government regular reality checks are needed, involving rigorous assessment of trends, possibilities, dangers, their likelihood and impact. Often this
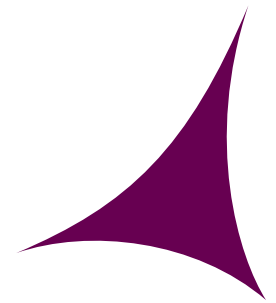
needs to involve people without a direct stake in the specific area of work itself to ensure objectivity. Wherever possible informal channels of information as well as formal ones need to be used;

- what matters (assessment). Having established what could happen, governments need to make judgements of value about the desirability or otherwise of different outcomes, taking account, for example, of the importance of the reliability of a service, the advantages to be gained from an innovation or the place of an activity in the broader contract between the state and citizens;

- what can be done (action). Having established what matters, government then needs to plan ways to avoid, mitigate, anticipate and otherwise cope with the potential risk, and to plan for uncertainty. In some cases contingency planning will be essential. In others it may be important to put in place capacity to cope with unforeseeable events;

- what has happened (review). Having taken initial action, government needs to assess whether it has had the intended effect, whether the assessment of risks needs to change and whether further action is needed; and

- all of this has to be supported by effective communication, both with those potentially affected by the risks and with those who can help manage the risks.

Risk management language – key concepts

1.15 The language of risk management sometimes implies a neater process than is usually possible in reality. This is particularly the case in government. Governments have
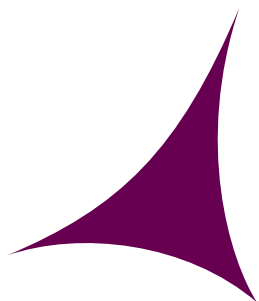
to deal with a more complex operating environment, with more variables and a greater impact from subjective perceptions than other fields like business. They also have to balance conflicting viewpoints. Handling risk involves values in their widest sense as well as value in a narrower sense.

1.16   The language can also be confusing. People often give different meanings to key terms. It is important to develop a common language, which should be capable of being understood by those outside as well as inside government. Within government, the guidance from OGC[4] contains a comprehensive set of definitions. We have adopted these definitions, where possible, but have found it necessary to adapt and add, in order to cover the full range of government risk activity. The key overarching concepts are:

- **risk** refers to uncertainty of outcome, whether positive opportunity or negative threat, of actions and events. It is the combination of likelihood and impact, including perceived importance. This definition acknowledges the uncertainty that underlies much of the work of government. We have deliberately avoided definitions of risk that are based on measurability (for example, the economic distinction between risk and uncertainty). In many cases the risks that will be most relevant to key government decisions will require a large element of judgement, as well as measurements, in their assessment (for example, whether a policy will command public support);

- **risk management** covers all the processes involved in identifying, assessing and judging risks, taking actions to mitigate or anticipate them, and monitoring and reviewing progress. Or as the OGC defines it – ensuring that the organisation makes

cost-effective use of the risk process. Risk management requires processes in place to monitor risks; access to reliable, up-to-date information about risk; the right balance of control in place to deal with those risks; and decision-making processes supported by a framework of risk analysis and evaluation; and

- **handling risk** – we have used this as a broader term, including the processes of risk management, but also embracing wider issues, such as the government's approach, its roles and responsibilities and its organisational culture.
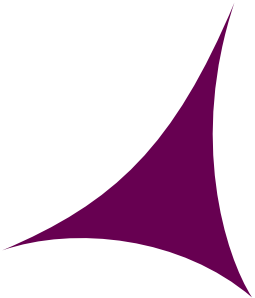
1.17   Other key terms, including risk identification, risk assessment and hazard are defined at annex 2. There is a danger that risk management can be seen as a mechanical process. This can be damaging, potentially leading to the real issues being missed. This is why the report is at pains to emphasise the key role of judgement in every aspect of the way risks are managed.

Types of risk

1.18   This study considers how government should handle both risks to the public and risks to the delivery of government business. The focus is on the role of central government, although many of the issues discussed will also be relevant to the wider public sector, including regional and local government.

1.19   The risks to the public that government needs to deal with are hugely varied, and the scope has grown: starting with early concerns about risks to the security of the realm and the maintenance of the peace; through increased involvement in public health in the 19th century; social welfare risks in the 20th century (Beveridge's

4   **OGC**, *Management of Risk – Guidance for Practitioners*, 2002.

five giants of want, disease, ignorance, squalor and idleness); to increasing expectations for measures to protect against the uncertainties of scientific and technological advances and to control the risks placed on individuals by commercial organisations. The study considers how risk management can be applied across this wide territory, and explores the role of government in allocating responsibility for risk.

1.20   The risks that the public faces may be voluntarily undertaken (for example, smoking or dangerous sports), with greater or lesser degrees of awareness of the risk, or imposed by other individuals or organisations (for example, risks from crime, commercial products or technologies or the risk of nuclear accidents) or natural events (such as flooding or severe weather). We explore the consequences of this distinction for government.

1.21   And the increasing use of modern management techniques (financial management, project and programme management) provides opportunities for better management of a wide range of risks to the business of government (financial, staffing, project delays, service levels).

1.22   Chapter 2 considers the government's roles and responsibilities in handling such risks.

2. GOVERNMENT'S ROLES AND RESPONSIBILITIES

Summary

Governments have three clear roles in managing risk. Where individuals or businesses impose risks on others, government's role is mainly as regulator, setting the rules of the game. Where risks cannot be attributed to any specific individual or body, governments may take on a stewardship role to provide protection or mitigate the consequences. In relation to their own business, including provision of services to citizens, governments are responsible for the identification and management of risks.

In each of these areas there are no wholly reliable formulae for defining risk. Governments need to make judgements in as open a way as possible about the nature of risk and how responsibilities should be allocated, recognising that there will always be some unavoidable uncertainty.

Introduction

2.1   This chapter provides a framework for understanding the roles government plays in handling risk, and the responsibilities that are expected of it in each of its roles. It sets the scene for the following chapters in the report, which explain how its responsibilities can be discharged.

Government has three distinct roles in handling risk and uncertainty…

2.2   Our society faces a large variety of different types of risk: some highly individual,

some public; some well understood, others less so; some external and others essentially internal or originating from within.

2.3   Government's role in relation to each of these different types of risk reflects the extent to which individuals and organisations can be expected to understand and respond to the risk, and the extent to which government has the capacity to bear the risk:

- governments have a **regulatory role** in providing the legal framework where the activities of businesses and individuals give rise to risks to others. Industrial and commercial activity inevitably involves risk – this is the basis of economic growth and

improved living conditions. But benefits and risks may fall unevenly across the population. Governments will in practice often have a role in balancing risks and rewards, not just between the individual and society but also between different elements and interests within society – such as consumers, taxpayers or businesses;

- governments have a **stewardship role** to protect individuals, businesses and the environment from risks imposed on them from outside – for example, major flooding or other natural disasters, risks to public health or safety, external threats to security, or risks to economic stability; and

- governments have a **management role** in relation to their own business, including the delivery of public services and the performance of the regulatory and stewardship functions.

2.4   These three roles, which are illustrated in Figure 2.1, overlap to some extent. For example, Departments must exercise a management role in the performance of their r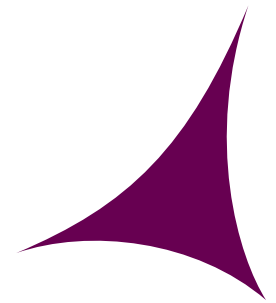egulatory and stewardship functions. And they may need to take a stewardship role to protect individuals from technological and social hazards that cannot be tackled through regulation.

2.5   The role of regulation in relation to risk has been examined in detail in work by the Better Regulation Task Force (BRTF)[5] and is not explored further in this report. This report looks mainly at risk in relation to government's management and stewardship roles. There are a number of themes in common to all roles, including a general expectation that the processes will be open to scrutiny.

Figure 2.1: Government roles

Technological and social hazards

Natural hazards

Regulatory role

Stewardship role

Management role

Operational and policy risk
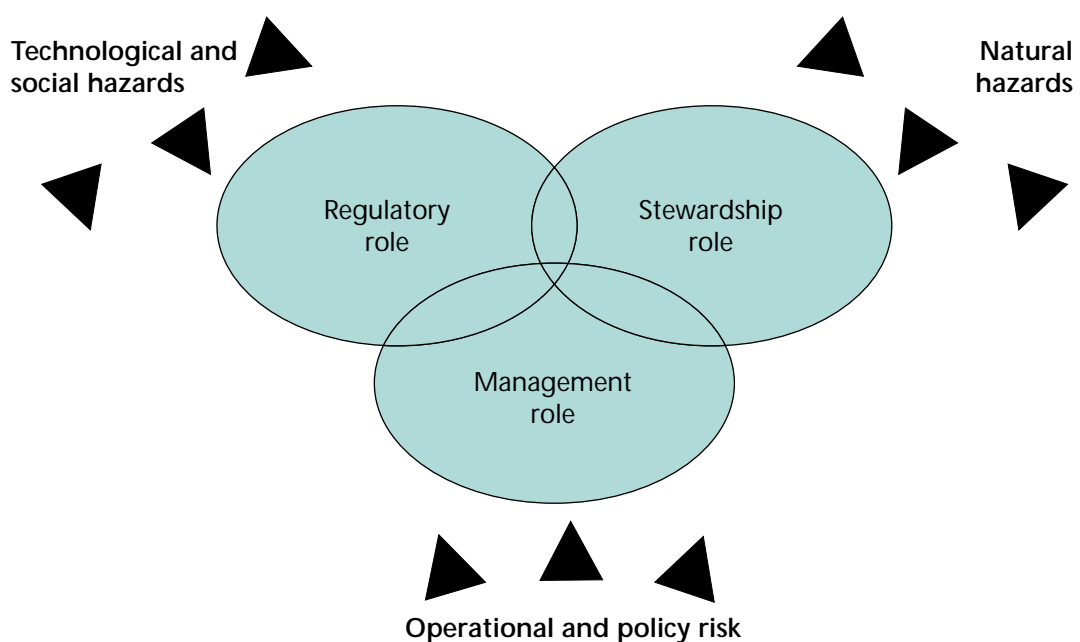
[5] **BRTF**, *Principles of Good Regulation*, Cabinet Office Publications and Publicity Team (Section 4, p.6), October 2000.

While in practice these roles can often overlap, government's responsibility differs between roles…

Regulatory role

2.6   Governments will not normally intervene where individuals take risks voluntarily and where they alone are affected. In these circumstances, governments have a role in ensuring that individuals are aware of their responsibility and of the consequences of the risk that they are taking. There is often room for argument about precisely what falls under this definition. For example, smoking, driving without a seatbelt or undertaking dangerous sports are risks that are taken voluntarily and mainly affect the person taking them. However, they may also indirectly impose costs on others, for example to the taxpayer through the cost of medical treatment.

2.7   Where risks taken voluntarily have direct or indirect consequences for others – for example, other road users, the taxpayer or the environment – government may intervene through regulation or other means to limit or control that activity. Examples include setting road speed limits, or legislating to require the wearing of seatbelts or to restrict tobacco advertising. The issues involved are often complex – for example, over the regulation of tobacco advertising – but the political and legislative processes ensure that any legislation to restrict activities that involve risk receives proper scrutiny. Legislative proposals that have an impact on business, charities or the voluntary sector have a Regulatory Impact Assessment (RIA), which includes a risk assessment of the problem being addressed and of the proposal itself.

2.8   In addition, governments will seek to ensure that those who impose risks on others bear the cost of the consequences of the risk. As many physical risks cannot themselves be transferred back to the originator, this will often need to be done through proxy measures, such as financial and other penalties. One example is the "polluter pays" principle – which transfers to the polluter the cost of clearing up environmental damage. More generally, the civil justice system provides a way for businesses and individuals to obtain financial redress for the consequences of risks taken by others.

Stewardship role

2.9   Some risks, such as the risk of disease, flooding or of global economic recession, cannot be attributed to any specific individual or agency, and responsibility cannot be allocated straightforwardly. In such cases, government will seek to ensure that responsibility rests with those best placed to manage the risk. This requires careful judgements about the balance of risks and benefits and the need to protect minority interests and the environment.

2.10   In many cases, it will be up to individuals or businesses to manage their own exposure to such risks where they have the knowledge or capacity to do so – for example, through the lifestyle they choose or the investment decisions they take. However, where the consequences of a risk are too great for any one individual or business to bear, government – either central or local – may intervene directly to provide protection against the risk or the risk may be pooled.

2.11   Decisions to intervene are often taken on a case-by-case basis, and can vary from country to country. Government intervention can take a number of forms – for example, through the provision of a defence capability,
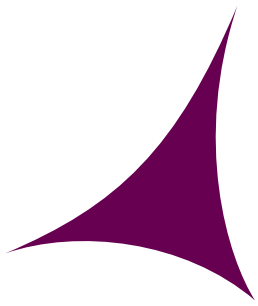
public health care or publicly funded emergency services. Government intervention can take two main forms: action to reduce the likelihood of the risk occurring (for example, through the provision of flood defence); or action to mitigate the consequences (for example, through the provision of health care). In neither case, however, can government take the risk entirely away from the citizen.
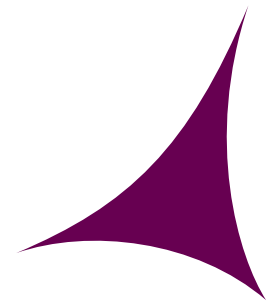
2.12 Government's role in pooling risks has evolved over time. Developments in publicly provided health care provide an example of a trend towards risk pooling. Economists have documented in great detail why individual purchase of health care through insurance markets can be inefficient and unjust. On the other hand, the move to more funded pensions, and private pensions, albeit supported by income guarantees for poorer pensioners, is an example of a trend towards greater disaggregation of risk. In practice, most societies combine pooled risks and risks that individuals handle for themselves (for example, home contents insurance), or which are determined by a commercial contract (for example, buildings insurance, or life assurance as a condition of a commercial mortgage).

2.13 Where there is a risk that an activity may cause serious harm to others, and that those taking part may not be able to cover their liabilities, government may require them to pool their risks by taking out insurance first. The requirement to take out third party motor insurance is an example. A similar principle might apply to critical services provided by business, such as energy, water and telecommunications, where the effects of service failure on the wider public would be severe. In such cases, government's responsibility is to monitor and take action to ensure that critical networks continue to

function, rather than to protect specific individuals or industries. In some cases there may be requirements to maintain buffers, reserves and stocks to reduce the risk of crisis, since markets on their own will tend to underestimate the impact of low probability but high impact events.

2.14 Where the market cannot provide sufficient or universal cover, for example to protect against the risks of unemployment, and the consequences for society are unacceptable, government may itself step in as insurer of last resort. Government may also intervene where market provision is withdrawn in response to an external shock, for example through the Troika scheme for the airline industry in response to 11 September. However, as government-backed schemes are likely to inhibit the development of competitive commercial products, government will only step in after careful consideration of the consequences of market failure weighed against the implications of intervention. The test has to be not just that there is a market failure but that there is a good public policy reason to intervene to tackle it. These cases should be seen as exceptions, rather than the rule, and where it intervenes in response to market failure, government needs to consider its exit strategy as well. Government is committed to review all major pieces of regulation after three years and time-limit them where appropriate; this could play a part in any exit strategy devised during policy development.

2.15 Overall the global trends on risk are complex. One of the consequences of a more connected world is that there are more risks beyond the capacity of individuals and businesses to control. These include environmental risks, risks of transmission of disease, global economic risks, terrorism, and instability of global systems.

2.16   Public awareness of risk has also led to more pressures on government to play a regulatory role: food safety, emissions, and financial services are examples of where greater public understanding has led to a demand for more regulation. At the same time, in many countries, there has been a trend away from universal provision towards encouraging greater personal responsibility, notably for financial and retirement planning. Governments must constantly monitor trends in public expectations and the effectiveness of different models of public sector provision in use at home and abroad in order to decide where responsibility for managing risks best sits. At the same time, they must communicate clearly about the nature of the risk, and about the responsibilities of those involved.

Management role

2.17   In relation to its own business, including its regulatory or stewardship functions and the delivery of services, government has a responsibility to identify and manage risks. Typical risks may include the risk of IT failure, delay or unbudgeted expenditure, or the strategic risk of taking on too many high-risk projects at once.

2.18   In some cases, government will not provide a service direct, but will contract with another party to deliver it on its behalf, for example, privately-run prisons. While governments will normally remain responsible for the outcome of the service (in this example, protection of the public), they may transfer responsibility for achieving specific objectives, and the risks associated with achieving those objectives, to another body. In such cases, they need to define clearly where responsibility should lie. As a rule, risks are easier to transfer in clearly definable capital projects, where outputs can be clearly defined and where time-scales are

not too long, than in long-term service delivery. While it is relatively straightforward to transfer financial risks to a third party, it is more difficult to transfer reputational risk, as the public rightly expects government to be accountable for services delivered on its behalf.

2.19   In addition, when essential services go wrong, people still look to government to put them right, even where these services are provided privately. The power generation crisis in California, and failure of Railtrack in the UK, show that government often retains ultimate responsibility for the continuity of such services through its role as regulator, when those tasked with providing the service are no longer capable of doing so.

2.20   Where responsibility for a risk lies with government Departments and agencies, there are well-understood procedures for ensuring that it is adequately handled. For example, there should be an identified individual within the organisation responsible for managing it, and the risk should be managed at the lowest level at which informed decisions can be made. Chapter 4.3 explores these in more detail.

3. IMPROVING GOVERNMENT'S HANDLING OF RISK – THE CHALLENGE

Summary

This chapter sets out the challenge to government. Government needs to handle risks at three main levels: strategic, programme and operational. Handling of risk at all three levels has been found wanting in recent crises and policy failures, and reports by the National Audit Office (NAO) and the Public Accounts Committee (PAC) have found systematic weaknesses.

The causes of this are explored, starting with the inherent complexity and riskiness of government business, and reviewing the social context within which government works, which is becoming more demanding. (Early lessons are drawn, and examined further in subsequent chapters.) The greater expectations of corporate governance are also a factor.

Government is already responding to the challenge, with a combination of specific responses to issues and generic arrangements. But this is not yet sufficient to deliver benefits across the range of government's business. The chapter ends by setting out the Strategy Unit's framework for developing government's handling of risk.
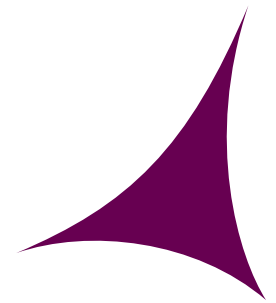
The challenge

3.1   Government needs to be able to handle risk at three levels: strategic, programme, and operational/project level.

3.2   At the strategic level, what is at stake is the government's political contract with the electorate and the coherence of its overall programme. Decisions will involve the formulation of strategic objectives, the resource allocation decisions to back them, and assessment of policy options in response to changing circumstances.

3.3   At the programme level come the detailed policies governing implementation and the delivery plans that will benefit

society. Decisions are made on procurement or acquisition, funding, organisation, establishing projects, service quality and business continuity.

3.4 And at the project and operational level, decisions will be on technical issues, managing resources, schedules, providers, partners and infrastructure.
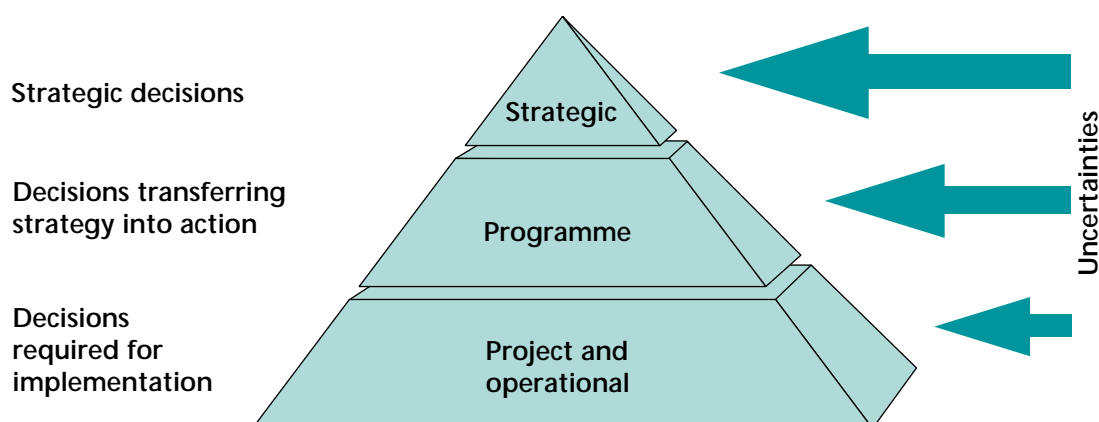
3.5 In recent years government has faced significant problems in handling risk at each of these levels. At the strategic level, a notable example was the lack of preparation of alternatives to the Exchange Rate Mechanism (ERM) in the early 1990s. At the programme and operational level, although considerable progress has been made by many Departments, problems remain that have been highlighted in reports by the NAO and PAC. Examples include policies that have proceeded without any proper assessment of

their vulnerability to events, and major business change projects, often involving IT, that have gone ahead without contingency plans. These are highlighted in the PAC report, *Improving the Delivery of Government IT Projects*[6] and the NAO report, *Better Public Services through e-Government.*[7]

Risk management has been found wanting in recent policy failures and crises…

3.6 Poor handling of risk has been cited as a factor throughout the process of policy development and delivery. For example, the memorandum from the Department for Education and Skills (DfES) to the Education and Skills Select Committee on Individual Learning Accounts (ILAs) pointed out that "the ILA programme was managed with a risk

Figure 3.1: Hierarchy of risk

Strategic decisions

Decisions transferring strategy into action

Decisions required for implementation

Strategic

Programme

Project and operational

Uncertainties

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[6] **PAC,** *1st Report of 99/00, Improving the Delivery of Government IT Projects,* January 2000.
[7] **NAO,** *Better Public Services Through e-Government: Case Studies,* April 2002.

log but it is clear with hindsight that this focussed too heavily on the risk of failing to meet programme targets. The Department should have specified a full business model for the ILA programme and subjected this to tests of how abuse could have occurred. This would have allowed us to identify other risks and design better monitoring systems to pick up early warning indicators." One of the conclusions drawn was that there was a need for better risk assessment at the policy design stage. By the end of January 2002, the total complaints received had reached nearly 18,300; and the total for funds withheld and claims outstanding for providers under investigation or requiring further follow-up came to nearly £15 million.

3.7   The NAO report on the passport delays of summer 1999[8] highlighted "insufficient contingency planning in the event that implementation of the new passport processing system might not go according to plan"; that the staffing strategy was "based on a number of mistaken assumptions" about the ability to handle risks from demand; and that, although the Passport Agency had learnt from an earlier project that "more might have been done to manage risks better within resource constraints", it did not take sufficient account of these lessons. The cost of failure was £12.6 million. Ten general lessons for public bodies included: the need for robust forecasting of service demand and contingency plans to deal with surges; formal risk assessments for all new computer systems; and good communications about service problems to reduce public anxiety and relieve the consequent pressure on services from extra enquiries.

3.8   The Phillips Inquiry[9] report on BSE highlighted several aspects of the government's handling of risk and uncertainty that were unsatisfactory, notably the timing, implementation and enforcement of mitigation measures, its use of independent scientific experts, and failure to communicate with the public on the risk to humans. To address the shortcomings, the Inquiry recommended:

- more open communication to the public about risks that affect them;

- a more consistent approach to the precautionary principle;

- better monitoring to ensure effective enforcement of risk management measures;

- ensuring that where action has been taken to reduce the risk, it has resulted in what was intended;

- clearer lines of accountability for risk management decisions; and
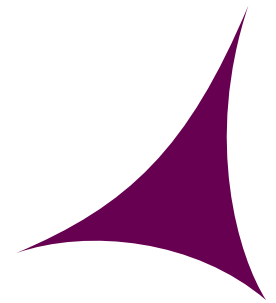
- better interdepartmental co-ordination.

3.9   In addition, the Inquiry report highlighted the lack of public confidence in the way government handled food safety risks. It concluded that the only means of improving this state of affairs was through greater openness and acknowledgement of scientific uncertainty.

3.10   The Cullen Report[10] on the Ladbroke Grove rail crash identified that there was a "persistent failure to carry out risk assessments by whatever method was available". This gave rise to the recommendation for "the greater use of risk assessment in the rail industry".

8   **NAO**, *The UK Passport Agency: the Passport Delays of Summer 1999,* October 1999.
9   op. cit.
10   **Lord Cullen**, *The Ladbroke Grove Rail Inquiry, Part 1, Report*, HSE Books, 2001.

...and reports by the NAO and the PAC have found systematic weaknesses...

3.11   The NAO report, *Supporting Innovation*,[11] surveyed risk management practices across a broad range of public sector bodies. It found that on the following issues less than half of the Departments surveyed agreed that:

- they knew the strengths and weaknesses of the risk management of the organisations they worked with;

- the Department had effective training on risk and risk management;

- there was a common definition of risk used throughout the Department;

- risk management objectives had been clearly set out;

- regular risk management reports to senior management were effective;

- all staff had responsibility for identifying risks facing the Department; and

- the Department's executive sponsorship and focus for risk management was effective.

It recommended that:

- the Cabinet Office should continue to encourage Departments to adopt a coherent approach to managing risks, which is likely to lead to sustainable improvements in public services;

- the Treasury should press ahead with work already under way to improve risk management and corporate governance in government Departments; and

- Departments should ensure that the principles of sound risk management are understood and widely adopted.

3.12   The PAC report, *Managing Risk in Government Departments*,[12] confirmed that more progress still needs to be made and pointed out that "Numerous reports by this Committee have emphasised the need for Departments to improve their risk management". It stressed that well managed risk taking is to be supported:

- "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 badly 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.

  "Risk taking and innovation are consistent with the careful and proper control of public money. If Departments have sound systems of control they are more likely to have the confidence to innovate because they will be better able to cope with adverse circumstances."

3.13   But there were specific improvements needed, for example:

- there should be greater awareness of, and responsibility for, risk outside finance and audit functions;

- Departments should assess the strengths and weaknesses of risk management systems in partner organisations;

- senior management should take the lead in risk management; and

- the Accounting Officer Memorandum should make explicit the consideration of risk in relation to value for money.

3.14   It also pointed to the need to develop skills and for adequate monitoring of progress:

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[11] **NAO**, *Supporting Innovation*, op. cit.
[12] op. cit.
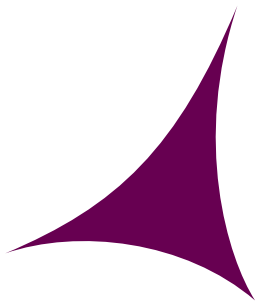
- "Risk management will only become a normal and integral part of the way Departments and Agencies operate if civil servants have the skills to identify and assess risks and take the action necessary to manage them. In developing action plans to implement their risk frameworks, Departments should ensure all staff receive appropriate training.

  "It will be important for the Cabinet Office and Treasury to continue to monitor how Departments implement their risk management plans, to ensure that they are underpinned by effective action to manage risks. These plans should include reliable contingency arrangements to deal with the unexpected, which might put service delivery for citizens at risk."
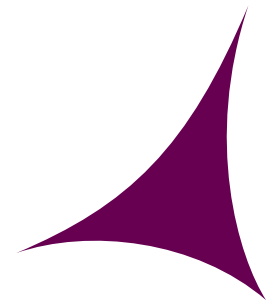
...and surveys by the Strategy Unit confirm this

3.15　We surveyed Departmental Board members and risk experts both in government Departments and the private sector (details are at annex 3). In our survey of risk experts, we set out 70 statements about good risk management practice covering 11 key areas and asked whether respondents strongly agreed/agreed/were neutral/disagreed/strongly disagreed.

3.16　Government respondents were less confident that they applied good practice and scored lower than the private sector in each of the 11 areas:

- the lowest government scores were for "systematic management of key risks" and "managing risk in policy development and implementation" and the major challenges identified included "moving from risk assessment to risk management" and "moving from implementing systems and processes to actually changing

attitudes/culture and focusing on the main risks";

- the private sector is much stronger in terms of senior management sponsoring, receiving and communicating results of risk reviews; and government recognises this as a challenge to be met;

- there was more evidence of the private sector having rehearsed response plans and having rapid reaction teams in place;

- the private sector's responses indicated that it was much more active and competent than the public sector in managing opportunities and innovation;

- defining and communicating risk "appetite" was seen as an underdeveloped area in both sectors, although this was particularly evident in government; and

- government respondents recorded low scores on risk management skills and how they were valued. Many thought that the organisation had not invested in adequate skills, resources and training, and that the identification, assessment and management of risk and innovation were not a significant part of performance appraisal.

3.17　Of the Board members involved in risk management who responded, over half were unhappy about their Department's management of risk and acknowledged that many areas fell short of best practice. In contrast, only one respondent indicated that they were confident that their Department employed best practice. Board members responded positively to a range of proposals from the project team – judging most to have high potential impact on their Departments' work. These are developed in this report, and cover: embedding risk in decision making; public engagement, openness, transparency and building trust;

identifying emerging risks, contingency planning and crisis management; clarifying the roles of the centre and Departments; leadership; developing the risk management discipline; skills; and accountability.

What are the causes?

3.18   In summary, government risk management is too often judged, both by practitioners and others, to fall short of expectations and best practice. Why is this?

3.19   No government can eliminate risk, nor should it, for almost all human activity involves risk. Indeed, the advancement and the improvement of society has to involve new approaches and processes that may mean new risks. We make continual progress by finding new ways of using resources efficiently; new financial mechanisms ensure better use of the financial capital available; new technologies can bring the opportunity of improving aspects of people's lives. Much of the business of government is inherently risky since it involves complex systems, many factors, and an expectation that government will be a protector or insurer of last resort even in fields where it has no direct responsibility. So it is important to understand how shortcomings in risk handling can arise. These are both internal and external: inadequate processes of decision making and organisation within government that have been exacerbated by changes in the external environment.

3.20   Some of the problems for government arise from inherited structures. The organisation of government in functional Departments has made it harder to deal with cross-cutting risks. BSE was a classic example; so in a different way was Foot and Mouth Disease (FMD), which had a major impact on tourism, as well as on farming. Similar

considerations apply to risks that span international and domestic Departments or parts of a Department.

3.21   Some of the current concerns arise not so much from an increase in risk as from a shift in its focus – three decades ago the main concerns might have been nationalised industries, industrial relations or macroeconomic instabilities. Now government is much more preoccupied with the day-to-day delivery of public services by itself and others, the robustness of the IT and other systems that support those services and potentially improve delivery, and with the regulation of public safety.

The social context within which government works is becoming more demanding…

3.22   The Strategy Unit commissioned MORI to undertake analysis of published material on social attitudes to risk. (See annex 4 for more detail.) This showed that people expect government to be more open about risk issues, and that they seek reassurance from government, but are sceptical of what they are told unless they can clearly see that it is not influenced by vested interests:

- the public wants more openness and independent advice on risk issues. For example, over nine in ten agree with the statement, "The government should be more open about how it makes its decisions". The importance of trust in providing information is crucial and people trust different groups to tell them about specific issues. In each case, the public values independence and will trust pressure groups and "independent" scientists over private companies or the government;

- trust is particularly important when dealing with and communicating uncertainty. Nine in ten people agree with the statement that "When the government is unsure of the facts, it should nonetheless publish what information it does have available". Research also suggests that admitting that the case for or against a particular risk is uncertain is much more likely to be believed than claiming it is risk-free;

- however, qualitative and quantitative research both also indicate the need for reassurance from government. The public wants to know the official line and believes that government has a role in reducing panic and legislating against dangerous risks. For example, 61 per cent believe that "The government should do more to protect people by passing more laws that ban dangerous activities". However, there is also a feeling that action does not always succeed in preventing risks.

3.23   For several decades, academic commentators have focused on the rising salience of risk issues. Ulrich Beck, John Adams, Frank Furedi, Chris Hood, Paul Slovic, Roger Kasperson, Baruch Fischoff, and Ortwin Renn[13] amongst others have each in different ways addressed the fact that while many of the traditional risks (to life, health, economic wellbeing and housing) have been greatly reduced in modern societies, awareness of risk has risen. This is particularly because there is a growing sense that risks can be controlled or are the product of human activity (for example, BSE, CO_2 emissions, and the possible health effects of mobile phones), rather than being effects of fate or random chance.

3.24   A number of broader social trends are also influencing how the government handles risk and uncertainty. These include:
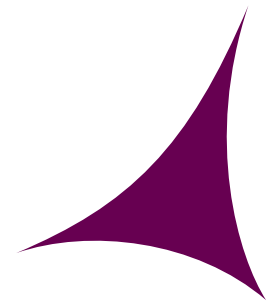
Declining trust in institutions

3.25   Data from MORI (illustrated by Figure 3.2 below) suggests that there are higher levels of trust of the State in Great Britain than in other countries.

Figure 3.2: Trust in the State

Would you say you basically trust the State or not?
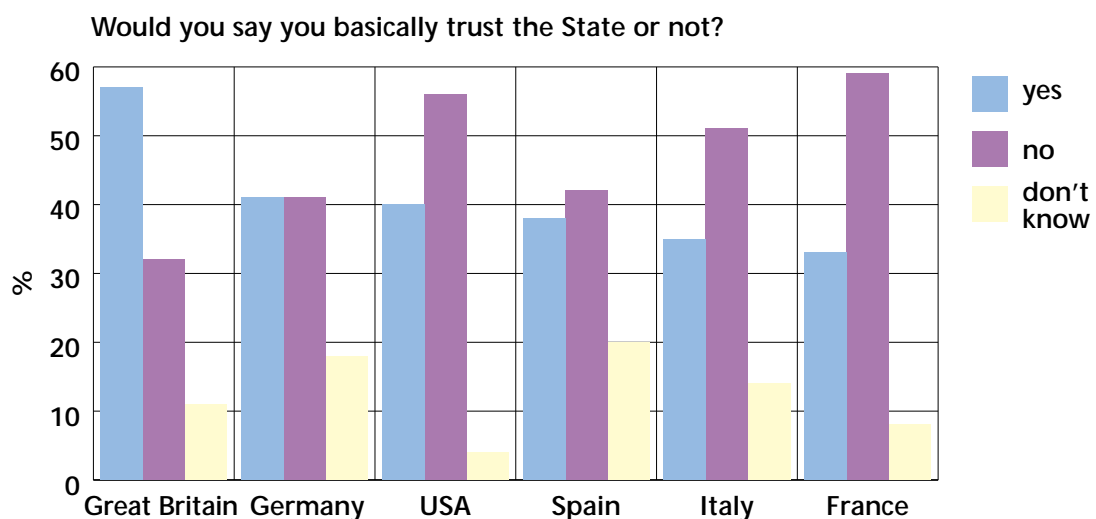
Source: MORI 1997

[13]   See annex 5 for selected references.

3.26   But even so, a very wide range of UK institutions has suffered from a significant drop in trust over the past two decades. For example, the proportion of survey respondents[14] who said they had either "a great deal" or "quite a lot" of trust in Parliament fell from 54 per cent in 1983 to only 10 per cent in 1996. Trust in the Civil Service fell from 46 per cent to 14 per cent over the same period. Since then, those levels have recovered slightly, but only slightly – to 14 per cent and 17 per cent respectively in 2000. This phenomenon is mirrored in other countries. A recent Organisation for Economic Co-operation and Development (OECD) report[15] confirms that "several driving forces have led OECD countries to focus attention on strengthening their relations with citizens including the steady erosion of voter turnout in elections, falling membership in political parties and surveys showing declining confidence in key public institutions". Moreover, the decline in trust internationally has been reported by several academics and commentators, for example through the World Values Survey[16] and the work of Ronald Inglehart on declining respect[17] and on trust, well-being and democracy.[18]

3.27   This is closely related to parallel trends of declining deference. These trends have significant implications for risk management because often risks can only be successfully managed if there is sufficient trust to ensure government can exercise leadership (for example, over measles, mumps and rubella (MMR) or the threat from anthrax).

3.28   The House of Lords Science and Technology Select Committee identified a crisis of trust in society's attitude to science.[19] It reported that "Public confidence in scientific advice to government has been rocked by BSE, and many people are uneasy about the rapid advance of areas such as biotechnology and IT…This crisis of confidence is of great importance both to British Society and to British science."

Rising public expectations of government

3.29   Although the level of public trust in government has declined, expectations of the services government provides have risen. As the standard of service has improved in many parts of the private sector, people expect the same from the public sector. The People's Panel surveys[20] found that half of respondents gave a high priority to increased access to public services at evenings and weekends. A Cabinet Office survey in 1998[21] found that 76 per cent of respondents expected faster services and that 46 per cent expected greater simplicity. And expectations have not been met in the handling of some recent risk issues. A MORI poll in 2001[22] found that 64 per cent of respondents were dissatisfied with the way the government was handling the FMD outbreak and that 38 per cent of the population were unhappy at the government's handling of the MMR vaccination campaign (NOP February 2002).

3.30   Government's drive to improve public services to meet these rising expectations itself carries considerable risks, since reform can involve disruptive changes.

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[14] Source: The Henley Centre.
[15] **OECD,** *Citizens as Partners: Information, Consultation and Public Participation in Policy Making,* 2001.
[16] World Values Survey http://wvs.isr.umich.edu/papers/trust.html.
[17] **Inglehart, R,** *Postmodernization brings declining respect for authority but rising support for democracy* In Norris P (ed.), *Critical Citizens: Global Support for Democratic Government,* Oxford University Press, 1999.
[18] **Inglehart, R,** *Trust, well-being and democracy,* In Warren (ed.), *Democracy and Trust,* Cambridge University Press, 1999 (pp. 88–120).
[19] **House of Lords Science and Technology Select Committee,** *Third Report: Science and Society,* February 2000.
[20] **People's Panel,** *4th Wave Results, Open All Hours,* April 2000.
[21] **Office of the e-Envoy,** *Electronic Government: the view from the queue,* Cabinet Office, October 1998.
[22] **MORI/The Times,** *Political Attitudes in Great Britain for April 2001 (Representative Quota Sample of 1,935 Adults across GB),* 2001.
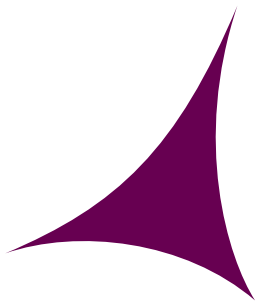
Activism

3.31   There has been a significant growth in the number of individuals or groups willing to become activists, either within organisations or looser networks. Activists and non governmental organisations (NGOs) have been highly effective at focusing public attention, in part through the media, on specific risks – from threats to biodiversity to possible emissions from incinerators. In some cases, they have created a climate of opinion in which a neutral assessment of risks becomes harder to achieve. An influential media, seeking market share and aiming to meet the demands of round the clock coverage, can amplify concerns significantly.

Networks

3.32   A more networked society brings with it more effective transmission of certain kinds of risks (such as computer viruses) and more rapid communication of information about risks.

More diverse sources of information

3.33   Government can no longer expect to be the sole source of information about risks in any area. Diverse media, websites and NGOs can all provide information and advice, often challenging the views of government and professions.

…there are new and unpredictable external risks…

3.34   Advances in science and technology have created novel and highly uncertain risks (such as risks associated with genetically modified (GM) crops, cloning, radiation from mobile phones and computer fraud) often requiring high levels of technical expertise to analyse. Governments are increasingly being asked to assess, communicate and mitigate these risks (for example, through regulation), with relatively little historical experience to draw on.

…and there are greater expectations in terms of corporate governance

3.35   A succession of crises in the private sector has led to greater pressure to improve corporate governance, including the handling of risk. In 1998, the Stock Exchange introduced its Combined Code on Corporate Governance for listed companies[23] and in 1999, the Institute of Chartered Accountants in England and Wales published *Internal Control: Guidance for Directors on the Combined Code* (the "Turnbull Report").[24]

3.36   The provisions of the Turnbull Report have been adapted to the public sector, resulting in Statements of Internal Control (SIC) being introduced by the Treasury in December 2000. The first of these statements are being produced for the financial year 2001/02 and will include: a brief but comprehensive summary of the actual processes in place in each Department; a description of how current initiatives (whether centrally or locally driven) are being taken forward; and, where processes are not in place, plans for addressing gaps. These requirements are already driving improvements in risk management processes in Departments. It is now the case that any Department that does not have, or is not developing, risk management processes will face criticism in the NAO's review of the SIC appended to their accounts.

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[23] **London Stock Exchange Committee on Corporate Governance**, *The Combined Code: Principles of Good Governance and Code of Best Practice*, May 2000.

[24] **Institute of Chartered Accountants in England and Wales**, *Internal Control: Guidance for Directors on the Combined Code* (Turnbull Report), September 1999.

Similar factors affect the private sector…

3.37   The private sector has also faced a wider set of pressures to modernise governance and to take greater responsibility for risks that arise from their activities (polluter pays, product liability, environmentally friendly packaging). The Economist Intelligence Unit (EIU) survey, *Enterprise Risk Management*,[25] highlights:

- trust issues, with "shareholders increasingly holding boards of directors and senior executives to higher accountability standards, prompting the adoption of more systematic and uniform risk management";

- external pressures for accountability. "Outsiders are pushing companies to manage risk more comprehensively and systematically. For example, regulators in many countries are pressing firms for better risk reporting and for more integrated and comprehensive risk management"; and

- new and unfamiliar risks. "Many companies perceive a rise in the number and severity of the risks they face. Some industries confront unfamiliar risks stemming from deregulation. Others worry about increasing dependence on business to business information systems and just-in-time supply/inventory systems. And everyone is concerned about the emerging risks of e-business – from online security to customer privacy. With such risks, many are searching for a way to identify risks more comprehensively and evaluate them more precisely."
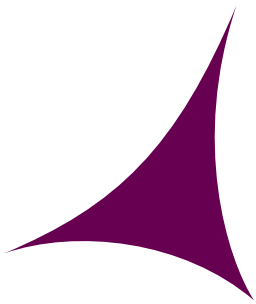
…and other governments around the world

3.38   Other governments have faced similar pressures and are developing new tools for managing risk. In Canada, the government's Integrated Risk Framework cites:

- "The need for more affordable and effective government combined with trends towards revitalizing human resources capacity and redesigning service delivery are dramatically affecting the structure and culture of public organizations. The faster pace and need for innovation, combined with significant risk-based events from computer failures to natural disasters, has focused attention on risk management as essential in sound decision-making and accountability"; and

- "Increased demand by parliamentarians for greater transparency in decision-making, better educated and discerning citizens, globalization, technological advances, and numerous other factors" means that "adapting to change and uncertainty while striving for operating efficiency is a fundamental part of the Public Service. Such an environment requires stronger focus on integrated risk management practices within organisations in order to strategically deal with uncertainty, capitalize upon opportunities, and inform and increase involvement of stakeholders (including parliamentarians), to ensure better decisions in the future."

3.39   These factors are shaping how risk management is developing, and similar issues are acknowledged in Australia and New Zealand, where a standard model for handling risk has been developed. In the USA and many Scandinavian and European countries, developments are being driven by the events of 11 September 2001 and the collapse of Enron and WorldCom.

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[25] **EIU**, *Enterprise Risk Management – Implementing new solutions*, 2001.

Government is responding to the challenge…

3.40   Government has already responded to many of these challenges. For example, in response to the BSE crisis:

- the Food Standards Agency was established as a public watchdog – at arm's length from Ministers – to protect against risks to public health and to further the interests of consumers;

- the Agency was given the power to publish information and advice to the government about food safety issues – without needing to seek Ministers' agreement first; and

- the government proposed a series of measures to strengthen its risk governance and communication strategies. These measures included more widespread and effective training, more research into how the public perceives and responds to risk, better interdepartmental working and a more robust programme for handling risk and uncertainty in public policy.

3.41   And in response to concerns about biotechnology and genetic engineering, a number of Departments have also set up structures such as the Agriculture and Environment Biotechnology Commission (AEBC) to ensure the better engagement of stakeholders in discussions about public risk. The Research Councils have undertaken web-based public consultations, and taken other steps to strengthen public and consumer interest in research strategy and development.

3.42   The government has also set up more generic arrangements:

- individual Departments, agencies and projects are in many cases using or introducing risk management systems, in response to the need for robust SICs. A number of Departments, such as the Department for Environment, Food and Rural Affairs (DEFRA), have made a start in developing overall strategies in this area, building on requirements to publish risk management framework documents;

- the Civil Contingencies Secretariat (CCS) in the Cabinet Office was established in July 2001. It is a co-ordinating body and centre of expertise set up to improve the resilience of central government and the UK. Resilience is defined as "our ability to handle disruptive challenges that can lead to or result in crisis"; and

- the Prime Minister's Delivery Unit (DU) was set up to ensure that the government achieves its delivery priorities during this Parliament across the key areas of public service (health, education, crime and asylum, and transport), but has yet fully to address risk management.

But actions are not so far sufficient to deliver benefits across the range of government's business…

3.43   These steps remain partial and somewhat uneven. There is plenty of good practice but the coverage is not comprehensive, and is not always at the right levels. In particular, there is a concern that some of the application of risk management concepts has been mechanistic, and not integrated into decision-making at the highest level. There is not always the demand for risk management, for example, demand for rigorous, timely and wide-ranging risk assessment from Ministers and senior officials. There is room for more visible and ongoing commitment to this and for its communication to staff at all levels. In addition, there is scope for strengthening incentives for effective risk management, for example by linking them to greater financial or management autonomy.
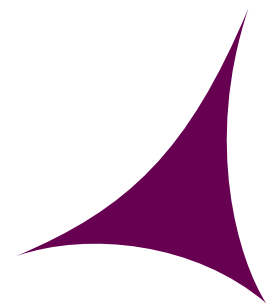
Aims

3.44 The aims of a more fully developed approach to risk management, and the measures by which their success should be judged, include the following:

- fewer surprises to the public and government, and better managed impact of unexpected events (less anxiety and panic, and lower costs);

- higher levels of safety and confidence (less loss of life and injury);

- fewer direct costs resulting from failure to anticipate risks, for example from failed projects such as the Passport Office processing system (£12.6 million) or Benefits Payment Card (£127 million). The cost of addressing crises can be very high indeed. For example, the direct cost to the public and private sector of handling FMD is estimated to be over £8 billion,[26] and some £2.5 billion was spent on BSE-related schemes between 1996 and 1998. The Office for Government Commerce's (OGC) new Gateway process, involving risk assessment, is estimated to deliver up to £500 million annually once full roll-out of the programme is achieved in 2–3 years time;

- better understanding of risks and trade-offs between different options by public and government (for example, better decisions on pensions, smoking and diet); and

- better balance of risk and opportunity – good risk management can provide the confidence necessary for taking innovative decisions (limiting risk through pilots or careful management of project risks). For example, the Home Office used risk assessment to reduce the prison population through electronic tagging so that by May 2000, 21,000 prisoners had been released early in this way).

Further responding to the challenge

3.45 In order to achieve these benefits, this report makes the case for the systematic development of the government's approach to handling risk. Though the business of each part of government is unique, and the way they handle specific risks will be unique in many respects (such as managing the threat of an economic downturn, or a major business change involving IT), we have identified a number of common elements that need to be developed. We have structured these as in Figure 3.3.

Figure 3.3: Strategy Unit framework for handling risk and uncertainty: improving government's capability


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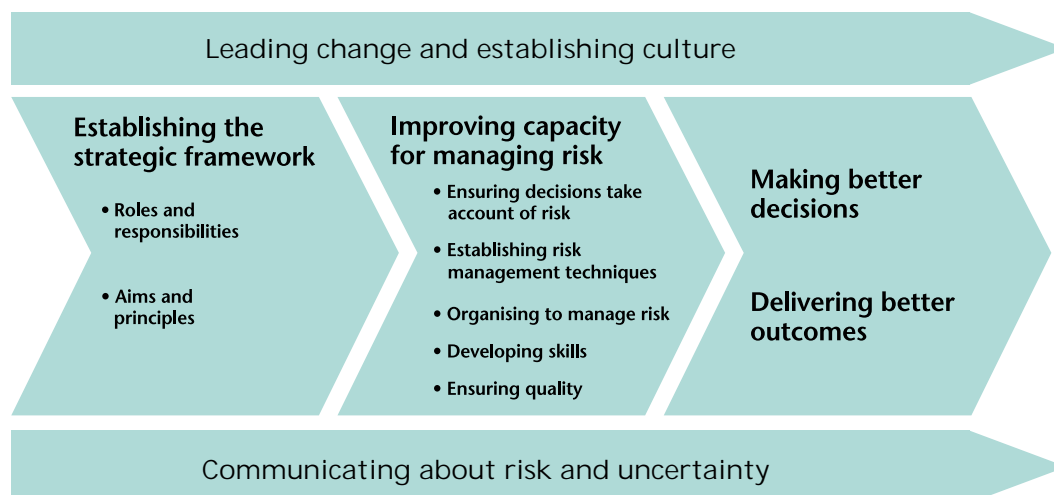
[26] **NAO,** *The 2001 Outbreak of Foot and Mouth Disease, Report by the Comptroller and Auditor General,* June 2002, p.13.
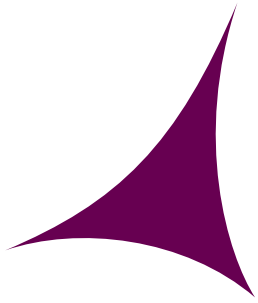
3.46   These elements have driven the report structure and the recommended programme of action to establish:

- a clear strategic framework for government's handling of risk, including its roles and responsibilities *(chapter 2)* in handling risks to the public and to the delivery of its business; the aims *(chapter 3)* to be achieved through good management of risk; and the principles *(chapter 5)* used to guide its actions in handling risk to the public;

- arrangements to ensure that all major decisions about programmes and policies take explicit account of risks and opportunities *(chapter 4.1)*;

- systems, processes and incentives to ensure that risks are well managed *(chapter 4.2)*;

- effective organisation to ensure that risks are dealt with where they can best be managed *(chapter 4.3)*;

- skills developed widely amongst government decision makers and advisers, and amongst supporting experts *(chapter 4.4)*;

- clear quality standards and a quality assurance approach *(chapter 4.5)*;

- effective communication of the approach to handling risk and uncertainty, so that the public will be better informed about risks, their consequences and trade-offs and so better able to make choices *(chapter 5)*;

- crucially, top level leadership, to drive the improvements we recommend, and to foster a culture that fully supports well managed risk taking *(chapter 6)*; and

- a clear aim of improving the quality of decisions and achieving better outcomes *(chapter 7)*.
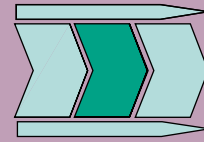
4. IMPROVING CAPACITY

Every aspect of government's work involves some risk: policy making and decision taking; action and implementation; regulation and spending. And there is an expectation that government should manage these risks well, to cut waste and inefficiency, and reduce unanticipated problems and crises that undermine trust. To deliver the expected benefits fully, a systematic and explicit approach is required, integrated into key decision processes.

Government needs to develop its capacity to handle risk, by:

- ensuring that decisions take account of risk *(chapter 4.1)* – embedding risk handling in the decision processes;

- firmly establishing risk management techniques *(chapter 4.2)* – ensuring that the underpinning tools and methods of risk management are established and applied;

- organising to manage risk *(chapter 4.3)* – making sure that responsibility for handling risks is with those who can best manage them; that information flows support this; and that the risk management improvement programme is well managed;

- developing skills *(chapter 4.4)* – making sure that those involved in decision making are equipped to give due weight to risk issues, and that they are supported by professional expertise; and

- ensuring quality *(chapter 4.5)* – through application of standards and benchmarking.

The recommended approach recognises the variety of risk (for example, ownership of a specific risk may either be clear and its impact bounded or it may cut across others' interests) and the need to handle risks appropriately (actions need to be proportionate; unthinking application can lead to unnecessary bureaucracy and delay, so there is a need to tailor the approach to the circumstances).
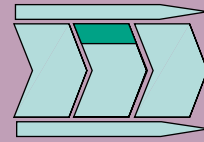
4.1 ENSURING DECISIONS TAKE ACCOUNT OF RISK

Summary

At each level of decision making (strategic, programme, operational) the nature of the risks and the depth of uncertainty will differ. However, a common approach can be taken. Risk is often an implicit consideration, and the approach to dealing with it is too often unstructured. An *explicit, systematic approach* is recommended in order to improve the quality of decisions and delivery, to provide an audit trail of risk judgements, and to join up risk management actions within and across Departments.

Risk is not yet fully embedded in core government decision processes, including policy making, the Spending Review, business planning, programme management, service management, and project management. Although formal procedures exist in some areas, there are particular weaknesses in risk analysis in the policy phase of the process of policy development and delivery.

Policy making should include a standard consideration of risk, perhaps linked to the *Office for Government Commerce (OGC) Gateway Review process* – to provide a thorough review before proposals move into full development. In the *Spending Review*, risk guidance should be enhanced and risk assessments should be attached to Public Service Agreements (PSAs). Handling risk has been developed further in other processes, such as project management, but there is still scope for better use and development of existing guidance.

Risk issues differ according to the level of decisions to be taken...

4.1.1 Effective government depends, among other things, on the ability to:

- understand trends, opportunities and challenges;

- use this understanding to underpin decisions and make resource allocations to back them;

- respond quickly to changing circumstances and crises; and

- identify and prepare for a range of strategic futures.

4.1.2   These considerations are relevant at three levels. The strategic level includes major policy decisions and concerns the government's political contract with the electorate and the coherence of its overall programme. External factors (including oil supply crises, weather, disease, wars and personalities) are likely to be critical to this contract, as are some endogenous factors (e.g. failures in key public services). At this level there will often be fundamental uncertainties surrounding decisions (a powerful foreign leader may not yet have made a key decision; or the impact of natural events may be unpredictable).

4.1.3   The programme level is the level at which most policy is made. Decisions are made on procurement/acquisition, funding, organisation, establishing projects, service quality and business continuity. Uncertainty will be bounded at this level, as strategic parameters will have been set, and risks (such as unexpected service demand, poorly specified contracts, setting over-ambitious targets, budget cuts, widespread industrial action or computer failure) are more likely to come from internal rather than external sources.

4.1.4   The operational and project level is where services are delivered. Here, an even clearer direction will have been set, and the key decisions will be on technical issues, resource management, managing schedules, managing providers/partners and infrastructure. Risks (for example, in delivering a project to cost/time/quality,

recruiting sufficient skilled staff, getting value for money from a contract) are more likely to be internal at this level, except where a project is being delivered by a partner.

…but a broad common approach can be taken at all levels

4.1.5   Although each of these levels has distinct characteristics, some common approaches are necessary at all three:

- risks have to be identified and assessed, with responsibility and accountability allocated and clear;

- judgement is needed about their importance;

- mitigation and contingency plans may need to be considered;

- the impact of actions on risks need to be reviewed and reported; and

- the information and decisions need to be effectively communicated.

4.1.6   At the higher levels risks will tend to be less easy to spot, more disruptive, less easy to quantify, and often less stable. A broader range of inputs is likely to be needed to identify risks, assessment is likely to be based more on judgements than measurable facts, and mitigation and contingency plans are likely to be less robust. The consequences of this, for example that strategic issues require the use of "horizon scanning" or similar techniques to spot risks, are explored further in chapter 4.2.

Risk is not yet fully embedded in core government decision processes

4.1.7 Decisions will very often be taken in the context of one of the core processes of government. Examples include:

- the policy making process and the Spending Review (strategic level);

- business planning, programme management (programme level); and

- service management, project management (operational/project level).

4.1.8 These are already supported in some measure by tools such as investment appraisal and Regulatory Impact Assessments (RIAs). Guidance for these processes already tends to refer to risk. But this can sometimes not be well developed, and is not based on any common model. Some Departments have already integrated risk assessment into many of their planning processes. However, practice is uneven, and crucially may not be well integrated in the initial development of policy options and in policy decision taking. This confirms the findings of the NAO report, *Supporting Innovation*,[27] and the PAC's *Managing Risk in Government Departments*,[28] that managing risk needs to be more clearly an integral part of the way government's business is done. The NAO has also highlighted the need for Departments to take greater account of the identification and management of risk in the development and implementation of policies.[29]

4.1.9 Although awareness is growing of the need to include risk in decision making and formal procedures such as RIAs exist in some areas, the core business processes do not consistently give sufficient weight to analysis of risks. Risk can still often be seen as a separate issue. Departmental Board members commented that although progress had been made in some areas, for example in "change management projects, investment analysis and business cases" its "application appears patchy" and "in policy areas it is often not systematic, or even explicit". Consideration of risk "ought to be a key feature of better policy making", and ought to be done more explicitly. "Risk is no doubt addressed implicitly in many of these processes, but cannot then be reviewed or compared for consistency of approach."

4.1.10 Some key issues have emerged:

- early risk identification and assessment at policy option and development stages;

- a wider scope of risk assessment, including "soft" areas such as public perceptions and stakeholder views, the stability of the external environment, and political risk; as well as the more quantifiable risks (such as financial or economic risk); and availability of relevant and timely information; and
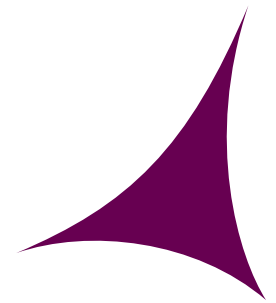
- continuing reassessment of risk and opportunities.

4.1.11 The lack of explicitness about risk issues and their management is a key concern. This undermines accountability and means that there is often no auditable trail of judgements about risks, making it impossible continuously to review risk judgements. This also inevitably creates difficulties for Departments when they are held to account by the PAC. The PAC has commented on this in several reports[30] and this may well be holding back innovation and service improvements by undermining confidence that innovative approaches can be well managed.

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[27] op. cit.
[28] op. cit.
[29] **NAO**, *Modern Policy Making: Ensuring Policies Deliver Value for Money,* November 2001.
[30] Reference to this is made in the PAC report, *Managing Risk in Government Departments,* op. cit.

There are some positive developments…

4.1.12 Some tools have been developed to embed risk management: RIAs require regulatory proposals to take account of risks; Departments have developed and published Risk Management Frameworks, which seek to establish comprehensive approaches; and the need to produce Statements of Internal Control (SICs), which will be prepared for the first time with accounts for 2001/02, are driving further improvements in processes. Furthermore, the Treasury is now undertaking a major exercise to follow up progress since the NAO survey, evaluating the effectiveness of work already done and identifying areas where further support and guidance are required. A report based upon the findings of this survey is expected in autumn 2002.

…but there are further barriers to overcome

4.1.13 The main barriers to effective assessment of risk in decisions include:[31]

- a lack of planning – decisions often need to be made quickly, and risk assessment will be compromised if information is not readily available, and issues anticipated;

- pressure on resources – encouraging planning on optimal assumptions;

- short planning horizons – traditionally Ministers have been more focused on announcements than on longer-term implementation and delivery – when risks might be realised (though this is changing with the current emphasis on delivery);

- lack of good quality, relevant information;

- limited in-house skills, experience and tools;

- the real difficulty of assessing and balancing risks and opportunities, and weighing, for example, financial versus other risks;

- fear of failure acting as a disincentive to innovation; and

- in some cases political anxiety about explicit acknowledgement of risk.

4.1.14 Many of these factors combine to create a lack of sufficient demand for risk assessment.

These barriers need to be addressed in practical ways…

4.1.15 They emphasise the need to ensure that there is a good current assessment of risks and a supporting knowledge base (see chapter 4.2); that decision makers and their advisers are fully equipped and incentivised (see chapters 4.2 and 4.4), and that the culture supports well judged risk taking (see chapter 6).

4.1.16 A further important way of ensuring that the right information is available at the right times is to embed risk thinking clearly into existing planning and operational decision processes. This is starting to happen in some other countries, for example in New Zealand since 1997/98 "chief executives in the public service have been expected to include risk management in their strategic and operational planning, to take a proactive approach and to foster organisational cultures towards these ends. As part of new work to enhance the New Zealand government focus on outcomes the State Services Commission is currently developing a planning framework that balances strategies, capabilities and risk management".[32] And in Canada their

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[31] as referenced in **CMPS**, *Better Policy Making*, November 2001 and the Strategy Unit *Risk Project Board Survey* (see annex 3).
[32] Information provided to SU by the Department of the Prime Minister and Cabinet, Wellington, New Zealand, 11 March 2002.

Integrated Risk Management Framework sets out, for the whole of government, how risk should be factored into decision processes.

4.1.17 To address this issue in the UK, we propose that government should aim for all major decisions to be informed by a systematic appraisal of risk and opportunity.[33] Our overall recommendation *(rec.1)* is that there should be an explicit appraisal of risks, as well as benefits and costs, in all the main business processes (including the Spending Review, policy making, business planning, project and programme management, performance management and investment analysis), where this does not happen already. This should provide the material for consideration of risks on a regular basis by Departments' Management Boards. This is in line with the SIC initiative which is already leading to the need for Boards, or delegated structures reporting to the Board, to regularly consider risk. (Departments might consider appointing a Board member to be responsible for risk issues being covered adequately, while non-executive members would have a key challenge role.) For example, in the Ministry of Defence (MoD) Strike Command, the process which is emerging for risk management is one of risk champions and owners at Board level to enable consideration of risk on a monthly basis, teamed with a formal review of the risk register every six months and active involvement of the Audit Committee, which is chaired by a non-executive director. This is becoming a common approach.

4.1.18 We therefore recommend *(rec.1a)* that strategic risks should be regularly considered by Departmental Boards, and the Civil Service Management Board (CSMB) as appropriate. The responsibility for handling and reporting risk should be aligned with accountability for delivery. Non-executive directors should play an important part in helping to identify strategic risk and provide an independent perspective on the level of risk faced and the adequacy of measures to address risk.

4.1.19 The following sections set out specific implications for action.
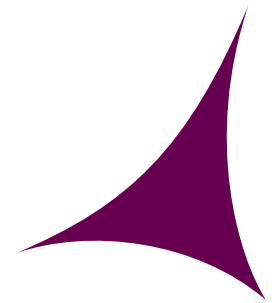
Policy making

4.1.20 Policy making is the process by which governments translate their political vision and priorities into programmes and actions to deliver outcomes. Failure explicitly to consider risk management in policy making and decisions can lead to serious problems, with costs and impact being borne by the public, or to opportunities for high risk/high reward options being passed over through lack of confidence in handling the threats. However, in many areas, there is at present no structured and enforced requirement to consider risks. Some very high priority policies have been implemented without adequate attention to risks, often leading to very costly exercises to put them right.

4.1.21 Some risk is unavoidable. Life is by its nature complex and messy and no formulae exist for making the business of policy making and implementation wholly predictable.

4.1.22 However, a more systematic approach to policy making can significantly reduce unnecessary failures. We therefore recommend *(rec.2a)* that policy making should include a proportionate and wider-ranging consideration of risk, to provide an adequate review before proposals move into full development. The Office for Public Services Reform's (OPSR) initiative to Improve

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[33] In its report, *Managing Risk in Government Departments* (op. cit.), the PAC also looks at this and recommends that the Treasury considers the need for explicit consideration of risk in the facility for an Accounting Officer to take direction from a Minister. In response, the Treasury has agreed to do so in the review of the Accounting Officer Memorandum.

Programme/Project Delivery (IPPD) will make a significant step in this direction by developing an assurance process to support Departments in undertaking adequate delivery planning before policy announcements are made. Further, we recommend *(rec.2b)* that a more systematic requirement to consider risks should be implemented, which might be based on the OGC Gateway Reviews (see annex 6), though the specific way forward should be subject to further discussion with Permanent Secretaries. Several Departments have responded positively to this in principle, but with some concerns around the level of resource required, and the need to avoid duplication with other processes (such as RIAs). Gateway Reviews were introduced in 2001 as checkpoints in the life of projects and programmes. They provide a thorough review, and sign-off, before work is allowed to proceed to the next stage of development (See Figure 4.1). Gate Zero, the first review, is a strategic assessment, checking that there is a sound business case for proceeding with the proposed change.

4.1.23 We recommend *(rec.2c)* that this should include a sign-off that: there has been adequate identification and assessment of risk across the range of policy options; that any mitigation and contingency plans are sound;

and that any assumptions should be reviewed and formally tested against future scenarios. This could be incorporated in existing assessments where these exist, such as the RIA and Investment Appraisals. These are externally reviewed and, if developed, would fulfil this requirement, avoiding the need for multiple reviews of the same proposal. It may also be possible, in carrying out the Gateway Review, to draw on, for example, the Regulatory Impact Unit's (RIU) Policy Effects Framework or the Integrated Policy Assessment tool being piloted by the Office of the Deputy Prime Minister/ Department for Transport (ODPM/DfT) (which allows appraisal of policies against economic, social and environmental impact and distributional categories). This explicit, shared process of review should ensure that Ministers are given open and honest advice about the risks entailed in decisions, and help to make better quality decisions, balancing the threats and opportunities in the context of the government's risk tolerance in the relevant policy area.

4.1.24 Each Gateway Review should be underpinned by an explicit assessment of the risks and opportunities of proceeding, informed where necessary by the views of all relevant stakeholders. This should involve risk/hazard identification, assessment, and

Figure 4.1: Policy development and delivery - assessing risk through OGC Gateway Reviews
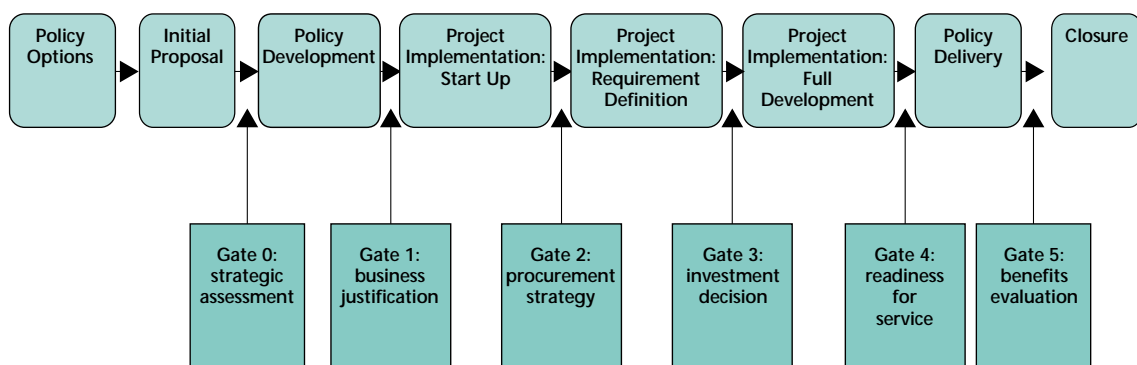
judgement of risks drawing on empirical evidence and the public context, and development of options for managing the risks (mitigation actions and contingency plans). Figure 4.2 illustrates this at the policy development stage, where this is likely to be an interactive process, with policy options developed, risks identified and assessed, and policy options refined, leading to further consideration of risk. Risk assessment is likely to combine quantitative factors with softer judgements, such as the social aspects of risk. This approach is recommended in, for example, the Department for the Environment, Food and Rural Affairs' (DEFRA) *Guidelines for Environmental Risk Assessment and Management*.[34]

4.1.25 The challenge function at this stage should involve a range of disciplines including policy makers, risk experts, finance, auditors, and service deliverers. The involvement of auditors (probably from internal audit) could be particularly valuable as an independent assessor with professional expertise on risk (and could, for example,

feed in the NAO approach to handling risks to value for money set out in *Modern Policy Making: Ensuring Policies Deliver Value For Money*).[35]

4.1.26 The NAO has also suggested that a guide on risk for Departments' internal auditors, might be developed along the lines of its guide *Getting Value for Money from Procurement*.[36]

4.1.27 We recommend *(rec.2d)* that these developments should be supported by supplementary guidance on risk, issued to policy makers to follow up the Cabinet Office's Guide to *Better Policy Making* and accessible through the Corporate Development Group's (CDG) web-based Policy Hub.[37] This guidance should also reflect the guidance on RIAs (which is currently being revised).

4.1.28 On its own, guidance of this kind risks being ignored. It is therefore essential that policy makers receive support in using such tools in real-world situations.

Figure 4.2: Risk judgement in policy making

Risk Identification
Empirical
– Research
– Incident occurrence
Imaginative
– Horizon scanning
– Experience

Risk Assessment

More Measurement… More Judgement

• Trends, statistics

• Technical quantification

• Evaluation evidence

• Values, ethics

• Public views of acceptable risk

• Social, cultural & political issues

• Wider economics and International policy priorities

Development of Policy Options
Judgements
– Selection of options
– Cost/benefit trade off
Consultation and engagement

[34] Published jointly by DEFRA and the Environment Agency, August 2000.
[35] op. cit.
[36] **NAO/OGC**, *Getting Value for Money from Procurement – How Auditors can Help*, 2001.
[37] Policy Hub is a web-based resource to support evidence-based policy making. It carries examples of successful policy making and delivery, and supports the exchange of information and ideas through innovative "knowledge pools" designed to break down organisational and geographical barriers and improve collaborative working within and beyond government.

4.1.29 To ensure that the quality of information used for risk assessment is good, we recommend *(rec.2e)* that policy makers make increasing use of knowledge pools, linked to the Policy Hub (currently covering Strategic Futures, Excellence in Policy Making and Area Based Initiatives). The risk content of these pools should be enhanced, drawing on examples of good practice around government.

The Spending Review

4.1.30 The Spending Review results in agreed objectives and targets, PSAs, and, from 2002, supporting Delivery Plans for all Departments; and spending plans across government. These plans cover a three-year period. The guidance given to Departments clearly details how they should set out the analysis of resources required and the basis of their targets. The link between resources and outcomes has been dramatically improved in recent years, and is likely to lead to greatly improved value for money. But risk is still an underdeveloped area, with little mention in the guidance. Although plans are required to mention risk, and the Ministerial Committee on Public Services and Public Expenditure (PSX) considers these in reaching decisions, there is no required content and structure for risk information, and the quality of debate on risk is likely to be much less well informed than it could be.

4.1.31 This matters because plans may not strike the best balance of risk and opportunity to improve services, both within a Department and across government as a whole. It will also be less easy to spot risks that cut across Departmental boundaries ("cross-cutting risks"), because there is no common approach or format to aggregate them. And the baseline recording of risks will not be sharply focused.

4.1.32 We recommend *(rec.3a)* that the Treasury should further develop the approach to risk in the Spending Review. This should involve developing the guidance for Departments before the 2004 Spending Review and issuing specific guidance on assessing risk to the Treasury Spending Teams (similar to recent guidance on Deliverability) for use in finalising delivery plans in autumn 2002.

4.1.33 The Treasury should support Departments to ensure that plans, produced by Departments as part of the 2002 Spending Review, include enhanced coverage of risk and are developed in the context of resilience to threat. The Prime Minister's Delivery Unit (DU) has already been developing this approach for risks to key objectives on health, transport, education and crime. It is recommended *(rec.3b)* that the Treasury, DU and Civil Contingencies Secretariat (CCS) should work together with Departments in autumn 2002 to ensure that their delivery plans adequately address risk, balancing the need to invest in resilience with the pursuit of other objectives; and that cross-cutting risks are identified and accountability for action established. Monitoring arrangements should track risk assessments and progress with mitigation plans, reporting to the PSX cabinet committee.

4.1.34 We also recommend *(rec.3c)* that for the 2004 Spending Review:

- there should be an increased, mandatory requirement for risk assessment (perhaps linked to OGC Gate Zero) to be fulfilled before PSAs are published and funding is released. Risk assessments should include an assessment of the resilience of service delivery and potential threats;

- incentives could be introduced to encourage good quality risk assessment, for example this could lead to increased autonomy and delegated financial authority. More radically (perhaps for 2006) this could be linked to mutual (or "captive") insurance arrangements similar to those introduced for public sector bodies in Australia (operated by Comcover), or by the NHS to cover clinical negligence risks; and

- the Treasury should consider whether a more explicit portfolio approach to risk might be taken in the 2004 Spending Review – with the outcome being a mix of high risk/high return objectives and lower risk areas with less challenging service delivery targets. Better risk information would also enable a more structured approach to cross-cutting risks, with the Treasury being well placed to facilitate discussion between Departments. This could be in addition to the current cross-cutting reviews which look in depth at a small number of issues.

Business planning

4.1.35 We recommend *(rec.4a)* that business planners make full use of the Cabinet Office guide, *Your Delivery Strategy: a Practical Look at Business Planning and Risk*.[38] This provides specific guidance and incorporates other sources such as the Treasury Orange Book. The CDG should promote use of the guide through the Business Planners' network.

4.1.36 Delivery plans need to include better quality risk management plans. Even for the government's most important objectives these have recently been found wanting. When the DU first received plans for key programmes on education, health, crime and

transport in 2001 the information provided on risks was much less developed than other parts. So we recommend *(rec.4b)* that Departments should review the quality of risk information in their plans. We recommend *(rec.4c)* that the format of the DU plans should be further developed to show detail of risks, their likelihood and impact, and mitigation and contingency plans. This format should then be made widely available to Departments as a model.

Project and programme management

4.1.37 Risk management is perhaps best developed in the area of projects and programmes. The best managed projects have moved well beyond passive logging of risks and have very active approaches to identifying, assessing and managing risks. For example, the NAO reported positively on the Home Office Electronic Tagging Scheme, where there were extensive risk management procedures such as evaluation of key risks, clear communication, and contingency plans that were regularly tested.[39] And there is good guidance available from the OGC, for example in *Managing Successful Programmes*,[40] *Managing Successful Projects* (the PRINCE 2 manual),[41] and *Management of Risk: Guidance for Practitioners*.[42] Even so, the NAO and PAC have reported on risk management weaknesses in a range of projects (in particular in reports on the Passport Office, and IT projects generally), and the consequences will often be felt directly by the public. We recommend *(rec.5)* that Departments follow the OGC guidance on managing risk in projects and programmes and apply this guidance to their Gateway Reviews, where risks must be weighed up and

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[38] **Cabinet Office and HM Treasury**, *Your Delivery Strategy: a Practical Look at Business Planning and Risk*, September 2001.
[39] **NAO**, *Supporting Innovation*, op. cit.
[40] **OGC**, *Managing Successful Programmes, Version 2*, April 2002.
[41] **OGC**, *Managing Successful Projects, Version 2*, April 2002.
[42] op. cit.

plans to manage them signed off before moving to the next project stage.

4.1.38 The need for this to be done properly, and the scale of improvement needed, even in this relatively advanced area, is demonstrated by a recent study of OGC Gateway findings. This found that 63 per cent of Gateway Reviews had identified weaknesses in risk management (the second most significant problem area, after skills shortages), and little evidence of lessons being learnt. Key issues remain around: proactive review of risks, particularly in anticipating those external factors which may seriously damage delivery prospects; and contingency planning (where projects need to have fallback arrangements including, for example, arrangements for parallel running of existing and new systems, with an option to revert to existing systems if necessary).

Investment appraisal

4.1.39 Decision making needs to be underpinned by investment appraisal focused on benefits, costs and risks, explicitly identifying and assessing risks and developing risk mitigation plans for priority risks from conception to appraisal and into execution. This approach needs to be taken as part of all key submissions (Spending Review, business planning, policy development and delivery, programme appraisal) and addressed at all levels. We recommend *(rec.6a)* that pro formas or templates are used by Departments to help with this, which could build on RIAs. Using post-project evaluations (PPEs) as a means of formally reviewing risk outcomes at the operational level could be beneficial. We recommend *(rec.6b)* that cost benefit analysis be developed to include explicit risk assessment as a significant element of option appraisal. Tools should handle subjective risk assessments adequately, not just harder

evidence. Decisions need to deal with gaps between perception of risk and objective measures (such as the risk of rail versus road travel). In the short term, decisions need to acknowledge perceptions, but efforts should be made to close the gap over the medium/long term. We recommend *(rec.6c)* that the Treasury's guide to investment appraisal (known as the "Green Book")[43] should be developed to deal with these issues. The study team has contributed to the revised edition of the Green Book, which has recently been published for consultation by the Treasury.

Operational management

4.1.40 A recent internal study commissioned by the Treasury suggests that effective managing of risk in operations management is being held back by a number of factors:

- Government Accounting guidelines on risk management and risk financing are not generally being implemented;

- risks and likely costs involved are not adequately identified;

- there is no readily accessible mechanism for pooling risk within government;

- organisations have little incentive to capture loss data. Any available data is poor quality and incomplete; and

- operational managers in government do not have financial incentives to improve risk management.

4.1.41 Operating units in government do not usually carry the cost of losses from insurable risks (such as property risks or liability risks) – these are borne corporately by government (rather than using commercial insurance – as government as a whole is large enough to stand the losses). This undermines incentives to manage these effects properly. Large

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[43] **HM Treasury**, *Appraisal and Evaluation in Central Government*, 1997 (the "Green Book").

commercial organisations commonly set up their own dedicated insurance companies ("captives") in order to ensure that the incentives exist for good risk management but that they do not have to pay market premiums. The Treasury study raises the option of a pilot to explore use of these risk pooling arrangements by government. They estimate that the potential savings across government as a whole could be as much as 0.3 per cent of operating revenue, i.e. £640 million pa. We recommend *(rec. 7)* that the Treasury should consider running a pilot of the use of captive insurance arrangements in government.

Likely impact of recommendations in this chapter

4.1.42 The majority view of the Board members consulted by the Strategy Unit was that implementing many of the recommendations in this chapter would have a high potential impact for their Departments (see annex 3). In particular, there was general agreement on the importance of all major decisions being informed by a systematic appraisal of risk and opportunity. Many replied that progress had already been made in this area but as one commented "it needs to be applied systematically to all decision making processes and ought to be a key feature of better policy making".

4.1.43 On the same subject another Board member added, "This is a key part of the Department's developing risk management strategy. Risk assessments, which include

consideration of costs and benefits, will be required at corporate/strategic level and operational level".

4.1.44 In order to be sure that progress is being made and benefits are being delivered, we recommend *(rec.8)* that there should be a full review of the position after a specific period. This will need to be underpinned by monitoring and evaluation arrangements, as an integral part of the recommended improvements. This should help carry forward the PAC's conclusion that: "The Cabinet Office should carefully monitor Departments' implementation of their risk frameworks, assess their impact in improving risk management and seek corrective action by Departments to address deficiencies". We agree with the need for a central role of this sort, to drive change forward more uniformly across the range of government business, though as discussed later (in chapter 4.3) not necessarily either based in the Cabinet Office, or centred specifically on risk frameworks.
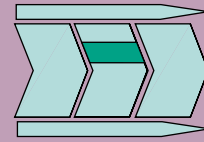
4.2 ESTABLISHING RISK MANAGEMENT TECHNIQUES

Summary

The use of risk management techniques in government has been developing along a similar path to the private sector – from audit/finance and health and safety, to operational management and projects, and finally to strategic areas.

There are a number of drivers of change including the focus on achieving outcomes and improving performance, which inevitably turns attention to the risks of not achieving targets; and requirements to demonstrate adequate control systems.

A base for progress has been established, with many pockets of good practice and emerging guidance. But all aspects of managing risk (identification, evaluation and assessment, mitigation and contingency action, review and communication) can be improved. The range of guidance should be reviewed, brought together, and simplified where possible to provide a common standard. This should build on the findings of this report, ensuring a shared approach to handling risk in government.

There are particular gaps at the strategic level, where practice is less developed. We consider developments in horizon scanning, contingency planning, crisis management, and building resilience.

Important common issues are the imaginative use of experience (as opposed to mechanistic process application), and a more systematic approach to softer areas of risk – including public perceptions, strategic fit, and reputational risk.

Risk management has been developing…

4.2.1   Explicit risk management is a relatively recent phenomenon outside certain specialised areas. It developed earlier in the financial sector (insurance, banking), the military, and in audit and health and safety functions. But it is now developing steadily as a mainstream management activity across both public and private sectors. Risk has moved from being seen as a technical subject to being viewed as central to managing the whole organisation. Our study combined with other studies of risk management in government, and the Economist Intelligence Unit's (EIU) survey of the private sector, suggests the common path in Figure 4.3.

4.2.2   There are strong parallels with other disciplines such as financial management and project management, which have become increasingly seen as necessary mainstream management skills (albeit supported by

professional experts). In each of these areas the benefits of a systematic approach are well established and widely recognised.

4.2.3   The use in government of a systematic approach to risk management has developed steadily in recent years. It has always been implicit in the work of government. And in some Departments explicit risk management techniques have been used for many years. The system in the Health and Safety Executive (HSE) has evolved in the course of undertaking its own statutory responsibilities and in advising and assisting the Health and Safety Commission, for example in implementing policies on modernising health and safety legislation.[44] And MoD has long analysed military threats in a systematic way, making extensive use of scenario planning and simulation. More recently there have been three main drivers for change: the requirement to demonstrate the existence of adequate control systems for audit purposes; the setting of performance and outcome

Figure 4.3: Typical development of risk management within an organisation
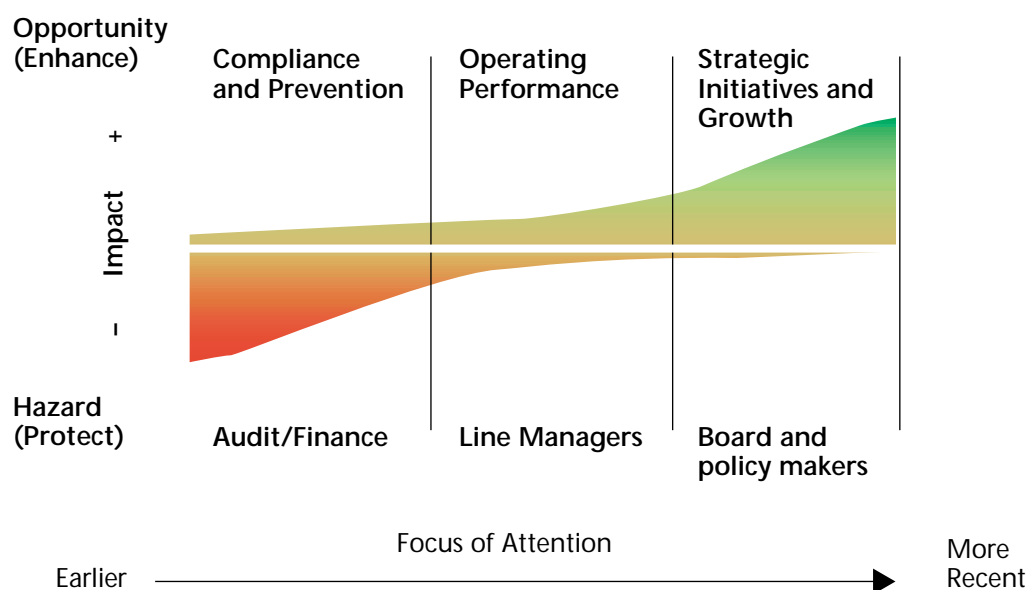
targets which have made clear the need explicitly to manage risks in order to achieve these aims; and the development of project and programme management methodologies (such as PRINCE 2) which incorporate risk management.

4.2.4   During the late 1990s this gained momentum, and our surveys of Board members and risk experts in Departments showed that most now have developing policies and processes in place for identifying and handling risks.

…but further progress needs to be made

4.2.5   Even so, the average response by Board members was that they were midway between being "not happy – many areas fall short of good practice" and "content – a few areas to be improved". Risk experts agreed that the importance of good risk management had been established and communicated, but they tended to be less happy with implementation. They identified the need "to move from risk assessment to risk management" as a key challenge and tended not to agree that their Department was "active and competent in communicating on actual risks and opportunities".

4.2.6   And, for example, in the wake of the Phillips Report, a government workshop on risk and public health held during summer 2001 concluded that a priority for development was "a common approach across government with shared criteria and systems for managing the risk process. This overarching risk framework would serve as a quality assurance for the policy making process and delivery of outcomes".

4.2.7 The introduction of SICs (the first are to be produced in 2002) has started to drive further progress, as Departmental Accounting Officers are required to sign a statement confirming that they have adequate control systems in place. But SICs are likely to confirm the need for further work, especially in terms of embedding risk management in the core work of Departments.

The pattern of development is similar to that of the private sector

4.2.8   The private sector has developed along similar lines to the public sector. Starting with risk management in technical areas that traditionally focus on control (managing financial portfolios, health and safety, audit). There is now movement to embrace a more widely based and proactive approach to grasping risk and innovation.

4.2.9   The EIU report of 2001, *Enterprise Risk Management (ERM)*,[45] found that:

- non-traditional risks pose the greatest threat. Executives reported that their most significant risks aren't those traditionally managed by the risk management or treasury departments. The top three are customer loyalty, competitive threats, and operational failure. These are also among the risks companies believe they manage least well. Equivalents in the public sector would be public satisfaction and trust in services, and maintaining service delivery;

- 41 per cent of the 40 companies surveyed are implementing some form of ERM. Europeans (53 per cent) are furthest ahead, which reflects the continuing evolution of corporate governance reforms and directives in Europe;

[45] op. cit.

- firms adopt ERM for a wide range of reasons (reflecting their individual circumstances) but the most important was to develop a common understanding of risk across functions and business units. Other important factors include ability to manage and avoid low probability critical/catastrophic risks and cost savings through better management of internal resources; and

- there is a firm belief that ERM can improve performance: 84 per cent reported that they believe ERM can improve their price/earnings ratio and cost of capital. There is as yet relatively little hard evidence of this but companies using ERM were significantly more confident in their risk management processes (90 per cent very confident compared with 45 per cent of those not using it).

4.2.10 All of these findings have resonance with the public sector. And our survey of risk experts (details at annex 3) suggests that although government has made progress, it is currently somewhat behind the private sector in developing its approach.

A base for further progress is being established…

4.2.11 Despite indications that the private sector has developed risk management more rapidly, there is now a good opportunity for the public sector to move forward based on the establishment and application of sound approaches and techniques, and through

sharing best practice. This can build on current initiatives to modernise government and improve corporate governance. The evidence of the Strategy Unit study's interviews and surveys of senior management show that this will have strong support from the top.

4.2.12 Managing risk is a hugely varied activity in government (for example, it can involve managing business risks such as infrastructure, budgetary, policy or project risks or risks to the public such as health, environmental or safety risks). And so different parts of government find that the specific way they manage risk is closely tailored to their circumstances. Even so it is possible to provide a common approach, which Departments can use flexibly. The development of project management methods is a good comparator.

…including guidance from Treasury and the OGC…

4.2.13 The Treasury's guide, *Management of Risk – A Strategic Overview* (known as the "Orange Book"), published in January 2001, sets out an approach, which is becoming widely used in government.

4.2.14 The Orange Book provides a framework for linking risks to key organisational objectives, indicates the sort of tools which might be used, and outlines a cycle of risk management activity (see Figure 4.4).
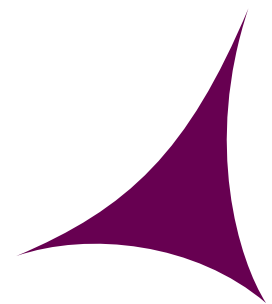
Figure 4.4: The risk cycle (HM Treasury, *Management of Risk – A Strategic Overview*)
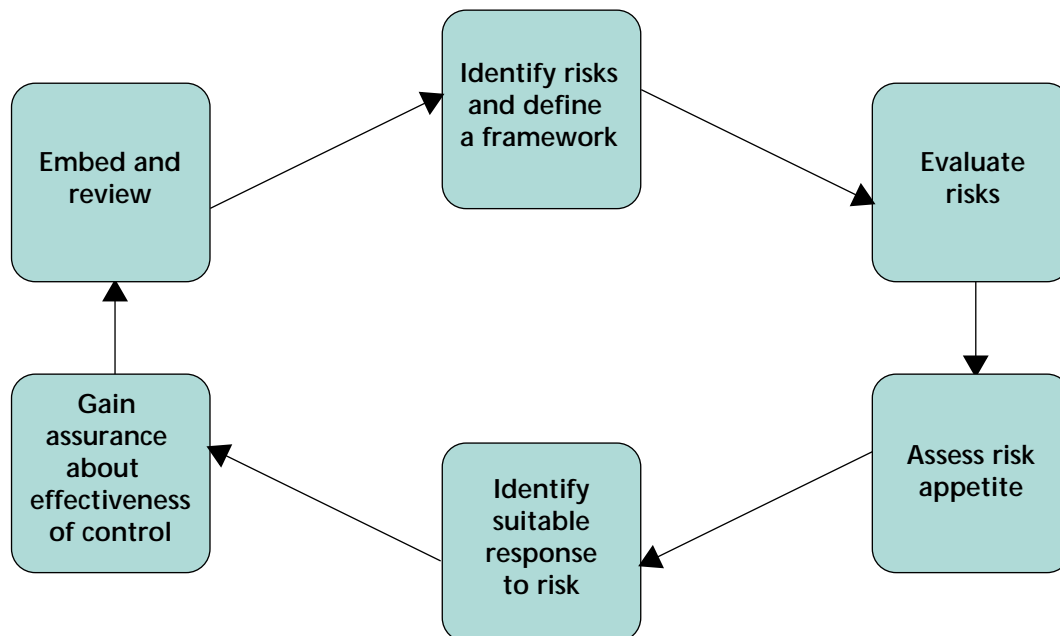
4.2.15 This framework is applied flexibly in government with some Departments developing a simpler representation of the cycle, to ease communications, and couching guidance in more general terms. For example, DEFRA's Risk Management Strategy is based on a four-stage cycle (see Figure 4.5).

Figure 4.5: The four elements of risk management (DEFRA)
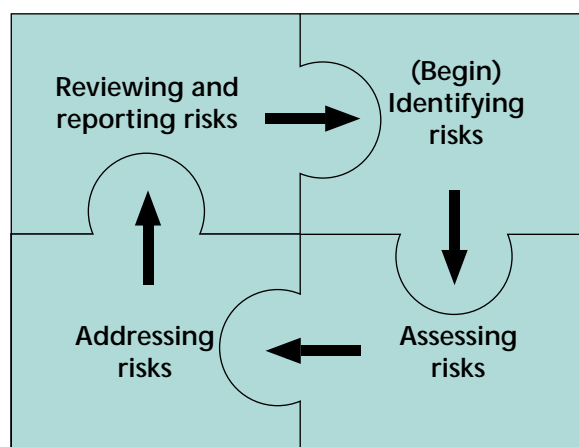
4.2.16 It may be that this could be usefully developed to include risk communication and learning, retaining much of its simplicity, but recognising the critical importance of continuous, active communication (see Figure 4.5a).

4.2.17 The OGC has published its *Risk Guidelines*, *Risk Briefing* and *Management of Risk: Guidance for Practitioners*, which are intended to help organisations put in place effective frameworks for taking informed decisions about risk, providing pointers to more detailed sources of advice on tools and techniques.[46] It offers detailed help in establishing risk management and in implementing techniques. It has developed the Treasury risk cycle further. Through its IPPD work, OPSR will provide a simple introduction to the OGC's guidance, accessible to policy makers. This will be part of an overarching Programme/Project Management framework located on the OGC's website as part of the Successful Delivery Toolkit (www.ogc.gov.uk).

4.2.18 This guidance provides a base for developing the practice of risk management in government. We recommend *(rec.9)* that there should be an ongoing programme of work to ensure that the guidance is integrated, comprehensive and comprehensible, and provides a flexible and accessible framework for Departments. The guidance should incorporate the findings of this report and develop a standard for government. This can then be the basis for standardisation of training material and for benchmarking (see chapter 4.4 and paragraph 4.2.46). It should adopt the simplest possible models and language. For example, it should consider the merits of a four- or five-stage process against more complex models. Lower levels of detail could be made available to technical experts. Arrangements for using the standard should be flexible, recognising current practice, and the investment made in current approaches, and the differing needs of different Departments.

Figure 4.5a: The risk management process

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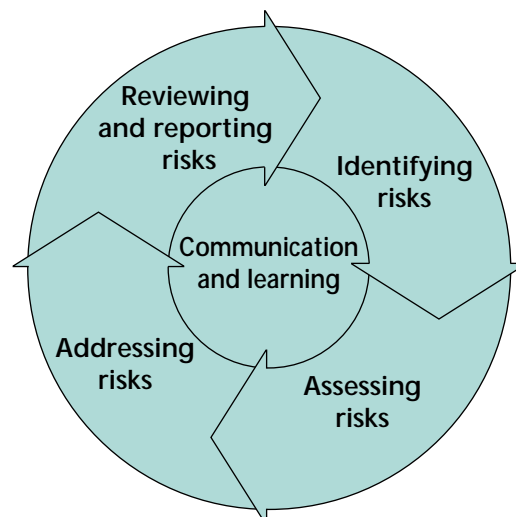
[46] **OGC,** *Management of Risk: Guidance for Practitioners*, op. cit.

…but there are significant areas for improvement in applying techniques…

4.2.19 Application of the elements of the risk management cycle is mixed. The following highlights some examples of good practice (annex 7 also gives short descriptions of four organisations – BP, Unilever, the Inland Revenue and the Strategic Rail Authority (SRA)).

Risk identification

4.2.20 Risk identification requires creativity, ingenuity and wide involvement to ensure the key risks are spotted. At the strategic level this involves methods to spot future risks:

- for example, a Strategy Unit paper[47] presents six methods which can be used (quantitative trend analyses; qualitative trend analyses; Delphi survey (a method for gathering information or beliefs from a panel of experts); scenario methods; wild cards (events with a low probability of occurring but which would have a big impact if they did); and futures workshops (an open process which consists of engaging a wide range of people in envisioning the future);

- futures workshops are being used by the Department of Trade and Industry (DTI) to explore the risks and opportunities of potential future scenarios. The Department's IT supported facilities, such as Futurescope, are available to, and increasingly used by, other government Departments and private sector organisations; and

- horizon scanning is a key feature of the work of the CCS and is used to try and spot potential disruptive challenges across government.

4.2.21 Individual Departments are also starting to undertake this sort of work. For example, DEFRA has established its horizon scanning website which is an open forum for contributions about likely future issues. It also has an important role in shaping DEFRA's research funding decisions, in particular horizon scanning research concerned with threats and opportunities that may influence food and agriculture, environmental protection and sustainable development in the future (www.defra.gov.uk/horizonscanning).

4.2.22 A survey by the Strategy Unit in early 2001 found a wide range of strategic scanning activity across government. This involved an estimated 1800 civil servants, but few appeared to look explicitly at risk. MoD was found to do more than most in this area, involving, for example, scenario planning exercises, and using Risk Task Forces to identify certain types of risk.

4.2.23 For programme and operational risks:

- a combination of top down and bottom up approaches are recommended *(rec.10)*, for example combining a risk review (external assessment by senior management or a designated team) with risk self-assessment (by those directly involved), feeding up diagnosis of risk through the levels of the organisation. This appears to be recognised as best practice and is increasingly being used by Departments such as the Department of Work and Pensions (DWP) and DEFRA. This is borne out in one of our examples of good practice, Unilever (see annex 7), where two of their "three pillars of risk management" are bottom up Control Risk Self Assessment and top down dissemination of key risk themes for attention; and

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[47] **Strategy Unit**, *A futurist's toolbox: methodologies in futures work,* September 2001.

- developing business models can help to identify which potential risks need attention. For example, the Department for Education and Skills (DfES), reflecting on its experience with Individual Learning Accounts (ILAs), said that it would build a business model for any successor scheme to help "identify other risks and design better monitoring systems to pick up early warning indicators".

4.2.24 To facilitate identification and management of risk, both the OGC and Treasury guidance provide checklists of risk types. Our study found that in practice a lot of organisations have developed short, grouped lists of risks. For example, the SRA uses: corporate and strategic; business delivery; and asset, and looks separately at major impact mitigation (including crisis handling, business continuity planning (BCP) and use of insurance). No common checklist has yet developed although there are similarities (rough groupings are: strategic/corporate/ external; activity/operational/delivery including project/programme; and financial/ asset management). The establishment of a broad common categorisation could significantly help communication across government – we recommend *(rec.11)* that the Treasury should lead efforts to establish this. A starting point could be to consider three categories: strategic (including major external threats, significant cross-cutting risks, and longer-term threats and opportunities); delivery (both operational and project/ programme risks, including resourcing risks) and financial (a separate cross-cutting category). Project/programme risks might warrant a separate category.

4.2.25 As might be expected, risk identification practice appears furthest forward in considering financial, operational and project risks. For example, the SRA started by assessing these types of risk before moving on to consider strategic risks. Systematic assessment of policy risks is much less apparent.

4.2.26 The importance of assigning ownership to identified risk is taking root. This is critical to the success of the risk management process. Departmental Board members (such as those in DWP and DEFRA) are increasingly taking ownership of strategic risks, and these Boards are identifying individual members to act as risk owners on behalf of the Board, promoting personal responsibility. DEFRA, for example, has a list of 12 top threats, selected using agreed criteria for senior action, and assigned to individuals; and DWP has created a strong dialogue between its Board and Ministers on the handling of key risks. Despite areas of good practice, systems still need to be developed that replicate the accountability and responsibility frameworks that exist for financial management.

Assessment/evaluation

4.2.27 Most progress has been made with assessing risks which lend themselves to quantification – particularly financial risk, and repeatable health and safety risks.[48] For other risks, where the role of judgement is greater, risk assessment is less well established. This pattern of development is clear across government, where auditors and health and safety experts still stand out in terms of risk management skills. Our experience also shows that executive agencies tend to be more advanced than policy departments.

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[48] e.g. see **HSE**, *Five Steps to Risk Assessment*, 1996. In addition, MOD's Defence Science and Technology Laboratory (DSTL) has produced specific guidance including on "three-point estimation" – identifying minimum, maximum and most likely out-turns, to define a range of uncertainty around risks.

4.2.28 Areas for development include wider use of public perceptions of risk, and techniques to bring together judgements from a wide range of stakeholders to inform decisions. A recent example of good practice is an event organised by DEFRA to share with its stakeholders its current progress and the principles of its new approach to risk management, and to begin the process of improving how it engages with stakeholders on issues of risk and uncertainty. The recent EIU study highlighted the importance of reputational risk to private sector organisations. A similar focus is likely to develop for the public sector, linked to establishing and maintaining the trust of the public.

4.2.29 Many of the key risks government faces do not lend themselves readily to quantification. They may well be novel

(for example, from a new policy or a new untested type of computer system), so historical data may not help much, or their significance may be linked to the values of a heterogeneous group of stakeholders.

4.2.30 The level of uncertainty will play a key role in determining the approach to risk assessment. Figure 4.6, based on an HSE model, shows how conventional risk assessment may need to be adapted, moving from a position where risk assessment can be undertaken with assumptions whose robustness can be tested to one where assumptions are made that are precautionary in nature and cannot be tested. In strategic decision making, where uncertainty is high, the approach to risk assessment will tend to rely on exploring scenarios, past experience of generic hazards, and analysis of whether action needs to be taken to avoid serious consequences of very uncertain events.

Figure 4.6: Risk assessment and uncertainty
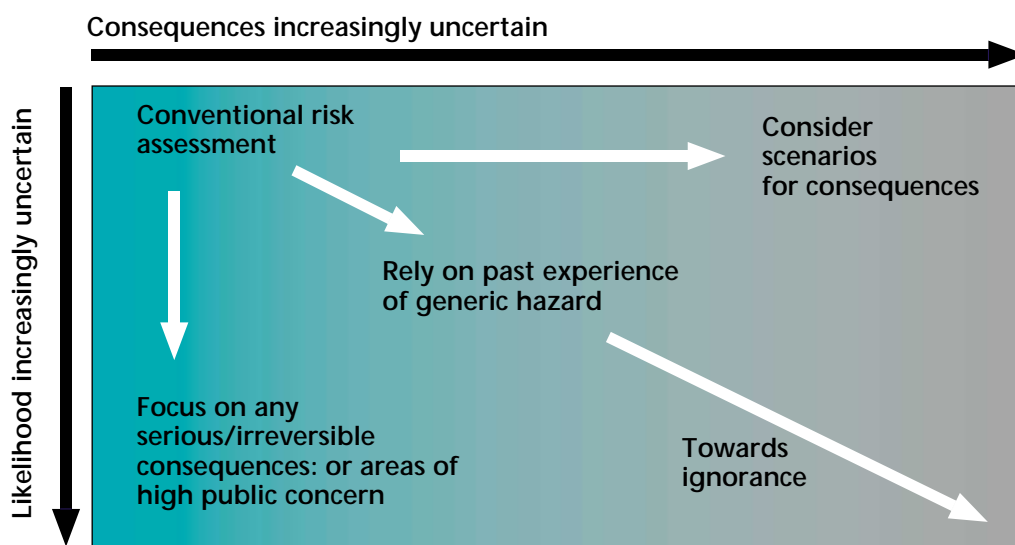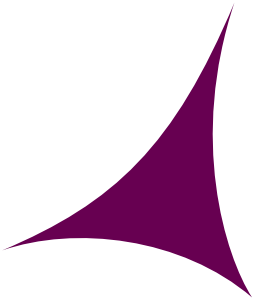
4.2.31 Judgements will also be a key element here. A commonly used approach is to develop a risk profile matrix (Figure 4.7), mapping risks against likelihood and impact, combining judgements with numerical analysis where possible into High, Medium, and Low ratings. Further analysis of the confidence of managing the risks successfully can then be used to prioritise management action.

Getting value from risk assessment

4.2.32 Risk assessment can be a time consuming and resource intensive process. In principle it should be carried out for every policy decision, but the approach should be scaled according to the significance of the decision to be taken. General criteria include:

- the potential risk to the public;

- the scale of financial or other resource commitment;

- whether the policy is novel or contentious;

- the complexity of delivery – for example, where more than one Department or agency (government or non-government) is involved in delivering a programme, or the policy design is complex (risking misunderstanding or failure); and

- whether the proposed area for action has a history of failures.

4.2.33 We recommend *(rec.12)* that criteria should be developed as part of the arrangements for embedding risk in policy making proposed in chapter 4.1. A generic list could be developed which Departments could tailor, drawing on a systematic analysis of key or common risks that have occurred in their programmes. For example, where an error has led to expensive litigation or compensation claims, future programmes of work should actively build contingency for such events, as well as taking action to avoid repetition of the problem.

Figure 4.7: Risk profile matrix

R I S K :   I M P R O V I N G   G O V E R N M E N T ' S   C A P A B I L I T Y   T O   H A N D L E   R I S K   A N D   U N C E R T A I N T Y

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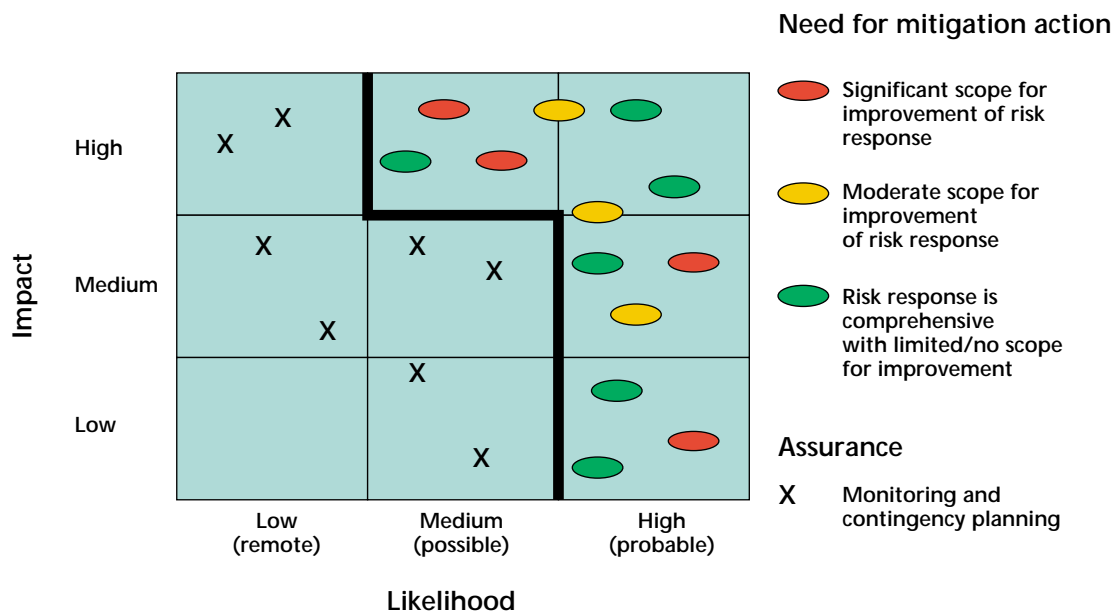
4.2.34 Different parts of government will have different priorities and needs and, for example, may wish to develop a set of common decision criteria to help assess risks across a broad policy area, for example on health, or to reflect a more consistent approach where "value of life" criteria are already used, such as in transport. We do not, however, recommend the development of decision criteria in every case. This could encourage inflexibility and a "tick box" approach to risk assessment, which would work against the exercise of risk judgement that we seek to promote.

Assessment of risk tolerance/ risk appetite

4.2.35 Most risks cannot be eliminated altogether, and risk management involves making judgements about what level of risk is acceptable – risk tolerance or risk appetite. Such judgements are often difficult, both for individual risks and across a programme of activity.

4.2.36 Governments are generally keen to find ways to improve ways of working and public services – for example, by piloting new projects or introducing new technology – but they will be averse to: risks that affect public health and safety, such as the risk of contagious disease; risks with irreversible consequences, such as the risks associated with climate change; or risks that threaten people's access to essential services. In all cases, they need to weigh up the risks and benefits associated with each course of action, and judge whether they are distributed fairly. A further example would be in deciding on what measures to take to meet the Landfill Directive targets, where the likelihood and impact of missing the target would need to be assessed for each option,

and an acceptable level of risk determined before an option is chosen.

4.2.37 This is an implicit feature of all decision making in government. There will be an underlying level of willingness to take risks in particular situations (areas of business, at different times). Risk tolerance can be indicated on the risk profile diagram (Figure 4.7 above) by the solid black line – with all of those risks to the right requiring mitigation action to make them acceptable. This approach is often used where risk management is well developed, on specific projects or in service delivery areas (such as by the Welsh Development Agency), or in assessing the continuing viability of projects or the capacity of service providers. We recommend *(rec.13)* that more use could be made by Departments at the policy making stage to ensure that Ministers are aware of the pattern of risks they will be taking and the prospects of adequately managing them. DfES has considered risk appetite at Board level and is communicating guidance across the Department. DEFRA's Board has used risk tolerance to determine timescales for action – clarifying priorities and providing impetus.

4.2.38 A similar approach could also be used to introduce a portfolio approach to risk management of Departmental programmes, or parts of programmes. The profile of risk across elements of the existing programme could be combined with a risk assessment of proposed new policies, factoring in constraints such as use of scarce skilled resource across the programme. This could be matched against risk tolerance to ensure a manageable portfolio of risk. We recommend *(rec.14)* that this could be piloted in either Departmental business planning or the 2004 Spending Review. This could draw on OGC's work on risk/capability assessment, which

links likely success in delivery to the level of risks faced and the capability of the organisation to manage them.

Identification of responses

4.2.39 The Orange Book details four categories of response: transfer; tolerate; treat; and terminate. The government's approach to risk transfer has developed in recent years (for example, through the Private Finance Initiative (PFI), where guidance now talks about "optimum risk allocation" rather than maximising risk transfer) (see chapter 4.3 on organising to manage risk). Most often risks are "treated", for example, through developing mitigation plans. There has been considerable development in this area, particularly in projects and programmes where the OGC Gateway requires good quality responses to key risks to be in place before approval is given to proceed to the next stage. There is,

however, little evidence of responses to risk being thoroughly identified at the policy development stage.

4.2.40 Well-developed decision making frameworks regarding the control of risk already exist in the UK. For example, in the area of occupational health and safety a set of principles and criteria have been developed in support of the legal requirement to reduce risks "as low as reasonably practicable" (ALARP). This is illustrated in Figure 4.8, which shows how both the likelihood and impact of the risk contribute to a decision on tolerability (and is, for example, used in assessing the response to risks from fire).

4.2.41 We recommend *(rec.15)* that consideration be given to the extension of such systematic approaches to strategic policy making, adapting them as necessary to recognise the less quantifiable nature of the data involved.

Figure 4.8: Responding to risk - tolerability and ALARP
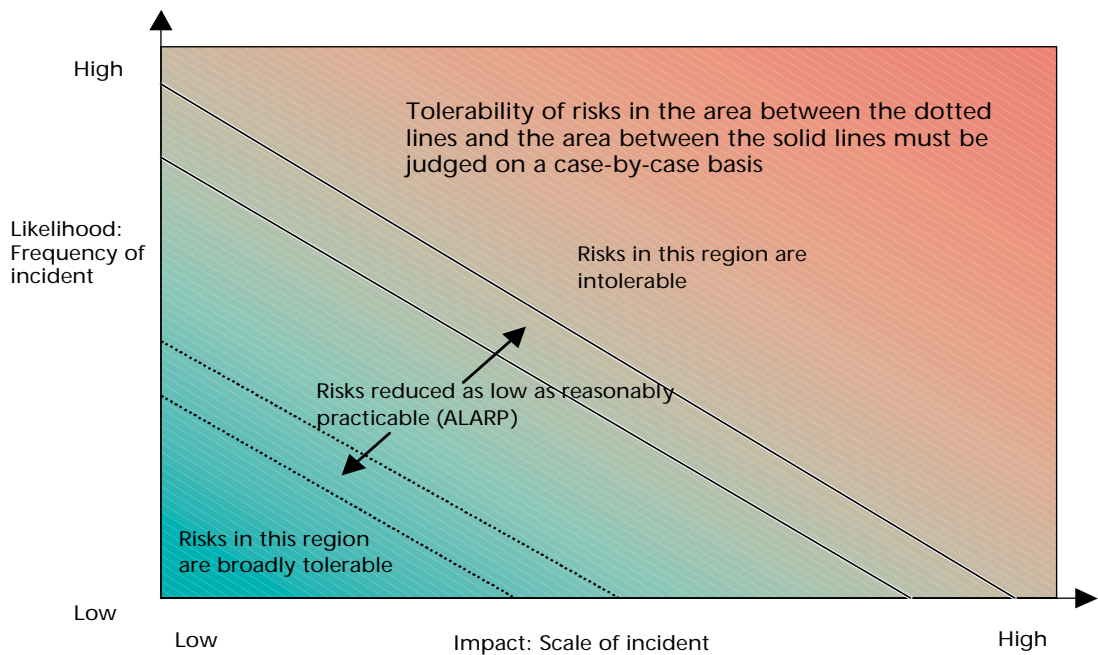
Internal controls

4.2.42 Detective controls to identify when a risk has been realised are perhaps the most well developed. These are "after the event" assessments, including Post Implementation Reviews, and Evaluations. Although these assessments are becoming more routinely applied, there is a clear need to ensure better capturing of lessons learned and application to subsequent decisions (for example, in the Passport Agency when earlier lessons were not applied to the problems in 1997). Directive and preventive controls cover specific risk mitigation measures, aiming to ensure that particular outcomes are achieved or to prevent the possibility of an undesirable outcome being realised. As risk management becomes more established, explicit use and monitoring of such measures is becoming more widespread outside traditional financial areas. Corrective controls are designed to correct undesirable outcomes, which have been realised – these include crisis management arrangements and the contingency planning which underpins them. These are both areas where recent events have highlighted a need for attention. The establishment of the CCS is directed at improving practice at the highest level in government, and Departments have developed business continuity arrangements in recent years, which have become progressively more sophisticated.[49]

Assurance about effectiveness of control

4.2.43 SICs are a key mechanism for providing assurance about control. They will increasingly drive improvements. However, currently, our survey of risk experts suggests that in both the public and private sectors assessment of implementation of risk management was most likely to be done only "in pockets across the organisation".

Embedding risk in the way the organisation works

4.2.44 This study makes the case that risk handling is embedded very unevenly across Departments and throughout the end-to-end process of policy development and delivery. It is more developed in implementation and service delivery areas and, as already noted, the application to policy development is more patchy.

4.2.45 In summary, there is uneven application of risk management techniques across government – these tend to be better established in financial and project management areas. This needs to be extended, crucially to policy development as well as to policy/programme planning.

4.2.46 But there are an increasing number of examples of good practice, some of which are identified in this report. Good practice needs to be encouraged and spread. There are some mechanisms in place already: the Interdepartmental Liaison Group on Risk Assessment (ILGRA), the Risk Management Steering Group (RMSG) and the NAO have all played a large part in this, and examples can be found in the Public Sector Benchmarking Service (PSBS)[50] website (www.benchmarking.gov.uk) and the risk management section of the NAO website (www.nao.gov.uk). But there is a case for strengthening and supporting the networks and other arrangements (this is taken up in chapter 4.3) and we recommend *(rec.16)* that specific risk management benchmarking arrangements be developed. This could

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[49] See annex 3 – Surveys of Departmental Board members and risk experts.
[50] The PSBS (a partnership between the Cabinet Office and HM Customs and Excise) is a knowledge management system that also provides an information and advisory service specifically geared to spreading good practice across traditional public sector boundaries. Risk management is a key area covered.
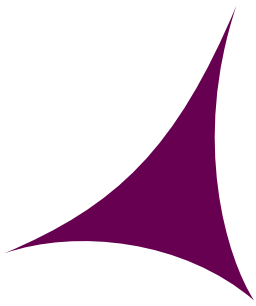
adapt the benchmarking service developed in Australia by Comcover (established to provide insurance and risk management services for government bodies), which rates ten Key Performance Indicators (KPIs) as either:

- Level 1 – Early – Evolving a risk management culture

- Level 2 – Intermediate – Implementing a risk management system

- Level 3 – Advanced – Continuously improving risk management practices

Their KPIs are:

- Integrated risk management approach

- Committed and led

- Positive and proactive focus

- Process-driven

- Planned for continuous improvement

- Active communication

- Audited and documented

- Resourced

- Trained and educated

- Value-based decisions

4.2.47 This represents a very similar framework to that proposed by this study, the elements of which would lend themselves to benchmarking. Early findings from 67 Australian public sector organisations showed KPIs being met at Level 2. Improved performance earns discounts on insurance premiums.

Techniques for handling strategic risks

4.2.48 There are particular gaps at the strategic level, where practice is less well developed, and where the CCS is starting to

fill the gap. With the CCS we have reviewed the current situation and recommend further developments in the paragraphs below.

4.2.49 Early Strategy Unit work on risk was an important factor in setting up the CCS in 2001. The CCS was established to improve the UK's resilience to major disruptive challenges (like FMD or the fuel crisis) through anticipation, preparation, prevention and resolution. It aligns with existing counter-terrorism and defence arrangements.

4.2.50 There are four main areas of the CCS's activity:

- identification and assessment (including horizon scanning);

- contingency planning;

- consequence management (crisis management when serious risks are realised); and

- building resilience to disruptive threats.

Identification and assessment

4.2.51 The CCS is starting to provide confidential horizon scanning reports to Ministers and Permanent Secretaries, identifying developments with potential to cause serious disruption to the running of the UK nationally or regionally. These might include issues such as major industrial disputes affecting key public services, health issues likely to overburden the health service or challenge public confidence, signs of infrastructure failure, or tensions between local communities that might lead to disturbances.

4.2.52 The key area where further work is recommended *(rec.17)* is in linking to, and helping develop, Departmental capacity for horizon scanning. We recommend that the CCS and Strategy Unit should work with

Departments to help them develop their horizon scanning capabilities, seeking to spread best practice, including ways of assessing significance and prioritisation; we recommend that the CCS and the Strategy Unit develop a network of Departmental horizon scanners to share information and provide mutual challenge.

4.2.53 This should draw on examples of international best practice, for example Singapore's approach to considering low-probability but potentially high-impact events. The Singapore government has used horizon scanning extensively since the 1980s. All policy makers are encouraged to expose their analysis to possible future trends in order better to prepare themselves. During the 1990s, for example, they used one form of horizon scanning – scenario planning – to good effect. They prepared scenarios around possible economic shocks that could hit them. As a result, they were judged to have reacted faster and more effectively than other governments in the region to the Asian economic crisis of the late 1990s. For example, their GDP growth was much less affected than neighbouring economies such as Malaysia, Thailand and Indonesia.

4.2.54 Simulation events, built around scenarios, can help to identify and prepare for such low probability/high impact contingencies and we recommend *(rec.18)* that these methods be explored.

4.2.55 Other parts of government may also need to build up their role in scanning for potential risks. For example, we recommend *(rec.19)* that the Social Exclusion Unit (SEU), working with the Neighbourhood Renewal Unit, the Regional Co-ordination Unit and relevant Departments, could consider playing a larger role in tracking potential cross-cutting risks, including the impact of

government initiatives on these risks. These might include: new groups coming on to benefits or likely to become socially excluded; or towns and cities failing to regenerate or facing economic problems because of over-dependence on declining industries. In some of these cases official statistical data will always be too late for adequate action. Anecdotal and subjective information needs to be drawn in from front-line staff, the public, inspectorates and others.

Contingency planning

4.2.56 This has been a rapidly developing area in government, with the focus being on BCP (i.e. continuing government administration and services in the face of disruption). There are two further areas for development. The CCS has reviewed BCPs and concluded that, when viewed together, inconsistencies emerge. For example, several Departments may aim to move staff to the same place, overloading capacity, or they may rely on the same supplier of IT or office equipment, who could not meet simultaneous demand. So we recommend *(rec.20)* that the CCS should continue to develop its role in ensuring integration of BCPs, with particular focus on improving resilience at the strategic level (for example, dealing with failures in cross-government telecommunications or IT systems).

4.2.57 A second area for development is business continuity planning for programme (as opposed to administrative) outcomes. A good example here is contingency planning for dealing with a serious outbreak of animal disease. The various reports on FMD have raised a number of areas for improvement of contingency plans: risk analysis around more scenarios, clear definition of responsibilities, reporting lines and accountabilities,

consultation of stakeholders in preparing the plans, plans tested on a regular basis;[51] systematic analysis of available information, developing a database of information to use during an outbreak, prior debate about options;[52] and building mutual trust and confidence in plans through training and practice, and ensuring plans include capacity to scale up communications systems and resources rapidly at the onset of any crisis.[53] DEFRA's new plan for dealing with an outbreak of FMD is a potential model, which includes arrangements and procedures for alerting others across government. We recommend *(rec.21)* that the CCS should work with Departments to spread good practice.

Consequence management

4.2.58 The CCS is developing a range of apparatus to help Departments manage crises. These are intended to provide scaleable, flexible responses – not just applying the arrangements used for the last crisis (for example, using the fuel crisis arrangements for FMD).

4.2.59 The CCS is also developing a Crisis Co-ordination Centre (a sort of mini-Whitehall brought together in more or less permanent session during a crisis to ensure co-ordination of Departments involved). This would complement the existing Cabinet Office Briefing Room (COBR) arrangements for handling military and counter-terrorist operations. This will be supported by guidance on who should lead in a specific crisis situation. Before the last election, the Home Office Emergency Planning Division maintained *Dealing with Disaster*,[54] which set out rules for handling crises with reference to types of event such as flooding. We

recommend *(rec.22)* that the CCS should update and maintain this to reflect the revised structure of Whitehall, to take account of emerging issues that potentially pose disruptive challenges, and to set in place clearer definitions of the role of the lead Department. This should be supported by a database of past crises, detailing their impact and the lessons learned (with links to reports or inquiry findings where available).

4.2.60 Most countries covered in our survey (see annex 8) appear to have no comparable structure and the Ministry with the major stake in a crisis takes the leading role.

4.2.61 A further tool for managing crises is to establish arrangements for augmentation of Departments' resources during times of crisis. This was done on an ad hoc basis, for example during the FMD crisis, where staff were drawn in from a number of Departments to help out. The experience of the response was patchy, however, and we recommend *(rec.23)* that the CCS and CDG look carefully at this area. It will be necessary to create a framework in which, at certain times, corporate objectives will override Departmental objectives (perhaps by embedding corporate objectives in the framework of Departmental and personal job plans). A critical element will be the ability to call on staff with key skills (such as project management skills) at short notice. This will inevitably be challenging and require sensitive handling. It may be possible to draw on private sector models such as BP's arrangements here.

Resilience

4.2.62 Building resilience to disruption is a proactive way of mitigating risks. It requires

[51] **NAO**, *The 2001 Outbreak of Foot and Mouth Disease,* op. cit.
[52] **Royal Society**, *Infectious Diseases in Livestock,* July 2002.
[53] **Anderson et al.**, *Foot and Mouth Disease 2001 Lessons to be learned Inquiry,* July 2000.
[54] **Home Office,** *Dealing with Disaster, 3rd Edition,* 2000.

actions to develop the desired components of resilience: anticipation, detection, prevention and the effective management of challenges that arise. The CCS's programme of work is constructed on this basis and is already yielding progress in a number of areas. A comprehensive structure of horizon scanning and assessment is complemented by work to ensure the development of response capabilities at all levels of governance, the effective co-ordination of effort in a crisis, and measures to improve understanding of the importance of resilience.

4.2.63 In addition, ways need to be found of mainstreaming resilience into organisations' planning and the development of policy (see paragraph 4.1.33). This should include fresh consideration of the legislative framework required in respect of civil contingencies, for a society which faces different threats, and is much more highly networked and inter-dependent, than the one for which the civil defence legislation now on the Statute Book was framed.

4.2.64 We recommend *(rec.24)* that the CCS continues to develop its work on resilience and link closely with contingency planning work in Departments.

Working with Treasury and the DU

4.2.65 As the work of the CCS develops, we recommend *(rec.25)* that it should be designed to complement the work of the Treasury and the DU in identifying and monitoring risks to the delivery of the government's business programme.
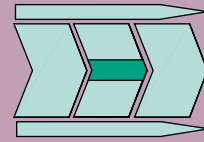
4.3 ORGANISING TO MANAGE RISK

Summary

Implementing effective risk management across government depends heavily on the primary responsibility of Departments to handle specific risks. They in turn can transfer responsibility to agencies, Non-Departmental Public Bodies (NDPBs), and through Public Private Partnerships (PPP) and PFI contracts.

The centre of government has a role in anticipating and providing support for handling crises; in tracking and responding to cross-cutting risks; and supporting delivery where there are significant risks to key government objectives. The centre also has a role in supporting and advising Departments on developing their risk management capabilities.

Risk management can be improved by ensuring that risk is handled by those best placed to do so. Further use of arm's-length bodies should be considered, along with ways of improving service delivery partnerships with other organisations.

Organisational issues for Departments

4.3.1   Accountability for risk management lies with Departments as part of their accountability for government programmes. This includes both managing risks and developing the capabilities to enable this to be done well. The central Departments (Cabinet Office and Treasury) also provide cross-government support for both of these functions.

4.3.2   Within Departments specific risks may be managed by agencies or outside bodies working in partnership with the Department (for example, delivery risks often lie with agencies). Best practice is that risks should be managed at the lowest possible level within the organisations, with clear accountability established, and systems and processes designed to support that.

4.3.3   Chapters 4.1 and 4.2 demonstrate how current guidance, best practice and some further developments can shape the

way Departments organise to manage risk. An example of this would be the establishment of Risk Review teams (for example in MoD).

4.3.4   Key organisational issues for Departments include:

- ensuring risk ownership is aligned with accountability for delivery and authority to act – and the extent to which placing responsibility on those accountable for results needs to be supported by a central focus of expertise;

- Reporting arrangements – feeding up to the Board the results of Risk Self-Assessments, as in many government Departments and elsewhere. For example, in Unilever, significant risk themes are summarised into a corporate risk profile, which draws out the major risks for Main Board attention; and

- ensuring risk specialists are closely enough linked to policy and operational decision makers to offer effective support.

4.3.5   Departments are at different stages of development of risk management, reflected in different arrangements. (For example, there is a path taken by some that involves moving towards more centralised management of risk during a period of developing risk awareness, followed by a re-embedding of risk with line functions.) Further developments need to recognise this and the current agenda for change, especially on corporate governance. This chapter considers further measures for Departments and the supporting role of the centre of government.

Central support

4.3.6 The centre of government – No. 10, Cabinet Office and Treasury – will typically

take a supporting role in managing risks, other than in exceptional circumstances where it may be involved in more hands-on co-ordination. This includes:

- providing the strategic context for decisions;

- assurance – regularly testing judgements about key risks and procedures;

- crisis management – co-ordinating action when risk is escalated beyond a certain level;

- co-ordination of communication and learning in agreed circumstances, such as taking a strategic view of high profile risk communication issues;

- taking an overview of large-scale threats and opportunities;

- identifying cross-cutting risks, that are less likely to be dealt with adequately, and ensuring that accountabilities are clearly understood and acted on;

- managing interdependencies between individual Departmental operations, where necessary anticipation and/or resilience needs to be built up in other Departments; and

- providing a centre of risk management expertise.

4.3.7. This strategic, corporate approach is consistent with the findings of the EIU, that in the private sector the predominant role of the centre is one of co-ordination and support.[55] The EIU found that "co-ordinating centrally but implementing locally" was the most common mode (one example of many is Danone where the director of group risk management is designing risk identification workshops for subsidiaries to carry out; the central risk team brought local directors together to help them determine objectives

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[55] **EIU**, *Enterprise Risk Management – Implementing New Solutions,* op. cit.

and methodology of a risk mapping programme, but responsibility for risk management was with local units; and the central risk team acts mainly as consultants to the business units).

4.3.8   Recent developments have significantly enhanced the capability for providing central support, most notably through the establishment of the CCS and the DU. However, our study suggests that improvements could be made in:

- providing systematic assurance that key risks are being managed effectively;

- providing accurate real-time information;

- developing a wider range of sources of information. The structure of government, with issues usually being dealt with in single Departmental channels, tends to work against this;

- identifying or co-ordinating handling of risks, or areas of risk, across Departmental boundaries;

- assessing the risk portfolio as a whole and judging the capacity to take on new risks; and

- clarity about who does what on risk at the centre of government.

4.3.9   Feedback from Departmental Board members suggests that there is support for the centre taking more of an overview of risks. But there were important caveats: "Departments have to own risks" and "too much central control is likely to be counter-productive" were typical comments. There was a feeling that "efforts should be aimed at ensuring more joined up working", which was seen by one as "the classic case for the centre to assume the lead", and "the centre should have a co-ordinating role in re-deploying resources if the lead Department

cannot accomplish this itself. For the cross-cutting issues the centre should decide which Department should be given the lead (and additional resources). This is really like a machinery of government change but faster".

4.3.10 And there was support for "effective and early central engagement" in crises, though not at the expense of Departments' primary responsibility. For example, "responsibility for crisis management should remain with the lead Department and in only the most extreme situations should control come from the centre". There was a suggestion that there might need to be a "review of the use/need for contingency funds".

4.3.11 The study has identified two broad groups of risk, where Departmental Board members consider central support can be valuable:

- risks which have the clear potential to become, or already are, crises, where there is likely to be a rapid escalation of public concern (and where the CCS has a key role); and

- certain ongoing delivery risks, including significant risks to key government objectives, and risks which are not manageable by one Department alone. Risks may fall into this latter category because they require extra resources or are inherently cross-cutting and their severity is only apparent when viewed across the whole of government. In these cases, Departments may benefit from a more co-ordinated approach to mitigation. Examples include dealing with the recruitment of staff with key skills, or the capacity of key partner organisations such as computer service providers.
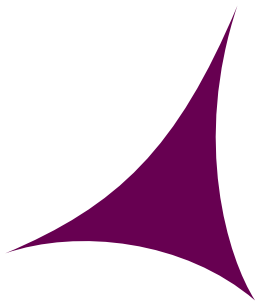
4.3.12 The two categories are not mutually exclusive, but provide a framework for analysing the functions of the centre, and are reflected in current organisational responsibilities.

Crises

4.3.13 The CCS has a clear role in anticipating and providing support for handling crises. It deals with civil domestic issues, complementing long-established arrangements for military and terrorist risks. The CCS has started to produce regular horizon scans of potential disruptive challenges – "trends or sets of circumstances with potential to cause serious disruption to the running of the UK nationally or regionally" – focused mainly on the next 12 months, but with occasional longer-range items. Examples of the sorts of challenges covered would include those leading to transport disruption, industrial action, human or animal disease epidemics, social unrest and disruptive protests. This draws on a range of sources of information, including Departments, to identify and assess the risks. The Domestic Horizon Scanning Committee considers these assessments and ensures that the final approved assessment is passed to the relevant Departments to consider any necessary mitigation action or contingency planning. If a crisis does occur, the CCS Co-ordination Centre can provide enhanced support.

4.3.14 These arrangements are relatively new, and should be allowed to bed in. They need to be complemented by a capacity to review longer-term threats and opportunities, which we recommend *(rec.26)* should be undertaken by the Strategy Unit, building on its current Strategic Futures work. The CCS and the Strategy Unit could also increasingly use their expertise to work with Departments to help them develop their own horizon scanning capabilities; and the CCS could help Departments to develop their resilience to the threats which can lead to crises.

Delivery risks

4.3.15 In addition, the centre needs assurance that risks to the delivery of the government's programme are being managed, and should provide support where needed. Whereas crises are primarily about dealing with threat (the negative aspect of risk), managing delivery risks will also cover "opportunity risk" – i.e. the issues which arise from seeking improvements (such as increased demand for scarce resources, difficulties with implementing and operating new services, including levels of public acceptance and media reaction). Failure to manage these risks well may often not have such visible, immediate and high profile consequences, but the long-term impact can be equally significant. The Treasury and DU have key roles here, which could be enhanced by our recommendations in chapter 4.1.

4.3.16 We considered whether there was a need to bring together more closely the separate CCS and Treasury/DU arrangements, but concluded that the recommendations and the Treasury's membership of the Domestic Horizon Scanning Committee provided strong enough links. So we do not recommend any change.

Reporting risks

4.3.17 There are currently several parallel strands of reporting corporately on risks:

- the CCS reports on disruptive challenges to the Prime Minister;

- the DU reports on risks to key programmes to the Prime Minister;
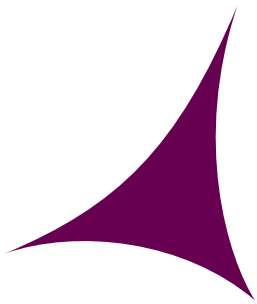
- the PSX Cabinet Committee reports to the Cabinet on current issues with delivering PSAs;

- the Joint Intelligence Committee provides regular intelligence assessments on a range of situations and issues of current concern to Ministers and senior officials; and

- media reports, highlighting threats to the government's reputation, are sent by the Media Monitoring Unit to all Departments, including No. 10.

4.3.18 We considered whether we might pilot a consolidated report on risk for the Prime Minister. However, the No. 10 Policy Unit is content with the current reporting arrangements, which provide quality advice on specific issues, so we recommend no change, though the re-organisation of the Cabinet Office (July 2002) and the new role of Security and Intelligence Co-ordinator may bring some reporting strands together.

Active support by the centre of government for developing risk management

4.3.19 The study has found that:

- there are currently a wide range of different units and committees who influence risk management, including: ILGRA; the Risk Management Steering Group; several parts of the Cabinet Office (CCS, CDG) and Treasury (Spending Review, Investment Appraisal, Audit), as well as partnerships such as OPSR and OGC on IPPD. Further details are at Figure 4.9. Most of the individual functions carried out are valued, but the overall picture causes confusion;

- there is a perception of advice being delivered through "initiatives", with the centre moving on to the next initiative and failing to provide ongoing support. This adds to Departments' workload;

- informal risk networks are developing, but they need support to be effective in identifying and sharing good practice; and

- fragmented approaches to risk management across the centre of government have contributed to confusion within government bodies. Many different guides exist and Departments and agencies have been left to their own devices to decide on the method of implementation, which has consequently been disparate. There is no single point of contact or centre of expertise to whom Departments can turn.

4.3.20 We recommend that the centre should provide active support to assist Departments to implement a more effective risk approach across government. The centre should invest in:

- co-ordinating and supporting an overall programme of change, including monitoring progress and assessing the effectiveness of risk handling across government;

- better co-ordinated and more accessible guidance;

- a contingency resource and expertise which Departments can draw on in managing and arresting crises;

- a shared, more established risk/crisis communications approach;

- an expert resource in the management of risk to assist Department staff in improving the quality of implementation; and

- a more accessible and active approach to the sharing of good practice across government.

Figure 4.9: Units and committees that influence risk management (summer 2002)

Organisation	Role
Treasury:	
• Public Services Directorate and Finance Management and Reporting	Corporate governance initiatives, SICs, guidance on risk management (Orange Book), Green Book on investment appraisal, Spending Review guidance.
• Office of Government Commerce	General guidance on risk management; PFI; project and programme management.
Cabinet Office:	
• Corporate Development Group[56]	Civil Service reform; Senior Civil Service (SCS) competencies and leadership; training and development programmes; Risk in Business Planning.
• Civil Contingencies Secretariat	Improving the government's ability to handle disruptive challenges that can lead to or result in crisis.
• Delivery Unit	Supporting delivery of key government priorities.
• Office for Public Service Reform	Model of High Performing Department; IPPD ending December 2002.
• Strategy Unit Policy Studies Directorate	Study of risk management. Strategic futures. Guidance on better policy making.
• Regulatory Impact Unit	Supporting the development of risk frameworks and the risk portal; guidance, advice and training on RIAs.
• Better Regulation Task Force	Examining models of risk communication.
Committees:	
• Risk Management Steering Group	Advise/facilitate consistent and co-ordinated development of policy and guidance relating to risk across central government.
• Interdepartmental Liaison Group on Risk Assessment	Help secure coherence and consistency within and between policy and practice in risk assessment and help disseminate and advance good practice.
• Risk Advisory Group	Develop a government statement on risk.
Other organisations:	
• Health and Safety Executive	To offer advice and guidance on health and safety issues.

4.3.21 These recommended types of support are all backed by Board survey responses suggesting high or medium impact on Departments' activities.

4.3.22 Key points that we considered include:

• to provide effective support across the overall programme requires a range of skills to be applied; and

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[56] Responsibilities may change with reorganisation of the Cabinet Office.

- for the support to be most effective it should be fully integrated with the process of agreeing Departments plans, to ensure that it is delivering real business benefits. It should also be linked closely to the programme of work to improve risk management as part of corporate governance.

4.3.23 This leads us to specific recommendations.

4.3.24 It is recommended *(rec.27)* that the quality of government risk management should be improved through a two-year programme of change to improve its capabilities. The timetable should be integrated with that of the Spending Review and the production of SICs. The programme should include the following strands (integrating the Strategy Unit recommendations with existing initiatives):

- communications with the public;

- embedding risk (in the Spending Review, policy making, business planning, project and programme management);

- leadership and culture change;

- skills;

- guidance, standards and benchmarking; and

- corporate governance.

4.3.25 Departments are accountable for improving their risk management in these areas. The centre should be responsible for providing a clear framework for change and ensuring Departments have the support they need. Existing central risk functions should be rationalised to implement this approach.

4.3.26 It is recommended *(rec.28)* that an Implementation Steering Group should be established (replacing the various existing

groups – the Risk Management Steering Group, ILGRA, and Risk Advisory Group) to drive change over the two-year period leading into the next Spending Review (2004). This group should draw together the main interests across government and be chaired by an authoritative figure, perhaps a member of the CSMB. Progress should be reported regularly to PSX and the CSMB. Outline terms of reference and membership have been developed as part of the implementation plan.

4.3.27 The Steering Group should be supported by a small central team in the Treasury, the Risk Support Team, drawn from existing sources of activity (including the Treasury, OGC, HSE, the Cabinet Office, the Government Information and Communication Service (GICS) and others) who would monitor progress; provide a central expert resource; review and co-ordinate advice and guidance on risk management; help establish and support an interdepartmental risk network; and consider further steps to rationalise current central responsibilities and initiatives.

4.3.28 We recommend *(rec.29)* that Departments should consider whether they might establish similar individuals or teams internally to drive and support change.

Placing risk where it can best be managed

4.3.29 Responsibility for handling risk should lie with those best placed to deal with it. This can only be judged on a case-by-case basis, but criteria include:

- competence – who has the skills and experience and/or can best recruit and retain the right people?

- capacity – does the capacity exist? Can it be developed?

- public interest – is there sufficient assurance that the public interest will be protected?

- value for money – who will offer the best trade-off between costs and benefits?

- management – can the arrangements be adequately managed?

- subsidiarity – operational decisions will often be best made by those closest to service delivery.

Policy making

4.3.30 Organisational change has been actively used to enable government to pursue better outcomes and better manage risk (see Figure 4.10). This has involved placing operational responsibilities with a range of bodies from agencies within government Departments, to NDPBs and local government, to private and voluntary sector organisations. It has also involved transferring policy responsibilities to others. For example, policy advice is now often provided by outside bodies where specific technical expertise is involved, and government has relatively recently gone further by setting up the Food Standards Agency as an arm's-length body with a role to provide advice direct to the public without recourse to Ministers. The National Institute for Clinical Excellence (NICE) offers guidance direct to patients, health professionals and the public on best practice. And even more radically, some policy decisions are now taken outside government, for example by the Monetary Policy Committee (MPC).

4.3.31 It is worth exploring whether the use of arm's-length bodies in policy making could be increased. The benefits of careful use are clear: they may be much better placed than government Departments to recruit and retain the specific expertise needed and thus be able to provide better advice/decisions; and they may well be more trusted than government (for example, the Food Standards Agency, where consumer ratings of the reliability of their information has risen to 93 per cent from 75 per cent between 2000 and 2001 and the MPC, where public satisfaction is high – 55 per cent were very satisfied with the way interest rates were being set to control inflation).[57]

[57] **NOP**, *Survey of Public Attitudes to Inflation*, February 2001.
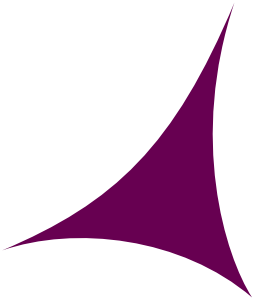
Figure 4.10: Putting risk where it can best be managed - organisational options
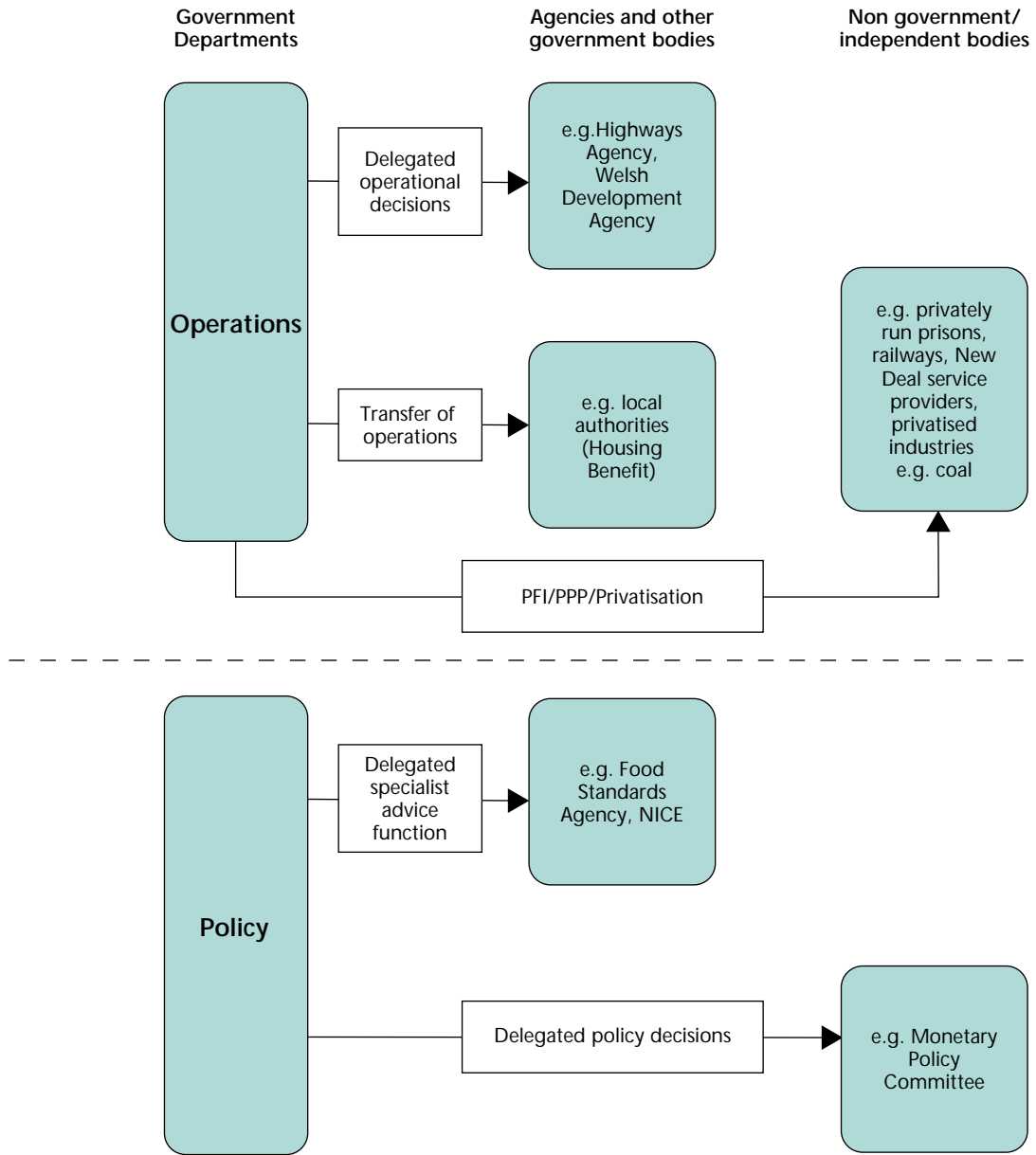
4.3.32 We recommend *(rec.30)* that Departments should consider whether the conditions exist for them to be used. These include: the ability to set a clear strategic framework within which experts can work (for example, the framework for monetary policy); confidence that the body would command public support; and a significant role for expert knowledge. This may be particularly appropriate where risks to the public make trust a key concern.

Service delivery

4.3.33 In service delivery and investment areas, current PFI guidance highlights the importance of appropriate risk allocation

between the public and private sectors (seeking an optimum rather than maximum risk transfer). It points out that to obtain good value for money, transferred risks need to be within the control of the partner organisation, otherwise they will seek to charge a premium for taking it on. The main categories of risk to be considered have been established as: design and construction; commissioning and operating; demand; residual value; technology/obsolescence; regulation; project financing; contractor default; and refinancing. It has become increasingly apparent that Departments cannot transfer the underlying political risk of failure, or any consequent impacts on their core business. This points to the importance of working in partnership, and highlights the need for sound management arrangements.

4.3.34 Where partnerships with other private/public/voluntary sector organisations are used to deliver services, there are management issues that could be better handled:

- the PAC has highlighted the need to improve understanding of the risk management systems of partner organisations,[58] both in terms of confirming quality and in terms of having an integrated approach. We recommend *(rec.30a)* that use of a risk management standard as the basis for accrediting partners' risk management arrangements should be considered;

- recent rail incidents have highlighted the need for clear accountability for managing risks, especially when there may be a complex pattern of organisations involved in service delivery. We recommend *(rec.30b)* that where responsibility for risk is transferred to a partner organisation, particular care is taken to ensure that accountabilities are clearly established by

Departments, procedures for escalating risks are agreed,[59] and capacity maintained to manage and monitor performance (including provision of relevant information) and to take early action in the event of difficulty; and

- the PAC's review of PFI projects[60] also finds that public bodies are not doing enough to manage their PFI contracts after they have been agreed. Findings include the need to ensure a clear ongoing link between risk and reward – avoiding the impression that government will always bail out contractors, as has happened in some individual cases, such as the Royal Armouries Museum or the Channel Tunnel Rail Link.

4.3.35 It is also recommended *(rec.30c)* that there is a case for developing further approaches to contracting with partners, especially where the aim is primarily to deliver a service rather than, for example, a large-scale capital project. This might involve shorter contract periods, more flexible contracting arrangements and lower transaction costs than are typical with PFI arrangements. The Treasury and OGC should consider this in developing government's approach to partnerships.

Departments working together – networking and peer review

4.3.36 Establishing an effective network is seen as an important way of helping Departments to develop quickly through sharing best practice. There are the beginnings of this network, linked to contact lists held by the Risk Management Steering Group and ILGRA. But we recommend that this should be strengthened, rationalised and publicised. It is particularly important to

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[58] **PAC**, *Managing Risks in Government Departments,* op. cit.
[59] For example, as recommended in the Interim Recommendations of the Investigation Board into the Hatfield Derailment, August 2002.
[60] **PAC**, *42nd Report: Managing the Relationship to Secure a Successful Partnership in PFI Projects,* July 2002.

facilitate contact between those responsible for leading development of risk management practice in Departments. The centre has a role to play in establishing, and initially in running, this network. We recommend *(rec.31a)* that a network could be set up of the "risk improvement managers" proposed in chapter 4.4.

4.3.37 We recommend *(rec.31b)* that this network, combined with the Implementation Steering Group, could take on ILGRA's current responsibilities (reviewing management of cross-cutting risks; ensuring risk is considered in agreeing PSAs; promoting a consistent approach to risk; and improving risk communication). This could build on the strong track record of ILGRA, effectively embedding in the machinery of government its current role as a champion group.

4.3.38 We also recommend *(rec.31c)* that the people network could be supported by the developing IT-based knowledge networks, from existing Cabinet Office web-based tools: including the Risk Portal, the Policy Hub's knowledge pools, and the PSBS.

4.3.39 A specific role for the network would be to provide peer group reviews and challenges. Peer review has been a growing area in government, but has been hampered by availability of suitable reviewers. The network would provide a ready source of expertise, but this would have to be underpinned by an understanding that peer review work is part of the participant's job – justified on the basis that their would be reciprocal gains. Peer review could also be used within Departments, where there may well be several centres of risk expertise (for example, within audit, projects and programmes and individual delivery organisations, and we hope increasingly in policy areas).

4.3.40 Peer review is used extensively by BP, an acknowledged leader in risk management. Within BP, the use of peers forms the backbone of risk management, in order to ensure consistency in approach, improved use of knowledge and adoption of best practice. Projects are required to make use of peer assist and peer review to ensure all risks are dealt with. Networks are created on issues such as operational integrity, technological issues, crisis management, and health and safety. At higher levels peer groups meet on at least a quarterly basis in order to assess and contribute to performance and risk management, and there is a clear expectation that those units performing better than average will assist the improvement of those units that are under-performing. This structure assists in:

- ensuring consistent quality and approach to risk management;

- leveraging knowledge across the organisations;

- ensuring greater openness;

- ensuring that best practices are adopted;

- circulating lessons learned; and

- creating contacts in a formal setting that will be used on an informal basis.

4.3.41 We recommend *(rec.32)* a similar approach in government. This would provide a good basis, for example, for developing responses to risks that span more than one Department, enabling the right contacts to be made to gather intelligence and share information, and assess risks holistically across functions. Within Departments this approach is already developing, for example DEFRA is establishing a Risk Forum where risk practitioners share good practice and lessons learned. This is one of the vehicles the Department will use to take forward the recommendations of the FMD inquiries.
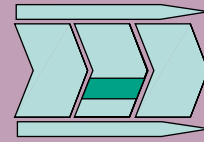
Summary

- To embed risk management thinking and capability in government's way of doing business, risk management needs to become an integral part of mainstream learning and development at all management levels.

- Although the importance of developing risk management awareness and skills is well recognised, risk management thinking is still at an early stage within government.

- There should be a co-ordinated and systematic approach to the provision of risk management skills and training under CDG leadership.

- This should be based on a common understanding of good practice on risk handling, including the possible "standard" for risk management in government (discussed in chapter 4.2).

- Risk management should become more prominent within the full range of Civil Service management systems, for example through developing the risk management elements in the core competences, similar to developments in project management.

- Each Department or agency should appoint a risk improvement manager to spearhead its programme of work to develop processes, systems and skills to support the effective handling of risk. This should include a review of current spend on risk management specialists and the scope for in-house expertise.

Development of risk management thinking is still at an early stage in many organisations, including government

4.4.1   To embed risk management thinking and capability in government's way of doing business, risk management needs to become an integral part of mainstream learning and development at all levels. It is widely accepted that, in order to handle risk better, employees need both the right skills and the right attitudes. Although risk management is developing as a professional discipline in its own right, a growing number of private sector companies now recognise the need to spread risk management thinking more widely across their operations. However, development of risk management as a core competence is still at an early stage in many organisations, including government.

4.4.2   Some of this can be achieved by formal training. Equally important are experiences – for example, simulations – that help people to understand, emotionally as well as rationally, the importance of handling risk more professionally. A successful example was the Y2K simulation run across the whole of government, which in itself raised awareness of the importance of identifying and building contingency for strategic risks. MoD war games are another example.

4.4.3   The importance of developing risk management awareness and skills at all levels in the Civil Service is well recognised.[61] And a number of Ministerial and Joint Policy seminars have covered various aspects of risk management:

- three important corporate programmes for the SCS have a session on risk (the Top Management Programme, Developing Top

Management and the Introduction to Corporate Leadership).[62] Further programmes and seminars are planned to focus on risk, including further work on better policy making; and

- in the Civil Service College, more than 25 programmes include a focus on some aspects of risk.

4.4.4   In addition, there are a number of different organisations that lead risk management training and development:

- the Treasury sponsors a number of seminars on risk/SIC issues and supports CDG in its corporate governance course and in its training for new NDPB Board members;

- the Treasury has also supported a number of organisations directly by working with their Boards, senior management groups and audit committees; and

- the OGC has developed a training module aimed at people who wish to develop a special expertise in risk management, which could support a wider best practice model.

4.4.5   These would benefit from a common framework, to ensure that the messages are consistent with wider government policy thinking on risk. We recommend that *(rec.33)*:

- there should be a co-ordinated and systematic approach to the provision of risk management skills and training, under CDG leadership. This should include:

  – the development of a common core of risk management material (linked to the proposed standard) on which all programmes could be based;

  – a review of key mainstream development programmes that could

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[61]   This topic is covered in **Cabinet Office**, *Modernising Government White Paper*, March 1999 and **CDG**, *Better Policy Making,* op. cit., November 2001.
[62]   CDG sponsored.

usefully cover risk management and innovation, including centrally-led programmes for general management training, specific training focused on effective policy making, financial management and project management, and senior management development programmes;[63] and

– integration with the training framework, developed by OGC to complement *Management of Risk: Guidance for Practitioners.*[64]

- the review should be included in the two-year programme of work that we recommend to achieve a step change in government's capability to handle risk;

- Departments' heads of human resources should conduct similar reviews of their own training and development programmes, which in turn might form part of the new Departmental Change Programmes; and

- CDG should support action by Ministers and senior officials to foster a culture in which well-judged decisions about risks and opportunities can be made (see rec.42, chapter 6).

4.4.6   CDG may wish to review a number of its work areas to take account of these recommendations, and look specifically at developing a risk module for inclusion in SCS training in effective policy making (covering risk identification, assessment, mitigation and contingency planning). In addition, the Risk Support Team should work with the relevant parts of the Cabinet Office (the Reform Strategy Group, OPSR, the SU and others) to ensure that the recommendations on encouraging risk awareness and management are incorporated into Departments' policy making.

Other development opportunities and tools

4.4.7   The formal training/seminar approach is only one element in a wider programme of initiatives to help embed risk thinking and techniques in the culture. But it is an important one. It is key to generating a common framework, which can then be applied in day-to-day work experiences.

4.4.8 Formal training needs both to feed off and into real life experiences. The acid test of whether training is consistent and has impact, is whether, over time, the same approach to risk is recognised in all forums, resulting in good quality handling across the board. Whether Departments see easy routes to getting help and best practice from the centre and around Whitehall is also an indicator.

4.4.9   To complement formal training, a range of other approaches can help support changing attitudes and building confidence, including:

- working through existing management networks, such as those for Principal Finance Officers, HR Directors, IT Directors, etc (see list at paragraph 6.47);

- building new risk-specific collaborative teams to share good practice; and

- using existing mechanisms, such as peer review, to learn from others.

4.4.10 We have also looked at key initiatives outside the formal CDG programmes which could help focus leaders' attention on risk management thinking, including those led by the OPSR, CDG and the DU. These include:

- the joint CDG/Treasury PSA+ initiative;

- the OPSR model of the high performing Department; and

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[63]   These include the joint Ministerial/Senior Civil Servants' programme, Engaging with Government, an Introduction to Corporate Leadership, the Cabinet Secretary's Programme, the Partnership Programme, Leadership in Partnership and the "e" learning leadership toolkit.

[64]   op. cit.

- Strategy Unit work with Departments to promote strategic thinking and skills.

The Strategy Unit Risk study team has helped to develop thinking on some of these initiatives. The new Reform Strategy Group, in its work with Departments on their change programmes, can also be expected to play a key role in influencing behaviour and practice.

Professional risk management skills

4.4.11 At present, Departments and others often employ specialist arms of management consultancies to introduce risk management systems. We recommend *(rec.34)* that, in such cases:

- there is a continuous effort to pass on skills and to ensure that learning is captured and used – passing on the skills to both manage, evaluate and reassess systems will be essential to achieve best value; and

- Departments and others actively identify their likely level of future need for risk management specialists, with the aim of developing suitable in-house people, in particular, to take over any continuing role currently performed by outside consultants in this area. While we consider that there is a case for developing a small core of risk management specialists to support embedding of risk handling in the day-to-day business of government, this should not be a substitute for improving risk management skills more generally across government.

4.4.12 To support this, we recommend *(rec.34a)* that:

- each Department nominates a risk improvement manager to support this

process – setting standards, and advising the Board on what is required. There are a number of different models that might be suitable, for example, the model adopted in some Departments for the project management and procurement specialisms. Departments may want to encourage their agencies to appoint separate risk improvement managers; and

- OGC should provide an advisory resource on systems and skills, drawing wherever possible on existing training and qualifications, but considering the possibility of introducing a uniform basic model.

People management systems

4.4.13 There are many and varied approaches to the people systems around Whitehall that govern the formal handling of individuals – in terms of performance, rewards, promotion, etc. These can be used to reinforce and encourage positive approaches to handling risk and opportunity.

4.4.14 Key to a number of these systems is the SCS competence framework,[65] which includes risk management in a number of areas. There is currently no central evaluation of how Departments have used this model.

4.4.15 We recommend *(rec.35)* that Departments are encouraged to explore the way they use competence frameworks to support their risk management objectives, as DEFRA has recently done. To further this, we suggest:

- an evaluation by CDG, under the aegis of the new central team, of how competence frameworks and appraisal and reward systems for the SCS are being used to support risk aware behaviour (work on this

[65] Competence frameworks are used in many organisations to identify the behaviours that employees must have, or be able to acquire, in order to achieve high levels of performance. The competence framework for the Senior Civil Service can be found on the Cabinet Office website at http://www.cabinet-office.gov.uk/civilservice/scs/competences.htm
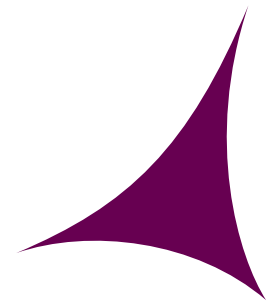
has already been commissioned by IPPD and CDG in the context of project and programme management); and

- that Departments build the competences and behaviours to develop risk management capability into all key people management systems:

  - design of job objectives, and the linked performance review process;

  - 360° feedback;

  - promotion – particularly to SCS level; and

  - pay and rewards – financial and non-financial.
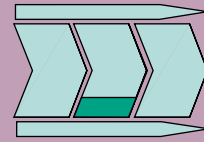
4.5 ENSURING QUALITY

Summary

Raising the government's game in relation to risk will require careful attention to how well new approaches are implemented. We recommend that a comprehensive quality standard be established for risk management. This should be co-ordinated by the new Risk Support Team and be complemented by benchmarking arrangements. Skills training should be linked to the new standard.

4.5.1   Risk management procedures can be implemented mechanistically (ticking boxes) – or in ways that have a substantial impact on the success of organisations. To ensure genuine quality, arrangements for quality assurance are needed. Simple checklists can be useful and a number of these are already in use (such as the Orange Book – which contains a checklist of types of risk to consider; RIU's guidance on RIAs; and ODPM/DfT's Integrated Policy Assessment framework) or are being developed.

Standards for risk management should be adopted…

4.5.2   But there is also a move to introduce systematic quality standards for risk management in response to a perceived need for practical assistance in applying risk management in public and private sector organisations. National standards first appeared in Australia and New Zealand in 1995 (now AS/NZS 4360:1999), then in

Canada in 1997 (CAN/CSA-Q850:1997). The UK followed in 2000 (BS-6079-3:2000), and Japan in 2001(JIS Q 2001:2001).[66] The British Standards Institution (BSI) has also produced PD6668:2000 on managing risk for corporate governance. Other countries and regions (Europe) are currently considering similar standards, and the International Standards Organisation has produced a list of common global definitions for risk management terms.[67]

4.5.3   These standards define the risk management process (including steps such as: establish the context; identify, analyse, evaluate and treat the risks; communicate and consult; monitor and review) and the activities that underpin it, providing guidance on tools and techniques.

4.5.4   The most established, AS/NZS 4360, has been very well received internationally, widely influential, and adopted by, for example, the majority of government organisations in Australia and the National

[66]   ed. **Kloman**, *Risk Management Reports 1995–2000, Risk Management Standards October 2001* – (www.riskreports.com/standards.html)
[67]   **ISO/IEC**, *Guide 73, Risk Management Vocabulary: Guidelines for Use in Standards*, July 2002.

Health Service and Office of National Statistics in the UK. The Department of Health also proposes to adopt the standard.

4.5.5   There is not yet widespread use of a standard in the UK. Indeed, government has developed its own guidance (the Treasury and the OGC) in parallel with BS-6079-3, which in any case is project based. The Treasury is developing its own set of Risk Management Standards for Departments, linked to application of the "Orange Book" cycle, as a tool to evaluate how well Departments are implementing risk management.

4.5.6   We recommend *(rec.36)* that the OGC and the Treasury should review the direction for quality standards for government, drawing on best practice internationally and drawing on the findings of this report, to ensure a comprehensive and useable standard for UK government. This should build on current good practice, progressively providing a common framework and language. This work should be commissioned and overseen by the Implementation Steering Group proposed in chapter 4.3. Departmental Risk Frameworks should then be reviewed in light of the emerging standards.

…and also benchmarking

4.5.7   Benchmarking is a further tool for improving quality in the application of risk management. We recommend *(see rec.16)* that government should develop the benchmarking approach set out in paragraph 4.2.46, utilising the expertise and facilities of the PSBS.

Quality standards should be applied to training

4.5.8   Skills training should be developed against a standard approach to ensure quality, as proposed in chapter 4.4. OGC has developed a Risk Management Qualification linked to its Practitioner Guide. This will be an important step forward.

4.5.9   It is also important to ensure appropriate quality assurance of the development of behaviour and culture, not just of the implementation of process changes. This should be incorporated in the benchmarking criteria.

4.5.10 In summary, we recommend that a comprehensive set of quality arrangements are set in place and that these should be co-ordinated by the new Risk Support Team.
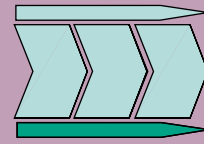
5. HANDLING AND COMMUNICATING ABOUT RISKS TO THE PUBLIC

Summary

The handling of risks to the public has become more challenging in recent years, as information sources multiply and public expectations change. Recent cases have demonstrated that, in order to handle and communicate effectively about risks to the public, government needs to win public trust. In particular, they suggest the need for:

- building public confidence in the basis of decisions made by government about risks;

- more transparency about decisions so that they demonstrate a clear grounding in evidence;

- decisions that better reflect public values and concerns; and

- providing enough information to allow individuals to make balanced judgements.

Although steps have been taken to improve the handling of risks to the public, this study suggests that the government's approach to handling risks to the public needs to become:

- more open, particularly in cases of uncertainty;

- more transparent about the processes it has used to reach its decisions; and

- more participative, by involving stakeholders and the wider public at an earlier stage in the decision process.

In addition, Departments should consider the scope for extending the role of arm's-length bodies in areas where issues of public trust are paramount.

Where this has been done, public trust has been maintained, and damaging and costly crises have been avoided.

Introduction

5.1   Citizens face risks to their health, property, wellbeing and environment from a variety of sources as part of their daily lives. Many risks are taken willingly and with a fair amount of understanding, and require little direct intervention from government. Other risks can be prevented or contained through regulation or other measures such as public health care. Some risks, for example the risk of contracting new variant Creutzfeldt-Jakob Disease (vCJD) from eating infected beef, are by their nature hard to understand. Our understanding of other risks, and of how they interact with each other, is also constantly changing. In these cases, government's most important role is to provide information so that individuals can decide how best to control their own exposure to the risk or judge the action that government is taking on their behalf. For government to be able to discharge this responsibility, it is vital that it is trusted.

5.2   In the UK, government has developed a number of well-established ways of informing members of the public about risks that affect them, some of them statutory. Examples include:

- awareness campaigns to highlight the health issues of smoking, to reduce the number of road deaths, or to raise awareness of the effects of climate change; and

- setting up public bodies such as the Food Standards Agency with a specific responsibility for providing information and advice to the public on issues they are likely to encounter in their daily life.

5.3   Government also has well-established responsibilities for regulating technologies, products and processes that could pose a risk to the public. Some of these are also statutory. For example, the Environment Agency, Health and Safety Executive (HSE), Financial Services Authority, Food Standards Agency, Medicines Control Agency, Human Genetics Commission (HGC) and Human Fertilisation and Embryology Authority (HFEA) are all involved in regulating risks that affect the public, employees, business or the environment.

The handling of risks to the public has become more difficult in recent years

5.4   Governments need to be able to identify issues that pose risks to the public or that could cause public anxiety and, where necessary, take action to tackle the risk or address people's concerns. This role is part of the core business of some Departments and arms of government that are responsible for ensuring the health and safety of the public. For others, these concerns are less significant and the issues we discuss here may not need to form such a central part of their risk management strategies.

5.5   Handling and communicating about risks that may affect the public has become more difficult, as information sources multiply and public expectations change. Challenges that government has had to face in recent years have included:

- rapidly escalating crises (such as the fuel blockade in September 2000) that have taken the government and media by surprise;

- difficult judgements about public safety, where the evidence about the likelihood and impact is unclear (such as BSE);

- public concern, amplified by sections of the news media, about new forms of risk
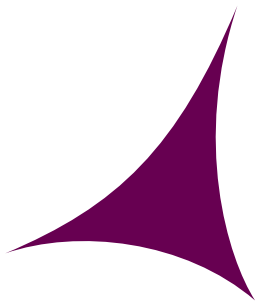
(for example concerns about "the flesh-eating bug" or about a possible link between the MMR vaccine and autism);

- public concern about the measures used by government to tackle certain risks (such as the policy of mass slaughter to tackle Foot and Mouth Disease (FMD) or the purchase of smallpox vaccine);

- public scepticism about the balance between the benefits and risks of new technologies (such as Genetically Modified (GM) crops);

- concern about individual choice (for example over the banning of beef on the bone or over the triple vaccine for MMR);

- public pressure for access to information about the source of perceived risks (for example the whereabouts of convicted sex offenders);

- pressure from the public and media for government to take wider action in response to high profile tragedies (such as Lyme Bay, Soham, or the Hatfield, Paddington and Potters Bar rail crashes); and

- concerns, following 11 September, about the emergence of new forms of terrorism, including the use of biological agents.

5.6   These cases demonstrate that, in order to handle risks to the public effectively, government needs to win and retain public trust. They raise a number of common themes, some of which (such as the need for better horizon scanning and the effective handling of risk in decision making) are addressed in earlier chapters. In addition, they suggest the need for:

- greater public confidence in the basis of decisions, grounded on more relevant and up-to-date information and greater clarity about what assumptions are being made,

particularly where there is uncertainty, a lack of information or conflicting views;

- a more public and transparent basis for decisions about risks to the public, that demonstrates a clear grounding in evidence and is responsive to public concerns;

- decisions that better reflect public attitudes and values, based on earlier identification of concerns about potential risks and a more proactive two-way communication process involving both the public and the media, that is sufficiently robust in crisis conditions;

- more realistic expectations of the government's ability to protect the public from risk;

- greater recognition of the expectations and responsibilities of individuals to manage the risks that affect them directly; and

- information that enables individuals to form balanced judgements about the scale and likelihood of risks and the choice of response.

5.7   The MMR case showed how much government relies on the participation of the public in tackling certain risks, and the extent to which that participation relies on an established base of trust and confidence. Research suggests that trust can only be built up over a number of years on the basis of a clear track record of competence and credibility.[68] Other studies have suggested that trust is more likely to be strong where:

- institutions are clear about their objectives and values;

- there is openness and transparency around decisions;

- decisions are clearly grounded in evidence;

[68] **Lofstedt and Rosa**, *The Strength of Trust in Sweden, UK and the US*, Trustnet.

- public values and concerns are taken into account in making decisions;

- sufficient information is provided to allow individuals to make balanced judgements; and

- mistakes are quickly acknowledged and acted on.[69]

The recent experiences of a number of leading businesses, for example Ford and Firestone in America and Coca Cola in Belgium,[70] provide a practical illustration of how quickly public confidence can be damaged if some of these factors are overlooked.

5.8   Concerns about public confidence can often go beyond particular crises[71] and can influence the handling of subsequent issues. Leading print journalists we interviewed said that, even though they themselves believed that the government had acted in the public interest on MMR, its track record on BSE and other issues meant that this was not the perception of many of their readers.

The role of the news media

5.9   As well as having a legitimate challenge role, the news media are often the government's main channel of communication with the wider public on risk issues. Although there is much responsible reporting, the news media can sometimes give an unbalanced picture by selecting the most newsworthy aspects of a story. For example, in their reporting of the "flesh-eating bug" and the fuel blockade in September 2000, sections of the news media

exaggerated potential concerns. During the fuel blockade, this helped provoke panic buying of fuel in some local areas, with potentially serious consequences. In other cases, reports of increases in the likelihood of certain health risks have failed to indicate the scale, which would have put the risk into context. Where misreporting of risks has happened, it has been more difficult for the public to gauge accurately the issues at stake, and for government to engage in an informed public debate on the issues. There are a number of safeguards in legislation to ensure fair and accurate reporting. For example, the Broadcasting Act 1990 requires broadcasters to report with "due accuracy and impartiality". These safeguards are being carried forward into the Communications Bill, currently in draft, which will create a single regulator, the Office of Communications (OFCOM), to take over the functions of the five existing broadcasting regulators.

[69] For example, the Better Regulation Task Force's *Fourth Annual Report* (Cabinet Office, October 2001) identified a number of guidelines for risk communication, including acknowledging the problem, providing the public with evidence, and acknowledging gaps in information.

[70] Ford and Firestone both suffered serious reputational damage as a result of their handling of a product recall in the United States. Coca Cola suffered similar damages in Belgium as a result of its response to consumer safety concerns about its products. These cases are discussed on the Regester Larkin website (www.regesterlarkin.com).

[71] **Professor David King**, *The BSE Inquiry: Lessons for Government*, FST Journal, Vol. 17, No.2, July 2001.
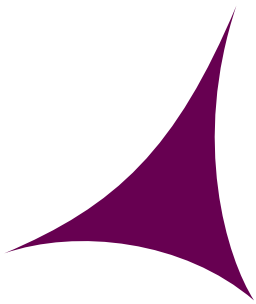
Declining trust in institutions

5.10 All this is set against a background of declining public trust in some institutions and in science (discussed in chapter 3). The results of a MORI survey in 1999 (set out in Figure 5.1 below) provide a snapshot of how the public judged government's handling of certain topical risks. This shows that levels of public trust were generally low, even where some risks (such as the Millennium bug) were judged with hindsight to have been handled well.

5.11 Public attitude research has also shown that government Ministers and officials are often trusted less than sources of information that are seen to be independent of government. (This is illustrated by Figure 5.2 below, which is taken from the same survey.) A study in 2001[72] found that 60 per cent of the population believed that charities were more trustworthy than government. While these survey findings ignore the fact that governments have to make difficult and often unpopular decisions in the public arena, they show that it can be difficult for Departments themselves to be seen as providing credible information about risk, particularly in cases where the facts are in dispute. The surveys also suggest that people are more likely to trust local and more visible sources of information (such as GPs) than more remote sources such as governments.

Figure 5.1: Public assessments of the government's handling of certain risks[73]

Net successful (+%)

Drink driving	+27%
Immunisation	+26%
Health and safety at work	+26%
Healthy diet	+7%
Smoking	+3%
Transport accidents	-2%
Mis-selling of pensions	-9%
Food safety	-11%
Millennium bug	-13%
Genetically modified food	-23%
Pollution	-25%
Crime	-28%
Care in the community	-44%

Government's handling of risk

Q Which of these issues, if any, do you think have been handled successfully/ unsuccessfully by the government?

Figure 5.2: Public trust in information sources on BSE[74]

Trust least   Trust most

	Trust least		Trust most
Industry scientists	2%		57%
Farmers	23%		22%
National Farmers Union	15%		21%
MAFF civil servants	19%		18%
Govt. scientists	25%		17%
Television	5%		16%
Newspapers	16%		12%
Food manufacturers	28%		11%
Friends/family	3%		9%
Supermarkets	19%		6%
Govt. Ministers	41%		4%
Politicians	23%		2%

Trust on BSE

Q Now thinking about BSE, which two or three, if any, of these sources would you trust most/least to advise you on the risks posed by BSE?

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[72] Charity Awareness Monitor/nVision, Base 1,050 adults, 2001.

[73] Research conducted by MORI Research Unit and BRU in January 1999. Cited in **MORI**, *Public Attitudes to Risk, a research paper produced by MORI for the Strategy Unit*, February 2002.

[74] ibid.

The need for more transparent and evidence-based decisions about risks that affect the public is widely recognised

5.12   The need for greater openness and transparency in decisions about risk has been highlighted by a number of commentators, including the Phillips Inquiry on BSE and both the House of Lords and House of Commons Select Committees on Science and Technology.[75] Lord Phillips suggested that "perhaps the most important single lesson we learned is the importance of open communication of information to the public".[76] The recent Defence Select Committee report on *Defence and Security in the UK*[77] makes a number of recommendations about openness, and suggests that information should be withheld from the public only where its publication would give rise to a specific and identifiable risk. The NAO report into FMD[78] recommends that the Department for the Environment, Food and Rural Affairs (DEFRA) should consult widely with stakeholders about its contingency plans for dealing with animal diseases. In the private sector, the contrasting experiences of Johnson & Johnson (over Tylenol) and Exxon (over the handling of the Exxon Valdez oil spill)[79] provide well-documented lessons to business about the importance of openness and transparency in communicating about risk with the public.

5.13   Baroness O'Neill explored the links between openness, transparency and trust in her recent series of Reith lectures.[80] Although she questioned the case for wider availability of information, she argued that conditions of trust were only feasible where individuals could check the information provided by others. This suggests that the issue for government is not necessarily to provide more information, but rather to expose its decision processes to public scrutiny in a way that allows the public to understand and judge the decisions it makes in the light of the balance of expert opinion on the nature and scale of the risk.

5.14   Important lessons have been learned about the value of evidence-based decision making, openness and engagement, proportionality, consistency and targeting as part of the government's reform agenda. The government has taken a number of steps to lay the foundations for better decision making about risks affecting the public. Principles of evidence-based decision making, openness and engagement are among those included in *Better Policy Making*.[81] These principles are reflected in other cross-cutting policy initiatives, such as the Better Regulation Task Force's (BRTF) *Principles for Good Regulation*.[82]

5.15   The debate over the precautionary principle[83] in recent years has helped to develop a framework for handling risks in cases where there is good reason to believe that there may be harmful effects and where there is significant uncertainty about the nature or scale of the risks involved. Recent

[75] See also **House of Commons Select Committee on Science and Technology**, *Fourth Report: The Scientific Advisory System*, March 2001.
[76] **Lord Phillips**, *The BSE Inquiry: Lessons from the Inquiry*, FST Journal, Vol. 17, No.2, July 2001.
[77] **House of Commons Select Committee on Defence**, *Sixth Report: Defence and Security in the UK*, July 2002.
[78] op. cit.
[79] Johnson & Johnson's handling of the Tylenol incident, in which a number of its products were laced with cyanide, is widely regarded as exemplary. For a discussion of both these cases, see **Larkin**, *Strategic Reputation Risk Management*, Palgrave MacMillan, 2002 and **Regester** and **Larkin**, *Risk Issues and Crisis Management (Second Edition)*, Kogan Page, 2002.
[80] **Baroness O'Neill**, Trust and Transparency, BBC Reith Lecture 4, 2002.
[81] op. cit.
[82] op. cit.
[83] A definition of the precautionary principle is contained in annex 9.
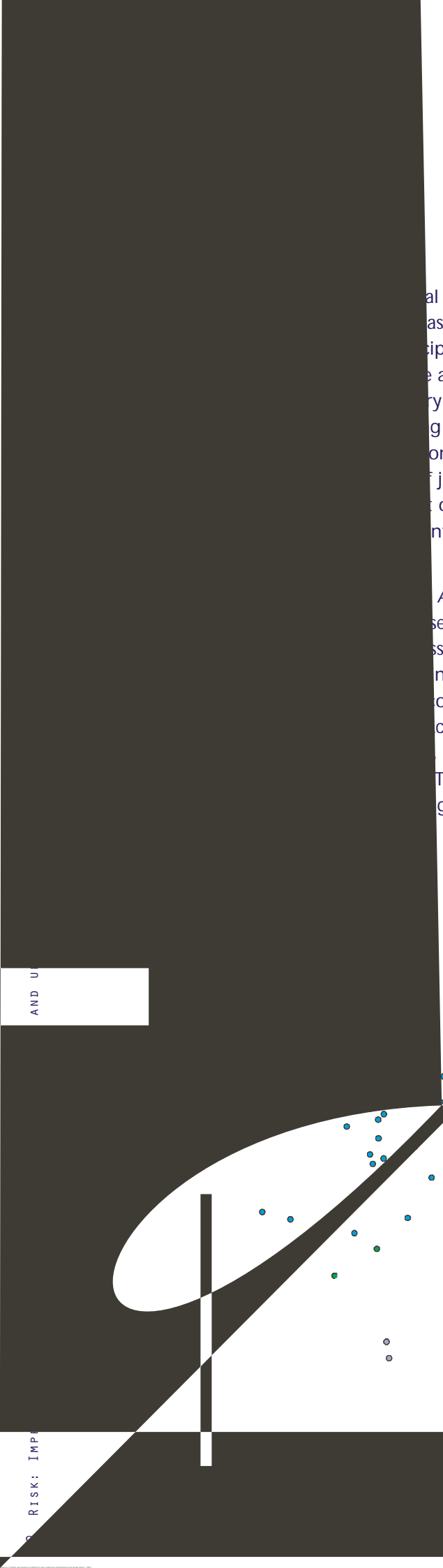
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and is likely to provide a strong impetus for openness in risk communication. In addition, Departments are now required to publish Risk Frameworks that set out how decisions are made on risks that affect the public.

5.17   Recent studies by the Green Alliance[85] and the National Consumer Council[86] have highlighted the benefits of public involvement in policy decisions. The recommendations later in this chapter suggest that two-way communication on risks that may affect the public should be an integral part of the policy development process. This should help provide the information on stakeholder and user views that form part of the routine risk assessment process carried out before key decisions are made.
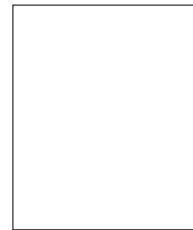
Access to Government Information, Second Edition, 1997.
ing Risk & Uncertainty in Environmental Policy-Making, June 2000.
s: Everyone Benefits, September 2002.

A number of Departments have issued guidance on risk communication based on research into public perceptions about risk

5.18   There has been considerable research over the last 20 years, aimed at improving our understanding of how people perceive and react to risks. Figure 5.3 above, drawn from an influential study carried out in the United States,[87] shows how public concerns are likely to increase significantly where the issues are unfamiliar or where the consequences inspire dread, regardless of the likelihood of the hazard. Other studies have identified that people are more likely to accept or tolerate risks where they feel that they are taking them voluntarily or that they have a say in how the risks are managed. Our own studies suggest that public perceptions of empowerment are becoming increasingly important in the handling of risks to the public. Annex 4 contains a more detailed discussion of the main thinking in relation to public risk perception.

5.19   This thinking has helped to inform guidance published by a number of Departments. The Department of Health (DoH) and ILGRA have published guidance to regulators and policy makers on risk communication, and HSE, in conjunction with other sponsors of the original research, is developing new guidance on risk communication based on recent research into the social amplification of risk. This guidance is well regarded by risk management professionals within government.

5.20   Research into public perceptions of risk has also helped to inform the Chief Scientific Adviser's *Guidelines 2000*[88] and *Code*

of Practice for Scientific Advisory Committees,[89] which provide guidelines on the presentation of scientific advice. While *Guidelines 2000* has achieved a high profile among science policy makers, the lack of a centrally placed sponsor for risk has meant that guidance on risk communication has not been disseminated as widely within government as it deserves.

Action is already being taken across government to improve its ability to handle and communicate about risk to the public

5.21   A number of Departments involved in risk management are taking a lead in incorporating principles of evidence-based decision making, transparency and engagement in their handling of risks to the public. For example, DEFRA has recently invited stakeholder views on the design of its risk management strategy, through participation at a risk seminar. In doing so, it has been upfront about past mistakes and about the principles guiding its new approach.

5.22   The NHS Plan[90] sets out DoH's plans for involving patients and the public in health care. This includes the creation of a new Commission for Patient and Public Involvement in Health, and a Citizen's Council to advise the National Institute for Clinical Excellence (NICE). Training on risk communication is provided for staff at all levels in DoH through a unit based in the Public Health and Clinical Services Directorate.

5.23   A number of government agencies operate to published policies of evidence-based decision making, openness and

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[87]   **Slovic, P.** *Perception of Risk*, Science Vol. 236, 1987.
[88]   **Chief Scientific Adviser**, *Guidelines 2000: Scientific Advice and Policy Making,* Office of Science and Technology, July 2000.
[89]   **Chief Scientific Adviser**, *Code of Practice for Scientific Advisory Committees,* Office of Science and Technology, December 2000.
[90]   **Department of Health**, *The NHS Plan: a Plan for Investment, a Plan for Reform*, July 2000.

stakeholder engagement. For example, the Food Standards Agency provides open access on its website[91] to the research that has informed its decisions, and its Board sets the standard for openness by meeting and making policy decisions in public. Since its inception in 2000, public confidence in the Agency increased significantly, from 55 per cent in 2000 to 61 per cent in 2001. HSE has published the principles that guide its handling of risks to the public and employees in the document, *Reducing Risks, Protecting People.*[92] The HGC has formal procedures requiring it to take advice from stakeholders and the public before putting advice to Ministers. It uses a number of routes, including the Internet, to obtain views from members of the public to inform its own advice. These and other examples are discussed in more detail in annex 7.

5.24   The Civil Contingencies Secretariat (CCS) is currently taking forward a number of strands of work to improve the communication and reporting of risks during emergencies. It has set up a website, *UK Resilience*,[93] which provides ongoing access to information on a range of potential risks, including flooding, major accidents and terrorism. It has established planning and operational relationships with the national and regional news media through the Media Emergency Forum (MEF), which meets to discuss the handling and reporting of major incidents. By working closely with the news media following 11 September, the government was able to ensure balanced reporting of concerns about bio-terrorism, specifically around fears over the use of anthrax.[94] It has also developed a "tool kit" with the BBC to bring local radio station managers and emergency planners and services closer together in the interest of providing factual information to the public

during crises. The CCS involves media representatives wherever possible in planning meetings and is developing, through the Government News Network, close relations with the local broadcast media.

However, there is still room for improvement

5.25   The Strategy Unit study has identified three main areas where there may be scope for improvement:

- more openness in providing access to information about risks to the public and about where Departments have made mistakes. This does not necessarily mean publishing every detail about every risk, but suggests that Departments should focus on issues where public concerns are highest. Our analysis suggests that concerns are particularly marked where there is uncertainty about the nature or scale of the risk, for example over GM foods, or where there is public dispute about the issues, such as over MMR. In these circumstances, members of the public are least likely to trust the information they receive, and more likely to want to know the assumptions that Departments have used to inform their judgements;

- more transparency about the processes used to reach decisions. Our analysis suggests that scepticism tends to be highest where members of the public perceive themselves or their families to be directly at risk, for example over vCJD, or where they cannot perceive direct benefits to them, such as with GM foods. In these circumstances, Departments may need to review whether they are doing enough to address this – in particular, by

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[91]   Available on http://www.food.gov.uk/science/research

[92]   **HSE**, *Reducing Risks, Protecting People: HSE's Decision Making Process,* 2001.

[93]   http://www.ukresilience.info

[94]   The MEF's report on communications issues arising from the events of 11 September, published in June 2002, can be found on http://www.ukresilience.info/mefreport.htm

demonstrating that the approach they are taking is based on firm evidence, is responsive to public concerns, and is open to acknowledging uncertainty or dissent;

- more systematic involvement of the public in decisions about risks that affect them or concern them. This is closely linked to the issue of empowerment discussed earlier in this chapter. A number of people we interviewed during our study, both within and outside government, observed that communication is not always fully integrated into Departments' risk management strategies, and that in some cases it is something of an add-on. Three specific concerns were raised in our study in relation to communication with the public about risks they face:

  - communication needs to start earlier in the policy development and decision process, wherever possible when framing decisions are being made. A number of NGOs told us that they were frequently approached for comments on a narrowly defined solution to risk issues, rather than being involved early on in analysing the problem and the range of options available for tackling it;

  - communication with the public on risks that affect them needs to be a genuinely two-way process. NGOs have suggested that a one-way approach to risk communication is more likely to increase public anxiety about risks than to provide reassurance; and

  - involvement of the public in decisions about risks, both formal and informal, needs to be as widespread and balanced as possible. Stakeholders we spoke to suggested that, by restricting formal consultation to their usual list of contacts, Departments were more vulnerable to "group think" and as a

result, key risks were sometimes missed. Similar concerns were voiced about informal soundings such as public attitude surveys, with one politician we spoke to suggesting that Departments sometimes confuse market research with genuine involvement in the decision process.

5.26   In the recent past, arm's-length bodies such as the Monetary Policy Committee (MPC), Food Standards Agency and Financial Services Authority have shown that they may be better able to sustain public trust and effective decision making in handling certain risks. There may be scope for extending the role of bodies of this kind in other areas where issues of public trust are paramount.

5.27   Most of those we consulted agreed that government's ability to handle risk to the public would be improved by more openness, transparency and engagement. The examples of the Danish and Swedish food standards agencies and the experience of the UK Food Standards Agency so far (at annex 7) suggest that, where this has been done, public trust has been maintained and potentially damaging or costly crises have been avoided. They also suggest that the public will become more accepting of an open approach towards uncertainty, and that this will enhance the government's ability to lead. Although there is a risk that the media may use information from a more open approach towards uncertainty to portray government as uncertain and weak, BSE and other cases demonstrate that the potential damage to public confidence by being too categorical is far greater.

...but there are also concerns

5.28   We heard a number of concerns about the practicalities of a more open and

inclusive approach to handling risks to the public. A number of Departments mentioned the resource-intensive nature of involving the public and stakeholders and the risk of "consultation fatigue" among respondents. While some NGOs we interviewed mentioned "consultation fatigue" as a concern, this was generally only seen as an issue where they were asked to comment on what they saw as irrelevant or narrowly defined issues. This suggests that consultation about risks needs to be more carefully planned and targeted by Departments as part of a broader risk communication strategy. Other respondents commented that effective involvement often required investment in capacity and skills – particularly in contacting hard-to-reach groups and in explaining the significance of the choices involved where the issues are highly technical or complex.

5.29   A number of Departments we spoke to said that a widespread lack of understanding about basic risk concepts sometimes made it difficult for them to conduct an informed public debate about risks. The most frequent areas of concern were low levels of awareness about probabilities – leading to disproportionate levels of concern about high-impact, low-probability risks – and a reluctance to accept that no activity could be entirely "risk free".

Departments and agencies should make earning and maintaining public trust a priority when dealing with risks to the public

5.30   This will require action in a number of areas, including more openness and transparency, wider engagement of stakeholders and the public, wider availability of choice and more use of arm's-length bodies to provide advice on risk decisions. The focus is on the handling of risks that affect the public directly – such as risks to health, property, investments or the environment. It is not intended to cover internal business management risks unless these are likely to result in significant risks to the public or environment. Detailed recommendations to support this objective are set out in the sections below.

As a first step towards earning public trust, government should publish its principles for handling risks to the public (rec.37)

5.31   Government should publish its principles for handling and communicating about risk to the public. These should include principles of evidence-based decision making, transparency and communication with the public and stakeholders. The aim of the principles would be to provide a clear steer to all decision makers within government, a clear statement of where responsibility should rest in managing risk, and a benchmark for Parliament, the media and NGOs against which to assess Departments' performance. A set of suggested principles, building on the themes discussed in this chapter, is set out at the end of the chapter.

5.32   We recommend that these principles are published by the Risk Support Team for widespread consultation in autumn 2002, as part of the two-year programme of change described in paragraph 4.3.24. The news media should be invited to participate in the consultation.

Departments should develop action plans to implement these principles *(rec.38)*

5.33   Departments should implement these principles as part of their wider action to improve risk management set out in chapter 7. They will need to ensure that the principles apply across the range of public services for which they are responsible. This will be particularly important where the Department's business is directly related to handling risks to the public, such as safety or health. While it may take a number of years to increase levels of public trust significantly, there are a number of steps that can be taken now to address some of the key underlying issues.

5.34   Action to implement these principles within Departments and their agencies should be co-ordinated, along with other risk management action, by risk improvement managers. (These are proposed in chapter 4.4.) Risk improvement managers should also ensure that these principles are reflected in their Departmental Publication Schemes required under the Freedom of Information Act 2000, and in their Departments' published Risk Framework documents. The Risk Support Team should consider whether existing guidance on Risk Frameworks needs to be updated to refer more explicitly to principles of openness and transparency. Departments' action to improve risk communication should include the elements in paragraphs 5.35–5.49.

Access by the public to information about the risks that affect them (rec.38a)

5.35   Departments' communication about risk should be based on principles of openness and transparency. Unless there are clear grounds for exemption, Departments that handle risks to members of the public should publish their risk assessments (discussed in chapter 4.2), and also the underlying facts, assumptions, sources of information and procedures behind them, as early as possible to enable public scrutiny to take place, as they will be required to do under the Freedom of Information Act. One way that Departments can be more open is to publish the values, including the value placed on saving human lives, that have informed major investment decisions. Departments should also make public their plans for handling major risks, as DEFRA has done with its interim contingency plans for dealing with FMD and for responding to the risk of BSE in sheep.[95] When information must be kept private, for example for reasons of national security, Departments must explain their reasons and consider what other information can be published to enable the public to judge the extent of the risk.

5.36   Similar principles should apply to the handling of risks where the issues are uncertain or unknown. In these cases, Departments should be open about areas of uncertainty, what assumptions they have used, and what they are doing to fill the gaps in their knowledge.

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[95] This follows a similar recommendation by the NAO in its report, *The 2001 Outbreak of Foot and Mouth Disease* (op. cit.). While the interim arrangements draw on the experience of those involved in the recent crisis, DEFRA aims to develop a contingency plan that can be used in the future by those with no such experience, and to adapt this plan for other animal diseases.

Two-way communication, to enable early and widespread involvement in decisions about key risks (rec.38b)

5.37   Risk improvement managers should ensure that their Departments have systems to involve stakeholders and the wider public in decisions about key risks affecting the public. Communications should be considered at the start of the policy development process for major policies involving risk to the public. Departments' communication strategies should plan for a process of stakeholder and wider public engagement on key risks. Where possible, this process should begin when the key issues are framed, and allow public discussion of a range of possible solutions. This will be important, not only to ensure that the solution is widely accepted, but also as a matter of principle to ensure that individuals have a say over the management of risks that affect them. Organisations such as the Food Standards Agency have developed checklists to ensure that a full range of views are taken into account in policy decisions, and that key issues are not missed.[96] DEFRA's consultation on the handling of radioactive waste and its recent announcement that it will facilitate a public debate on GM crops, provide examples of programmes of stakeholder engagement that begin with open discussion of the key underlying issues, principles and choices.

5.38   The extent to which Departments need to involve the public in the decision process will depend on each particular case, and no one approach is likely to suit all risks.[97] A more participative approach is likely to be needed where there are potential concerns that a risk is being imposed on the public with little perceived benefit in return. In such cases, Departments may wish to consider using some of the following approaches:

- involving members of the public in stakeholder forums and focus groups to help define issues and frame key decisions. DEFRA's consultation on its risk management strategy provides an example of the use of a stakeholder forum to help define issues at the start of the communication process;

- using groups from a wide range of backgrounds to evaluate information, provide advice or take decisions in areas where risks occur frequently. HGC and the Agriculture and Environment Biotechnology Commission (AEBC) are examples of advisory bodies with a broadly-based membership;

- exploring new ways of involving stakeholders and the wider public, in particular using the Internet to obtain views direct from the public. HGC's website provides an example of this approach. The Risk Support Team should, as part of its work to develop a network of Departmental risk improvement managers, encourage Departments to share best practice and expertise with each other; and

- exploring the scope for allowing decisions to be taken at a local or regional level, where it is often more feasible to engage and involve individuals in specific decisions.

Targeted public involvement, informed by systematic identification and evaluation of the risks most likely to cause public concern (rec.38c)

5.39   We recommend that Departments should develop the capacity to identify which

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96   The Food Standards Agency's checklist is reproduced in annex 7.

97   The Cabinet Office has recently published *Viewfinder: a Policy Maker's Guide to Public Involvement*, on the Policy Hub website (www.cmps.gov.uk/policyhub), which includes advice on selecting the right approach to public involvement. The National Consumer Council's report, *Involving Consumers* (op. cit.), also contains recommendations about approaches to involving consumers.

risk issues are likely to generate the most public concern or require public co-operation to tackle. This action should focus their efforts on risk communication. The information should be fed into Departments' risk registers and communication strategies, to enable early and widespread public involvement in decisions of key concern to them and avoid the risk of "consultation fatigue" on other issues.

5.40   Monitoring of public concerns should be carried out as part of Departments' horizon-scanning work, which is discussed in more detail in chapter 4.2. It should include the systematic monitoring and analysis of public attitudes, values and concerns, to pick up issues that might otherwise be missed. Approaches for tracking and forecasting public concerns could include:

- media scanning, public attitude surveys and interviews with service users across the broad range of the Department's responsibilities;

- scenario planning; and

- the use of focus groups to gain a more thorough understanding of underlying public concerns on specific issues.[98]

5.41   Departments should also consider providing incentives for wider participation in public attitude research, particularly among marginalised groups, to ensure that their views are adequately reflected in risk assessments. DEFRA's Rural Affairs Forum is an example of a step taken to ensure that the voice of the rural community is properly reflected in policy decisions that affect them.

Increased availability of choice for individuals in managing the risks that affect them (rec.38d)

5.42   Chapter 2 suggests that responsibility for managing risks should be allocated to those who are in the best position to control the risk. In many cases, individuals will be best placed to manage the risks that affect them and will expect to be able to do so. It has long been accepted that individuals are more likely to tolerate a risk when they perceive that they are able to control their own exposure to it.[99] (The theme of empowerment is discussed earlier in this chapter, and is closely linked to the theme of public involvement discussed in the paragraphs above.) This suggests that, even where exposure to risk is inevitable, individuals are more willing to accept it where they have a role in choosing how best to manage it. DoH has recognised this principle in the NHS plan, and has an explicit policy of providing greater patient choice in public health care provision.

5.43   Where Departments have policy responsibility for handling risks that directly affect the public, they should consider the scope for increasing the availability of choice to individuals, supported by relevant information and advice. The availability of choice should not, however, place an unfair burden on the individual or expose others to unacceptable risk. Departments should also consider the advantages and disadvantages of providing increased choice, including the financial implications. Where new options cost more, Departments should consider whether individuals who choose the more expensive options should bear part or all of the increased costs.

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[98] HSE is currently developing a model framework for gauging societal concerns, which is intended to be used alongside survey and focus groups to help Departments identify emerging concerns about individual risk issues.
[99] **Starr, Chauncey**, *Social Benefit* vs. *Technological Risk: What is our Society Willing to Pay for Safety*? Science, Vol. 165, 1969.

Clear procedures for communicating in crisis conditions (rec.38e)

5.44 The Civil Contingencies Committee has recommended that Departments should have robust and tested crisis communication strategies as part of their contingency plans that are capable of engaging effectively with key stakeholders and the wider public. We recommend that Departments strengthen their links with the News Co-ordination Centre within the Government Information and Communication Service (GICS), which provides advice and support to Departments in dealing with disruptive situations. While the lead role should remain with the home Department, improved links with the News Co-ordination Centre should help ensure greater consistency in crisis communication across government. Where misreporting by the media is a concern, Departments should consider making more use of more direct channels of communication, such as the Internet. Where they are already using the Internet to provide information, Departments should consider how this medium can be used to its full potential, for example by enabling users to sign up to receive regular e-mail updates on a particular issue.

5.45 It will help Departments' handling of crises if an existing base of trusted information and knowledge is already in the public arena. The CCS website, *UK Resilience*, has the potential to be a pivotal source of authoritative information in crises, both for the news media and the public, and a valuable aid to Departments. To be effective, though, it will need to maximise its public and media profile. Departments can help raise the profile of *UK Resilience* by making active use of it and reference to it in future crisis communication.

5.46 Departments may also develop active, ongoing, two-way communication strategies, both with the news media and the wider public, in areas where public input to decisions is likely to be critical, for example as DoH does in relation to vaccination policy. Where emerging risks have a regional or local dimension, Departments should consider engaging regional bodies or local authorities in early discussions. DEFRA has recently consulted publicly on its revised interim contingency plan for FMD, and the plan is now available on its website for public scrutiny and comment. Organisations such as the Food Standards Agency have developed particular expertise in involving stakeholders in discussions about the risks that they manage. The Risk Support Team should consider the scope for drawing on their expertise to help other Departments establish similar forums. The Food Standards Agency has already indicated that it would be willing in principle to share its experiences through such a forum.

Improved use of information provided by trusted impartial sources (rec.38f)

5.47 Departments should consider the scope for making more use of information provided by arm's-length bodies where there is a high degree of uncertainty or dissent about a risk. This will make it easier for people to distinguish between facts, assumptions and judgements. Examples include information published by independent agencies, leading academics, industry bodies and NGOs, as long as they have a reputation for impartiality. In addition, Departments should consider making more use of local channels of information, such as GPs, to put across key messages on risk issues. Departments should also protect the integrity of advice of experts such as the government's Chief Scientific Adviser, Chief Medical Officer or Chief Veterinary Officer, and of arm's-length government

organisations such as the Food Standards Agency, by being clear about the source of the information provided and the existence of conflicting expert views.

Improved dialogue between scientific and lay interests (rec.38g)

5.48   The Chief Scientific Adviser has already recommended that scientific advisory committees include at least one lay member and should where necessary seek advice on communicating about risk issues.[100] We recommend that this principle should extend to other types of risk advisory or decision-making bodies, where issues are known to be uncertain or raise ethical or social questions. Risk improvement managers should make arrangements to ensure that expert bodies that advise on risks to the public contain a broad-based membership and have access to advice on risk communication.

Integration with other elements of Departments' risk management strategies (rec.38h)

5.49   Chapter 4.4 recommends that Departments should review their competence frameworks. Where they do so, we recommend that they consider whether openness and transparency are adequately reflected in their frameworks – for example, as components of other competencies such as "working with people" or "customer service". Chapter 4.4 also recommends a "standard" for all training on risk issues. We recommend that training on risk communication is included in this standard. Departments that deal frequently with risks to the public should consider adopting DoH's approach in providing tailored training on risk communication to relevant staff.

Existing guidelines on risk communication should be consolidated and targeted to a wider range of specific audiences (rec.39)

5.50   We recommend that guidance on risk communication, reflecting the principles proposed in this report and those of the Freedom of Information Act, should be issued across government as a whole. Steps should also be taken to ensure that it is adopted and followed by units involved in handling risks that affect the public. We recommend that this work is taken forward by a project team within the Risk Support Team, as part of the two-year risk management improvement programme described in chapter 4.3. The project team should have a thorough understanding of the media and experience of dealing closely with stakeholders, a clear understanding of how the public perceive and respond to risks, and should be able to influence the behaviour of Departments. It will need to draw on expertise already available within government, for example within the Office of Science and Technology (OST), HSE and DoH. The project team should consider how specific messages can be targeted at key audiences such as communications staff, how attitudes to risk communication can be influenced through other measures such as training, and how guidance can be kept up to date in the light of research and lessons learned. This work should inform action to change the culture of risk thinking within government, described in chapter 6.

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[100] **Cheif Scientific Adviser**, *Guidelines 2000*, op.cit.

Current initiatives should be developed to improve levels of public and news media understanding about risk concepts *(rec.40)*

5.51   Current guidance provides some practical pointers to Departments in communicating about the more complex aspects of risk issues, and we recommend that risk improvement managers ensure that this advice is followed in their Departments. We also recommend that the Chief Scientific Adviser considers what steps can be taken, for example as part of Departments' risk communication action plans, to help members of the public and the news media to evaluate conflicting or new scientific advice. One option would be to raise the profile of the peer review process, where new scientific research is scrutinised by other experts to ensure that it is based on rigorous analysis.

5.52   The teaching of risk concepts in schools, introduced into the National Curriculum in England in September 2000, provides a cost-effective way of improving the ability of the public to recognise and assess health and safety risks. We recommend that this programme should be developed to include broader categories of risk likely to be encountered by the public. It should also include the wider consideration of the rights and responsibilities of individuals in relation to risks. HSE should discuss with the Department for Education and Skills (DfES), the National Assembly for Wales and the Scottish Executive, the scope for building this into the existing programme in a way that does not put additional pressure on the curriculum.[101]

Government should work with the media and regulators to improve the accuracy of reporting of crises *(rec.40a)*

5.53   The CCS should continue its work with all sections of the news media to improve the handling of reporting of crises. Work should continue with the Media Emergency Forum, ensuring that commercial radio is fully involved. The News Co-ordination Centre, as part of its dialogue with the Commercial Radio Companies Association and Independent Radio News, should underline stations' responsibilities at times of crisis and propose a model of joint working during emergencies along the lines of the "tool kit" developed with the BBC. It should also consider the scope for agreeing a protocol with commercial radio on reporting of emergencies. We also recommend that regulators, including the Office of Communications (OFCOM), review whether they are giving sufficient priority in their monitoring activity to ensuring that reporting of crises by the news media is accurate and impartial.

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[101] This is in line with Action Point 33 of the Health and Safety Commission's *Revitalising Health and Safety Strategy Statement*, June 2000.

Principles of managing risks to the public[102]

Government should follow five principles in managing risks to the public:

- Openness and transparency
- Engagement
- Proportionality and precaution
- Evidence
- Responsibility

Government will be open and transparent about its understanding of the nature of risks to the public and about the process it is following in handling them

Government will publicise its assessments of risks that affect the public, and explain what data, assumptions, values and methods it has used, and how it will handle the risk. When information has to be kept private, government will explain why. Where facts are uncertain or unknown, government will make clear what the gaps in its knowledge are, set out clearly the assumptions it has used, and outline the action it is taking to fill the gaps. It will be open about where it has made mistakes, and what it is doing to rectify them.

Government will seek wide involvement of those affected by risks in the decision process

Government will actively involve a wide range of representative groups, and the public, throughout the risk identification, assessment and management process. Two-way communication will be used in all stages of policy development, risk assessment and risk management.

Government will act proportionately in dealing with risks to the public, and will take a precautionary approach where necessary

Action taken to tackle risks to the public will be proportionate to the level of protection needed, consistent with other action, and targeted to the risk. Regulations on risks to the public will meet the principles set out in the *Principles of Good Regulation.* Government will apply the precautionary principle where there is good reason to believe that harmful effects might occur, and where scientific evaluation of the consequences and likelihood reveals such uncertainty that it is impossible to assess the risk with sufficient confidence to inform decision making. Decisions reached by invoking the precautionary principle should be actively reviewed, and revisited when further information that reduces uncertainty becomes available.

Government will seek to base decisions on all relevant evidence

Government will identify and assess risks to the public as a core part of its business. It will aim to ensure that all relevant factors have been taken into account, including perceptions of risks faced and public concerns and values. It will seek impartial and informed advice wherever possible. Where it receives conflicting advice, it will clarify the issues through open discussion. It will not use the absence of evidence alone to prove the absence or presence of threat, and will acknowledge alternative interpretations of the available evidence.

Government will seek to allocate responsibility for managing risks to those best placed to control them

Where possible, government will ensure that those who willingly take risks also bear responsibility for the consequences. It will consider the need to regulate where risks are imposed on others. It will aim to give individuals a choice in how to manage risks that affect them, where this does not expose others to unacceptable risk or cost.

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[102] These principles are intended to complement existing published frameworks, including: the Freedom of Information Act; the Code of Practice on Access to Government Information; the Principles of Good Regulation; and guidance on the production of Departmental risk frameworks.
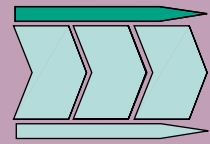
6. THE ROLE OF LEADERSHIP AND CULTURE CHANGE

Summary

A sharper focus on risk needs to be led from the top by Ministers and Permanent Secretaries. This report identifies a number of roles where top management needs to take an active lead:

- driving implementation of the improvements in risk management set out in the report;

- taking key judgements and providing clear direction;

- ensuring that managers are equipped with skills, guidance and other tools;

- supporting innovation; and

- ensuring clear accountability for managing risks.

Experience elsewhere suggests that getting the culture right is essential to managing risk effectively. Despite recent efforts, government is often seen as having a risk-averse culture, and as being frequently unaware of the risks it takes. While the nature of government's business can often require government to be more cautious than many businesses, there are avoidable factors that could hamper well-judged risk taking. These include:

- mismatches between accountability, responsibility and authority to act;

- the nature of performance incentives in use within Departments; and

- a perception that the high profile given to failure by the Public Accounts Committee (PAC) and the media remains a significant deterrent to positive risk taking, despite PAC and National Audit Office (NAO) support for "well managed risk taking".

A sharper focus on risk will require leadership from the top of government

6.1   This chapter outlines the critical role to be played by leadership and culture change in managing risk and opportunity effectively. It draws on the analysis in previous sections of this report, which has identified the need for changes to the way that government handles risks to the achievement of its own objectives and to the wider public. In addition, the government's own agenda for change has placed a high emphasis on improving innovation and entrepreneurship within the public sector.

6.2   A number of external factors are likely to put pressure on government to improve its ability to take calculated risks. These include:

- increasing public expectations about acceptable levels of safety and about the level of services required from government;

- developments in other countries, for example health care provision in France, that can serve to raise expectations within the UK;

- competition from private sector providers in areas of core public sector provision – for example in health care, education and postal delivery; and

- the advent of new technology, providing opportunities for improving and streamlining public services.

6.3   Chapters 4 and 5 recommend a number of organisational and procedural changes to improve the government's capability to handle risk. Chapter 4 outlines a two-year programme to achieve these changes, which aim to lay a foundation for the effective management of risk within government.

6.4   These changes will not take root without a strong lead from Ministers and Permanent Secretaries and action to develop a culture in which well-judged decisions about managing and taking risks can be made. In particular, a more open, transparent and inclusive approach to handling risks that affect the public will require a culture that is itself more inclusive, more open to outside scrutiny, and more open to acknowledging mistakes. These two themes – leadership and culture change – are the main strands of argument within this chapter.

Leadership has an important role in improving risk management within government

6.5   Leadership was identified by a number of senior officials we interviewed as a key element of effective risk management. Comments we received included:

- "Senior management buy-in is vital in embedding risk management throughout an organisation."

- "We have the intellectual and organisational capacity to manage risk. Effective leadership is needed to embed the practice into departmental culture."

6.6   We have identified in earlier chapters a number of areas where a lead from top management will be critical:

- driving implementation of the improvements in risk management set out in this report. Senior management will need to be engaged in the development of new frameworks for managing risk within Departments and at the centre, and will
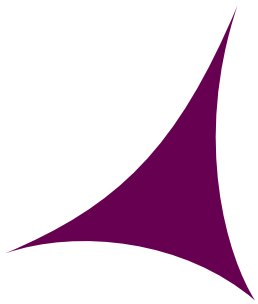
need to ensure that risk improvement managers and the proposed Risk Support Team have the support and engagement of Departments. Top level interest will add further momentum to embedding risk management processes throughout government;

- taking key judgements and providing clear direction. Proposals in chapter 4 recommend developing a corporate approach to risk management – involving the systematic monitoring of top-level risks and strategic decisions on the level of risk that should be accepted. These processes will require the ongoing involvement of top management – in particular, in prioritising risks for action and in decisions about the organisation's overall appetite for risk;

- ensuring managers are equipped with skills, guidance and other tools. These issues are discussed in more detail in chapter 4.4;

- supporting innovation; and

- ensuring clear accountability for managing risks.

We recommend that senior managers should take an active lead in these areas *(rec.41)*. The last two issues are discussed in more detail in this chapter.

Organisational culture can also play an important role

6.7   In our discussions with leading private sector companies, a number of underlying values were suggested as contributing towards building an effective risk management culture within organisations. In particular, companies interviewed said that they placed a high value on:

- recognising individual responsibility and achievement;

- delivering results;

- accepting new ideas and ways of doing things;

- rigorous and evidence-based analysis and judgements;

- challenging established assumptions and procedures;

- openness, transparency and honesty;

- understanding the needs of stakeholders and customers;

- anticipating and sharing problems; and

- learning from mistakes and avoiding a culture of blame.

6.8   These values are by no means unique to risk. They are reflected in wider corporate statements of vision and values, such as those developed by the Civil Service Management Board (CSMB).

6.9   Chapter 5 suggests that a culture of openness and stakeholder engagement is an important step towards building the levels of trust necessary to communicate effectively about risk. Moving towards greater openness and transparency is itself a risky step, as it provides government's critics with ammunition to use against it. To make that step less painful, government needs also to develop a culture that is able to absorb and respond positively to criticism.

Government is taking steps to develop a culture that supports well-judged risk taking and innovation

6.10   The need to encourage risk taking and innovation within government has been recognised as an important element of the

programme of Civil Service reform launched in 1999. In a speech in May 1999 on the future of the Civil Service, Sir Richard Wilson said:

"Encouraging and nurturing innovation in the Civil Service is one of the most important challenges which we face… We want to look at concepts of accountability and make sure that they do not reward too highly the "safe" way of doing things, at the expense of improving our services. Risk is not an easy concept when dealing with the taxpayers' money but it is clear that we need to explore new ways of introducing a more professional approach to risk management."[103]

6.11   The initial two-year programme of work has now ended. Tangible progress has been reported in all areas.[104] All Departments now have large change management programmes, which are starting to make a difference, and a number have started to produce innovative and customer-focused services. However, there is scope for more improvement in changing the culture around risk, particularly in policy making and strategic business planning.

6.12   In parallel with the programme of Civil Service reform, the Treasury has taken steps to strengthen and clarify lines of accountability across government through the development of Public Service Agreements (PSAs) with Departments. By linking resources to the achievement of three-year headline targets, these agreements provide a powerful tool for encouraging Departments to develop new and innovative approaches to delivering public service objectives.

Similar steps are beginning to be taken abroad

6.13   Feedback from our survey on attitudes towards risk internationally (see annex 8)

suggests that risk aversion in the public sector is perceived to be a common feature in many other countries. Nonetheless, leading figures in a number of governments abroad have taken steps to raise the profile of risk management within their organisations.

6.14   In Australia, the Auditor-General has made a point of emphasising the need for risk management as an integral part of effective corporate governance within Departments, authorities and government-owned corporations for almost 10 years. In Canada, the head of the Civil Service has spoken publicly on several occasions of the importance of addressing risk and supporting risk taking in the public services.

6.15   This lead has been followed up by action in these countries. The Comcover scheme,[105] developed by the Commonwealth to improve the management of insurable risks, is beginning to provide new incentives for public sector organisations to manage risks effectively. In addition, Australia and New Zealand led the way in developing risk management standards in 1995. These and other examples are set out at annex 8.

Developments are also taking place in the private sector

6.16   Our discussions with risk management professionals in the private sector suggest that many of the issues raised during our study are not confined to the public sector. A number of firms we spoke to thought that a culture that supports effective risk management is still at a relatively early stage of development in many parts of the private sector. Nonetheless, all businesses we interviewed agreed that getting the culture right is essential to managing risk effectively within organisations.

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[103] **Wilson**, **Sir Richard**, *The Civil Service in the New Millennium*, May 1999.
[104] **Cabinet Office**, *Civil Service Reform: Making a Difference*, December 2001.
[105] See chapter 4.2.

6.17   A number of leading businesses have explicit policies, driven by top management, to raise the profile of risk management within their organisations and to link risk management objectives to their business strategies and culture. All of the firms we interviewed emphasised that a strong lead from the top of the organisation, supported by effective internal communications, is essential to getting the culture right.

6.18   Summaries of the approaches taken by some private sector organisations are set out at annex 7. Examples include:

- Reuters, which has introduced a Business Risk Management process to identify, evaluate and manage risk; like the balanced scorecard, this is linked to business objectives;

- Unilever, which has linked risk taking directly to its "Path to Growth" business strategy. Its risk management process has been positioned as a fundamental to meeting its business goals. Niall Fitzgerald, Chairman of Unilever, made these links explicit:

  "Enterprise is about being prepared to go for it – it's about having a real passion for what you are doing and wanting to win. It's about being courageous and taking risks. Accepting that when you take risks you can make mistakes, but that these can provide a rich learning opportunity.";[106]

- BP, in which senior management have made explicit their view that superior performance is delivered through superior risk management. The senior management policy is "we want no surprises"; and over the last nine years they have undertaken a major culture change programme to create a more risk conducive culture, focused on clearer accountability but aiming to avoid "blame"; and

- Diageo, whose risk management objectives are explicitly business driven: "because share prices reflect the market's perception of risk and standards of governance; because consistently exceeding performance expectations means avoiding the things that can go wrong; and because being the best means intelligent risk taking."

A number of factors contribute to effective risk taking and management

6.19   A number of Departmental staff we interviewed thought that the culture within their organisations supported them in managing risks and opportunities. They suggested that a more confident approach in taking risks and grasping opportunities is possible where:

- there is a clear drive from Ministers or the Permanent Secretary for service delivery improvement or for the development of new policies;

- the body has a focused remit (for example in many government agencies);

- budgets, responsibility and authority are aligned (for example in the preparatory work by the Health and Safety Executive (HSE) for its risk governance framework);

- the leader encourages and is able to reward innovation (for example in Partnerships UK, where a substantial part of staff salaries are related to performance); and

- staff can produce new ideas in the knowledge that they will be supported if sensible risk taking goes wrong.

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[106] **Fitzgerald, Niall**, "Path to Growth", January 2001.

Organisational culture can hamper effective risk taking and management

6.20   Organisational culture was also seen by a number of those we interviewed as one of the main potential barriers to implementing the proposed new approach towards risk management within government. In contrast with some leading private sector firms, the culture within government has often been characterised as being risk averse, lacking in innovation, and excessively concerned about failure and blame.

6.21   This has been seen by some external commentators as leading to a reactive and defensive approach to risk taking and management, which places disproportionate emphasis on inaction in the face of change and can take the form of a "bunker mentality" in times of crisis. This was not, however, a universally held view. The NAO, for example, sees the main problem as a lack of understanding of risk and risk management[107] (see paragraphs 6.32–6.33 below).

6.22   There was evidence to support both views from the interviews we carried out during our research. These suggest that a number of the characteristics identified in the *Modernising Government White Paper*[108] in 1999 and by the NAO in 2000[109] are still prevalent. Typical examples include:

- high importance being given to protecting senior officials and Ministers from mistakes (this point was made a number of times during our interview programme);

- an emphasis on identifying potential problems rather than focusing on opportunity;

- a focus on crisis management rather than forward planning;

- unwillingness to be open about risks to projects; and

- a tendency to take decisions either to embark on risky programmes or to exercise caution without undertaking a proper risk assessment.

There are a number of underlying factors...

6.23   A number of underlying reasons for the prevalent attitudes towards risk within government were suggested to us during the course of our research.

Nature of government's business

6.24   The perception that government is risk averse can be partly explained by the nature of government's business. In the private and commercial sector, effective risk handling is in large part driven by the need to grasp well-judged business opportunities. Companies that fail to act well in these twin areas face serious consequences. There have been well-documented examples from large private sector organisations – ICI in the 1980s, IBM in the 1990s and, until recently, Marks and Spencer – of the problems that flow from losing innovative edge.

6.25   The public sector is not so obviously driven by competition in the marketplace either to innovate or to anticipate and manage risk effectively. Government has to manage a far wider portfolio of issues than most businesses, with far more limited scope to shed existing responsibilities or to diversify into new areas. Most significantly, the external pressures facing it are more often likely to require it to take a cautious

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[107] **NAO**, *Supporting Innovation,* op. cit.
[108] **Cabinet Office**, *The Modernising Government White Paper,* op. cit. (p.11).
[109] **NAO,** *Supporting Innovation,* op. cit.

approach, particularly in areas where the livelihood or safety of individuals is directly at stake, such as the economy, national security and public health. While investors are able to match the risk they are prepared to take against the reward they expect, taxpayers have no such discretion, and are therefore far less likely to tolerate high-risk investments that go wrong.

6.26   While there are differences between the environments in which government and firms operate, the need for well-judged risk taking leading to innovation and reward is nonetheless important in the public sector. The Organization for Economic Cooperation and Development (OECD) and other international organisations produce benchmarks that allow the UK's performance to be compared with that of other countries, and the interest these generate can put pressure on governments to improve services in areas where their country's performance is lagging behind. Grasping opportunities to deliver better public service or innovating to improve government's business involves change and therefore risk. In many ways, the government has to take huge risks, often embarking on major change programmes affecting millions of people, such as tax changes or changes in the machinery of government, which by definition cannot be test-marketed.

6.27   While the nature of government's business often requires it to be more cautious than many businesses, there are avoidable factors that could hamper well-judged risk taking. These are outlined below.

Unclear or incomplete lines of accountability

6.28   Our research suggests that attitudes towards risk may be influenced by the structure of accountability within government. Issues raised include:

- mismatches between accountability, responsibility, and authority to act. Where these are not properly aligned, this can encourage individuals either to be excessively cautious or to disregard key risks;

- the placing of accountability for all policy decisions, no matter how small, with Ministers. This can provide little incentive for officials to innovate and could encourage them to exercise excessive caution to protect themselves from criticism from Ministers; and

- the organisation of responsibility and accountability around individual Departments, rather than around government programmes, which increasingly require joint working between Departments and other partners. In some cases, tensions between joint responsibilities and individual Departmental accountabilities can prevent Departments from exploiting opportunities, such as the opportunity to develop e-government strategies.

Performance incentives

6.29   The nature of individual performance incentives was also mentioned frequently by those we spoke to as a potential barrier to taking well-managed risks. Although performance-related incentives are used in most Departments, these are seen to have only a limited influence on staff behaviour because they are based on performance against a range of indicators and have only a limited effect on salaries. As a result, other factors tend to encourage risk-averse behaviour. This was contrasted with the widespread use of performance incentives in a number of private sector organisations which, when linked to the achievement of profit-related targets, encourage innovation and risk-taking behaviour.

6.30 However, there may be limited scope for using performance objectives to encourage risk taking and innovation in some areas of public policy. There are a number of reasons for this:

- a risk-taking approach is not necessarily what is required in many areas of public policy. In areas such as the management of the economy or health and safety, the public expects government to adopt a prudent approach;

- our research indicates that innovation works best where there is a clearly defined remit (see paragraph 6.19 above). While some public sector bodies (such as the Food Standards Agency) do have a clearly defined remit, the remit for most central policy departments is by necessity much broader and more fluid; and

- in many parts of government, the achievement of certain objectives – for example reducing crime rates – relies on the co-ordinated effort of a range of Departments and agencies across central and local government. The need for co-ordination gives individual Departments less room in which to innovate, and makes it more difficult to identify and reward the contribution of individual units.

6.31 Nonetheless, there is likely to be scope for greater use of performance incentives to reward positive risk taking and underline personal responsibility for avoiding crises. The scope for their use is likely to be greatest in areas where there are clearly defined objectives and where there is room for local discretion over delivery.

Weaknesses in risk management processes

6.32 The NAO argues that the main reason Departments are criticised on risk issues stems from a weakness of risk management across government, and from the fact that mistakes are often not learnt from. There is evidence to support this view from the Office of Government Commerce's (OGC's) Gateway Reviews of projects and programmes, where 63 per cent of reviews found weaknesses in risk management (the second most significant problem area after skills shortages).

6.33 Sir John Bourn, the Comptroller and Auditor General, has commented that the problem is more one of "risk ignorance" than risk aversion. He commented that:

"The problem is not that the Whitehall culture is risk averse…Rather it is risk ignorant. It takes the most fantastic risks without knowing it is doing so."[110]

6.34 A number of NAO and PAC reports have highlighted cases where there has been no evidence that key risks were identified and assessed early enough or at all, and where there was a lack of contingency planning. The changes proposed in chapter 4 are intended to help address these concerns, and give policy makers greater confidence in innovation and taking risks, by making the consideration of risk more systematic and explicit in the key processes of government.

The role of the PAC and NAO

6.35 The NAO and PAC have emphasised their support for "well managed risk taking".[111] The NAO has said that "as the external auditor of government Departments the NAO support well-managed risk taking intended to result in tangible benefits for taxpayers".[112] It has issued a number of

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[110] *Financial Times*, 5 January 2000, quoted in **Stanley, Martin**, *How to be a Civil Servant*, Politico's Publishing, August 2000, available at: http://www.civilservant.org.uk/updates.shtml

[111] **NAO**, *The Cancellation of the Benefit Payment Card Project*, August 2000.

[112] **NAO**, *Supporting Innovation,* op. cit. (p.3).

reports that focus not on the mistakes of the past but on the future and good practice drawn from government (for example in policy making[113] and procurement[114]). The PAC's report on risk management by government[115] said, "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 badly managed; but we give due credit where risks are carefully identified, evaluated and managed, recognising that good risk management reduces but does not eliminate the possibility of adverse outcomes. Risk taking and innovation are consistent with the careful and proper control of public money."

6.36   Despite this, however, the Strategy Unit survey of Departmental Board members found that they believed strongly that the roles of the PAC, and to a lesser extent the NAO, should be "re-aligned with a more balanced approach to risk and opportunity". Comments included, "concerns about NAO/PAC scrutiny remain a significant deterrent to risk taking", and, "… a sea change [is required] in how risk assessment is viewed by both the NAO and the PAC. Otherwise a risk averse culture will be perpetuated and radical government policy objectives will not be achieved as effectively, cost-effectively or as quickly as they could be."

6.37   This underlines the finding of the Sharman report on *Audit and Accountability*[116] that "accountability mechanisms are perceived by some in government as a discouragement to innovate and change". These views are important if only because they are widely held, and so are likely to affect behaviour. Although Lord Sharman points clearly to the need for Departments to improve their risk management, he also recommends that "it is important that auditors recognise the dangers of being perceived as discouraging well managed risk

taking, and ensure that their work lives up to the spirit of statements made on attitudes to innovation".

6.38   The reasons behind these concerns appear to include:

- high profile of failure. The PAC hearings on Value for Money reports (around 50 a year) inevitably and rightly focus mainly on potential failure. The media then tend to amplify the messages arising. This gives a much higher profile than, for example, Select Committee reviews of Departments' overall performance against objectives, which are by their nature more likely to reach a balanced view across the piece. This effect (an unbalanced profile of good and bad news) is of course not unique to government, but it appears to be more pronounced. This may be because a failure of public services is likely to have a more significant and deeply felt impact than a business failure, due to the fundamental nature of public services and the reliance of service users on them. Even so, there is a perception of an unduly unbalanced situation which, officials report, inhibits risk taking; and

- dangers of hindsight. Although NAO reports are agreed with Departments, scrutiny taking place after the event can make it difficult to understand the context in which decisions were made, especially if there is insufficient evidence of why certain judgements or courses of action were taken at the time. Comments from Departmental Board members included the need for "overt recognition that at the time risks were assessed the department made a well-informed decision" where that was the case.

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[113] *Modern Policy Making,* op. cit.
[114] **NAO**, *Modernising Procurement*, October 1999.
[115] **PAC**, *Managing Risk in Government Departments,* op. cit.
[116] **Lord Sharman**, *Holding to Account: the Review of Audit and Accountability for Central Government*, February 2001.

Recommendations

6.39   A full investigation of the issues relating to the development of a culture that supports effective risk taking and innovation within government falls outside the scope of this study. We also recognise that it can take considerable time and effort to bring about the changes in culture we describe. However, there are a number of specific areas where we have identified the scope for further action, which are set out under the headings below.

Leading the development of a culture that supports effective risk decisions

6.40   Ministers and senior officials should aim to foster a culture in which well-judged decisions about risks and opportunities can be made, and where innovation can be handled with confidence. Their personal leadership will be key in driving the behaviour and actions that will support both well-judged risk taking and successful innovation. Permanent Secretaries and their Boards should visibly support a programme of action within their Departments to implement the arrangements we recommend *(rec.42)*, which might include:

- identifying areas where innovation is necessary or desirable (i.e. where there is a high potential for reward and a low risk of catastrophic effects) and sending consistent signals that this is what is expected;

- setting realistic but challenging targets to stimulate innovation;

- ensuring that incentive and reward systems support rather than obstruct well-judged risk taking;

- developing a learning environment;

- providing sufficient flexibility over delivery to allow innovation to take place;

- recognising and planning for the risk of failure;

- piloting new initiatives to identify and design out problems;

- encouraging a diversity of approaches (such as a mix between state and private provision) to ensure better resilience of core services and to stimulate new thinking; and

- ensuring that blame is avoided where calculated risks fail.

Building confidence through quality assurance of risk decisions

6.41   Senior management should ensure that decision makers are supported by an audit trail that provides a clear and balanced account of their risk judgements and risk management actions in the light of the information available at the time *(rec.43)*. This may be validated by independent review, for example by using the OGC Gateway. It will help to improve the quality of decisions, build confidence, and reduce the risk of subsequent criticism.

6.42   We recognise that it is in the nature of government accountability and the PAC's role that there will be high profile criticism of failure. And it is not the place of government to make recommendations about how the PAC carries out its role. But there is a need to ensure that:

- where there is criticism it takes account of the risk decisions taken at the time; and

- this is in the context of the overall picture on delivery and provides a balanced picture of the quality of risk management practice.

6.43   Some specific points where Departments and the NAO and PAC might work together to ensure the right culture include:

- clearer accountability and responsibility. There is a growing practice by the PAC to invite those responsible for programmes and policy to answer for these, to ensure that the events under scrutiny are properly and fully represented. Clearer accountability for risk issues, as recommended in chapter 4, will also help to ensure that scrutiny can involve those responsible for action;

- creating a better evidence base. Departments can overcome potential hindsight bias by developing better audit trails of risk judgements and risk management actions, for example, as proposed in chapter 4.1, through use of the OGC Gateway process. If audit (probably internal audit) functions were involved in this process (especially at the early stage of policy clearance), this would help in verifying whether risk judgements and actions were deemed to be satisfactory at the time; and

- ensuring a balanced picture. Departments will in future be able to engage with the PAC and NAO against the background of their Statements of Internal Control (SICs), which might for example point to the exceptional nature of a lapse in control leading to failure.

6.44   In addition, the government's response to Lord Sharman in March 2002 said that "external auditors need to ensure that in reporting their findings they do so in a way which is objective, proportionate to faults identified, and positive in acknowledging good practice. It notes that the NAO seeks to ensure that its reports are balanced and fair, include studies of successful programmes, and highlight examples of good practice that might be applied more widely". We endorse this as crucial.

Developing performance measures that support more effective risk taking by Departments

6.45   Ways should also be explored to provide a more balanced focus on overall Departmental performance, to avoid undue focus on failure, for example by the media and PAC *(rec.44)*. The announcement by the new Cabinet Secretary that he will focus on Civil Service reform and service delivery provides an opportunity to consider how this can be promoted. The use of PSAs already provides a strong foundation for the co-ordination of systems for appraising Departments' performance (and the government response to Sharman proposes that reporting of performance against PSA targets should be further strengthened, with external validation by NAO of underpinning data systems). There may be scope to build on this framework by incorporating elements of other appraisals, including the annual audit of Departmental accounts and reports on corporate governance and planning. Integrating these appraisals into one exercise, for example into an occasional cross-government strategic exercise, would also provide useful means of supporting joint working and priorities. We recommend that CSMB should look at this, bearing in mind the opportunity to pull together the current demands already made on Departments for end-of-year reporting.

Building on the Civil Service reform programme

6.46   The Cabinet Office, supporting the Cabinet Secretary, should ensure that the risk management programme is incorporated

into the broader public service reform agenda, recognising the need for wider culture change. In particular, this should consider the ability of Departments to foster innovation *(rec.45)*. There may be scope for specific further studies to identify:

- areas where there is a need or scope for more experimentation and innovation in public service delivery;

- areas where Departments have succeeded in encouraging positive risk taking and innovation, and the reasons for their success; and

- the potential barriers to positive risk taking and innovation, and ways in which these might be overcome.

6.47　In parallel with this activity, we recommend that the Risk Support Team, together with risk improvement managers within Departments, should promote and champion the values needed to support effective risk taking within government *(rec.46)*. In doing so, use should be made of key network groups, including:

- the Principal Finance Officers' Group;

- SPRITE (Successful Projects in an IT Environment – the IT Directors' Group set up by the OGC to implement the McCartney Report[117] on good project management practice);

- the HR Directors' network;

- the Business Planners' network; and

- the Consumer Champions' network.

[117] **Office of the e-Envoy**, *Review of Government IT Projects – Successful IT: Modernising Government in Action,* Cabinet Office, May 2001 (the McCartney Report).
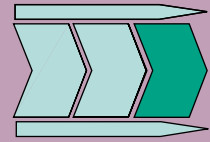
7. CONCLUSIONS, RECOMMENDATIONS AND IMPLEMENTATION – TOWARDS BETTER DECISIONS AND OUTCOMES

Summary

This chapter summarises the main conclusions and recommendations of the Strategy Unit study and outlines an implementation plan.

We propose that:

- the recommendations should be taken forward as a two-year programme linked to the 2004 Spending Review *(see rec.27)*. This will be primarily for government Departments to deliver, supported by the centre. Progress will be driven forward by an Implementation Steering Group, with reports to the Civil Service Management Board (CSMB) and Ministerial Committee on Public Services and Public Expenditure (PSX), and the Prime Minister, in the usual way for the Strategy Unit projects; and

- the principles proposed in this report will be issued for formal consultation.

The chapter also considers the costs and benefits of the recommendations in the report, and the necessary monitoring and evaluation arrangements.

Conclusions and recommendations

7.1   A comprehensive programme of change to improve risk management across government is proposed. This would build on Departments' current programmes in this area, particularly those on developing corporate governance, and have a two-year timetable to tie in with the 2004 Spending Review. The aim would be to provide a clear direction, rationalised guidance and support, and a drive for change from the centre of government.

7.2   The programme is built around Departments' primary responsibility for managing risk and improving risk management. The extent and nature of action will necessarily vary from Department to Department. The centre's primary role is to support this.

7.3   The programme aims to improve government decision making, and the outcomes that are delivered, to ensure: fewer surprises to the public and government, and better managed impact of unexpected events;

higher levels of safety and confidence; fewer direct costs resulting from failure to anticipate risks; better understanding of risks and trade-offs (both by the public and government); a better balance of risk and opportunity; and greater clarity of responsibilities and the best ways to manage risks.

Summary of recommendations

7.4   We recommend action in six key areas. This is summarised below. Table 7.1 later in this chapter sets out the full list of recommendations in more specific detail

NB The numbers in square brackets refer to the specific recommendations in the body of this report.

1.   Handling risk should be firmly embedded in government's policy making, planning and delivery.

1.1   There should be an explicit appraisal of risks, as well as benefits and costs, in all the main decision processes including: policy making; the Spending Review – with risk assessments attached to PSAs and risk embedded in delivery plans; business planning; project and programme management; and performance management. Criteria should be developed to ensure risk assessment effort is proportionate to the potential risks. [1, 2a–e, 3a–c, 4a–c, 5, 6a–c: *pp.32–37;* 12, 13, 14, 15: *pp.48–50*]

1.2   The Treasury should support Departments to ensure that new delivery plans, produced by Departments as part of the 2002 Spending Review, include enhanced coverage of risk and resilience to threat. The DU has already been developing this approach for risks to key objectives on health, education, crime and asylum, and transport. The Treasury, the DU and the CCS should work together with Departments in autumn 2002 to ensure that: delivery plans are in place for all Departments; these adequately address risk, balancing the need to invest in resilience with the pursuit of other objectives; and cross-cutting risks are identified and accountability for action established. Monitoring arrangements should track risk assessments and progress with mitigation plans, reporting to PSX. [3a–c: *p.35*]

1.3   Departments should ensure that plans are underpinned by an assessment of resilience to threat, and actively develop their resilience to ensure there is the capacity to respond flexibly to potential risk. [3b: *p.35*]

1.4   Strategic risks should be regularly considered by Departmental Boards and the CSMB. The responsibility for handling and reporting risk should be aligned with accountability for delivery. Non-executive directors should play an important part in helping to identify strategic risk and provide an independent perspective on the level of risk faced and the adequacy of measures to address risk. [1a: *p.32*]
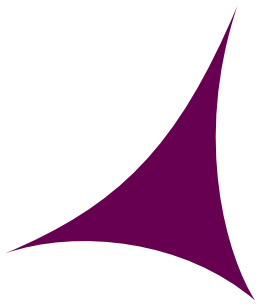
1.5   A combination of top down and bottom up approaches to risk assessment is recommended, for example combining a risk review by a designated team with risk self-assessment. [10: *p.45*]

1.6   The Treasury should explore whether risk management can be improved in relation to property and liability risks, through the use of "captive insurance" arrangements. A pilot could explore the costs and benefits of insurance against current non-insurance arrangements. [7: *p.38*]

1.7   Where responsibility for risk is transferred to a partner organisation, accountabilities should be clearly established by Departments, and capacity maintained to manage and monitor performance and to take early action in the event of difficulty. OGC, the Treasury and OPSR should consider steps to improve risk handling where partnerships with the private and voluntary sectors are used to deliver services:

- benchmarking against a standard could be used for accreditation of partner organisations' risk management arrangements; and

- further approaches to procurement of public services from the private sector should be explored, to complement PFI. These might involve shorter contract periods and more flexible contracting arrangements. [30a–c: *p.65*]

2.   Government's capacity to handle strategic risks should be enhanced.

2.1   The CCS should continue to develop its key role in relation to potential disruptive challenges to the running of the UK, identifying and assessing the key risks within a 12-month horizon, ensuring adequate mitigation action and contingency planning take place, and providing additional support and leadership where crises occur. Priority should be given to: improving integration of business continuity plans; supporting the delivery of improved resilience across government; updating crisis management arrangements, including those for augmentation of Departmental resources in times of crisis; and learning lessons from past crises. [20, 21, 22, 23, 24: *pp.53–55*]

2.2   The work of the CCS in identifying and assessing disruptive challenges to the UK should be complemented by a longer-term horizon-scanning role for the Strategy Unit. The CCS and the Strategy Unit should work with Departments to help them develop their horizon-scanning capabilities, including the use of scenarios and simulation events. [17: *p.52*; 18: *p.53*; 26: *p.59*]

2.3   There should be a greater focus on tracking potential cross-cutting risks, by those with special expertise. For example, the Social Exclusion Unit, working with the Neighbourhood Renewal Unit and the Regional Co-ordination Unit, could consider playing a larger role in tracking risks including: new groups becoming eligible for benefits or likely to become socially excluded; or towns and cities failing to regenerate or facing economic problems because of over-dependence on declining industries. [19: *p.53*]

2.4   As the work of the CCS develops, it should complement the work of the Treasury and DU in identifying and monitoring risks to the delivery of the government's business programme. [25: *p.55*]

3.   Risk handling should be supported by good practice, guidance and skills development.

3.1   Guidance from the Treasury, OGC and Cabinet Office should be integrated, developed, promoted and maintained in line with developing good practice in Departments, and UK and international standards, drawing on the recommendations of this study to provide a simplified standard for government risk management. This should build on current developments, progressively providing a common framework and language. Benchmarking arrangements should be developed on the Australian Comcover model, and improvements linked to financial and management freedoms, such as earned autonomy or delegated financial authority. [9: *p.44*; 11: *p.46*; 16: *p.51*; 36: *p.73*]

3.2   The standard should be the basis for skills development and used to develop a common language for understanding and communicating on risk. Departments and CDG should review their core training and development programmes to ensure risk is adequately covered. Networks should also be used to spread good practice. Departments should consider the need for developing in-house specialists to provide support to those managing risks. [33, 34, 34a, 35: *pp.68–71*]

4.   Departments and agencies should make earning and maintaining public trust a priority when dealing with risks to the public.

4.1   As a first step towards earning public trust, government should publish its principles for handling and communicating about risk to the public. These should be subject to widespread consultation. [37: *p.84*]

4.2   Departments should implement these principles as part of their wider plans for improving risk management. This will be particularly important where the Department's business is directly related to handling risks to the public, such as safety or health. Action plans should cover the following areas:

- public access to information about risks that affect them;

- two-way communication to enable early and widespread involvement in decisions on key risks;

- targeted consultation, informed by systematic identification of the risks most likely to cause public concern;

- availability of choice for individuals in managing the risks that affect them;

- procedures for communicating in crisis conditions; and

- use of information provided by trusted impartial sources.
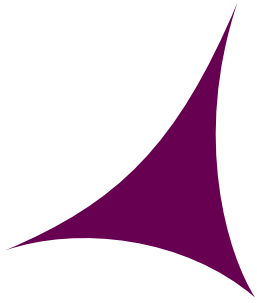
Information on these arrangements should be widely available, for example in Departments' Risk Framework Documents and, where relevant, actively explained. [38, 38a–h: *pp.85–89*]

4.3   Action by Departments should be underpinned by clear government-wide guidelines on risk communication, initiatives to improve levels of public understanding about risk concepts, and work with the media and regulators to improve the accuracy of reporting of crises. [39, 40, 40a: *pp.89–90*]

4.4   Departments should consider where giving greater responsibility to arm's-length bodies in policy making could help in handling risk and building trust. This may be particularly appropriate where risks to the public make trust a key concern. [30: *p.64*]

5.   Ministers and senior officials should take a clear lead in improving risk handling.

5.1   Ministers and senior officials should take an active lead in: driving implementation of the improvements in risk management set out in this report; taking key judgements and providing clear direction, for example in prioritising risks for action, and in defining the appetite for taking on further risk; supporting innovation; ensuring clear accountability for managing risks; and ensuring that managers are equipped with skills, guidance and other tools. [41: *p.94*]

5.2   They should aim to foster a culture in which well-judged decisions about risks and opportunities can be made, and where innovation can be handled with confidence. [42: *p.101*]

5.3   In addition, they should ensure that decision makers are supported by an audit trail that provides a clear and balanced account of their risk judgements and risk management actions in the light of the information available at the time. This may be validated by independent review, for example by using the OGC Gateway. This will help to improve the quality of decisions, build confidence, and reduce the risk of subsequent criticism. [43: *p.101*]

5.4   Ways should also be explored to provide a more balanced focus on overall Departmental performance, to avoid undue focus on failure, for example by the media and PAC. We recommend CSMB should look at this, bearing in mind the opportunity to pull together the current demands already made on Departments for end-of-year reporting. [44: *p.102*]

5.5   The Cabinet Office, supporting the Cabinet Secretary, should ensure that the risk management programme is incorporated into the broader public service reform agenda, recognising the need for wider culture change. In particular, this should consider the ability of Departments to foster innovation. [45: *p.103*]

5.6   In parallel with this activity, the Risk Support Team, together with risk improvement managers within Departments, should promote and champion the spread of values needed to support effective risk management within government. [46: *p.103*]

6.   The quality of government risk management should be improved through a two-year programme of change, linked to the Spending Review timetable, and clearly set in the context of public sector reform.

6.1   A two-year programme of change should be established, linked to the Spending Review timetable and that for production of SICs. The programme should include the following strands (integrating the Strategy Unit recommendations with existing initiatives): communications with the public; embedding risk (in Spending Review, policy making, etc); leadership and culture change; skills; guidance, standards and benchmarking; corporate governance. This is primarily for Departments to deliver, but with central support, as part of the Cabinet Secretary's overall reform programme. [27: *p.62*]

6.2   Departmental Accounting Officers should ensure that there is a senior official with delegated responsibility for encouraging and supporting change. This risk improvement manager could: provide a focal point for driving change; be part of a cross-government network – sharing best practice and learning; and be a potential source of peer review. This role should be closely linked to delegation of accountability for corporate governance. [29: *p.62*; 32: *p.66*; 34a: *p.70*]

6.3   Existing central risk functions should be rationalised to support the delivery of the programme:

- an Implementation Steering Group should be established (replacing the various existing groups – Risk Management Steering Group, ILGRA, and Risk Advisory Group) to drive change over the two-year period leading into the next Spending Review (2004). This group should draw together the main interests across government and be chaired by an authoritative figure who might be a member of the CSMB appointed by the Cabinet Secretary. Progress should be reported regularly to PSX and the CSMB, leading to a full review of the position at the end of the two-year programme. [28: *p.62*];

- the Steering Group should be supported by a small, time-limited, multidisciplinary team based in the Treasury – the Risk Support Team. The team should be drawn from existing sources of activity (including Treasury, OGC, HSE, Cabinet Office, GICS) who would: lead or co-ordinate strands of the programme; monitor progress and the effectiveness of the new arrangements; provide a central expert resource; review and co-ordinate advice and guidance on risk management; help establish and support the interdepartmental network of risk improvement managers; and lead a review further to rationalise current central responsibilities and initiatives. [8: *p.38*; 31a–c: *p.66*]

Implementation/next steps

7.5   A full set of recommendations, with proposed responsibilities and timings, is at Table 7.1. The recommendations aim to improve the way government manages risk through a two-year programme of change linked into the next Spending Review (2004). It will be overseen by an Implementation Steering Group, supported by the Risk Support Team.

- Departments will be responsible for taking forward most of the report's recommendations – integrating responsibility for improvements with accountability for delivery; but they can look to the Risk Support Team for support and guidance in developing their risk management capabilities. They will also receive enhanced support from the Treasury and Delivery Unit (in respect of risks to the delivery of their plans) and the CCS and the Strategy Unit (in respect of horizon scanning for strategic risks, and help with contingency planning and handling crises). The proposed arrangements are set out in Figure 7.1 below;

- Ministers, Permanent Secretaries (or Chief Executives) and their Boards will be vital in leading change, in particular to help support changes in behaviour. We recommend some specific actions they can take.

It is proposed that the implementation timetable would have three broad phases:

- **Start up** (November 2002 – March 2003). Establish leadership – engage Ministers and senior Departmental officials. Appoint risk implementation managers; establish Implementation Steering Group, Risk Support Team and interdepartmental network. Start implementing programme of recommendations – establishing skills, systems and processes. Complete consultation on principles. Risk programme integrated with Departmental Change Programme. Report on progress (March) and confirm next phase;

- **Phase 1** (April 2003 – October 2003). Improve communications with public. Establish standard for government risk management, and develop and test benchmarking. Establish common model for training. Initiate peer reviews. Apply policy appraisals (including risk assessments) to business plans, projects and programmes, especially those delivering a PSA or Service Delivery Agreement (SDA) target, and performance management. Report on progress (October) and confirm next phase; and

- **Phase 2** (October 2003 – November 2004). Further progress across the whole programme. Initiate benchmarking arrangements. Spending Review 2004 delivery plans to be based on explicit, systematic consideration of risk. Measure improvements in risk handling. Review end of programme and plan any further work.

An early implementation task will be to develop a detailed programme plan, prioritising activities in the light of available resources.

Implementation to date

7.6   As the Strategy Unit's study has progressed, opportunities have been taken to feed its findings into existing initiatives and arrangements and to stimulate further developments. This has included:

- the establishment of the CCS, drawing on very early Strategy Unit work on risk;

- the OPSR work on IPPD, including a mechanism to ensure adequate delivery planning before policies are launched, and the Departmental Change Programme (DCP);

- RIU guidance on RIAs;

- ODPM/DfT guidance on their integrated policy assessment tool;

- DEFRA's risk management strategy;

- the latest version of the Treasury "Green Book" on investment appraisal; and

- ILGRA's *Third Report* to Ministers.

Principles of good risk management

7.7   In addition, the study took over the development of a set of high-level principles to guide government's handling of risk. These are included in this report in chapter 5. The next step is to consult on their content.

Figure 7.1: Government risk handling

CUSTOMERS – MINISTERS AND SENIOR OFFICIALS

CORPORATE DECISION-MAKING GROUPS

- DOMESTIC HORIZON SCANNING COMMITTEE
- JOINT INTELLIGENCE COMMITTEE
- PSX
- CIVIL SERVICE MANAGEMENT BOARD

CENTRAL SUPPORT

Other information

Assessments

Assessments

Plans (including risk assessments, mitigation/contingency plans)

Risk Improvement Programme

- CIVIL CONTINGENCIES SECRETARIAT (Civil, domestic, disruptive challenges, short term)
- STRATEGY UNIT (Longer-term strategic challenges and opportunities)
- JOINT ASSESSMENT STAFF (Overseas, military, terrorist)

Intelligence and assessments

Need for resilience building

- TREASURY SPENDING TEAMS AND DELIVERY UNIT

- RISK SUPPORT TEAM (Treasury)

Intelligence and assessments

CCS help with contingency planning and crises

Draft plans (including risk assessments, mitigation/contingency plans) and progress information

Agreed/adjusted plans (including risk assessments, mitigation/contingency plans) and resources

Progress information; requests for central support

Guidance, training, etc

DEPARTMENTS

POLICY AND PLANS – DEVELOPMENT AND DELIVERY

Horizon scanning

- Identifying risks
- Assessing risks
- Addressing risks
- Reviewing and reporting risks
- Communication and learning

Improved capabilities

Evaluation of current practice

DEPARTMENTAL RISK SUPPORT

Developing risk management capabilities (specific guidance, training, etc)

MANAGING RISKS

DEVELOPING CAPABILITIES

This exercise will be handled by the new Risk Support Team, and will last for three months, after which an agreed public document will be available.

Costs and benefits

7.8   In the longer term, the benefits across government of measures to improve risk management are expected to more than cover the costs. The financial benefits alone of a new approach to risk management could be vast, for example by:

- avoiding or reducing the scale of crises (the direct total cost of FMD is estimated to be over £8 billion);[118]

- reducing the likelihood of project and programme failure (for example the Benefits Payment Card, £127 million; Passport Office computer system £12.6 million);

- reducing the cost and time taken in dealing with hostile media campaigns (such as MMR); and

- reducing the scale of losses arising from, for example, property and liability risks (a feasibility study has estimated a potential saving of up to £640 million a year from introducing captive insurance, risk pooling arrangements).

7.9   The OGC Gateway process, involving risk assessments, to be applied to projects is expected to save £500 million a year. The financial benefits of better risk management will accrue jointly to Departments and the contingency reserve.

7.10   In addition, there are likely to be significant non-financial benefits, including:

- increased reassurance for the public;

- increased ability for the public and government to make appropriate choices in the face of uncertainty; and

- increased likelihood of achieving policy outcomes, quickly and fully, especially where these require the support of the public to be effective (such as vaccination).

7.11   There will be resource implications for Departments and the centre (Treasury and Cabinet Office). The scale of these will be lessened to the extent that action on risk is already under way or planned. For many Departments and central functions this report is likely primarily to involve a refocusing of current efforts. However, some extra investment may be involved for:

- Departments – implementing risk improvement managers and any support (though much of this may be in place to implement corporate governance changes), and improving systems and processes, and communications with the public. The scale of cost will depend on the size of Department, their stage of development and the nature of their business; and

- centre – some extra costs, primarily from: the new Risk Support Team which may require up to six staff initially; CDG developing and delivering extra training materials; and Treasury/OGC developing risk management standards and benchmarking.

7.12.   These may be offset by some savings, accruing over the two-year period, through rationalising existing activity and from the benefits of effective risk management. More detailed cost/benefit analysis of programme activities should be undertaken by the implementation team.

Monitoring and evaluating progress

7.13   The information drawn together by the Strategy Unit's study team, and the NAO's survey in *Supporting Innovation* (shortly to be updated by the Treasury), provides a baseline against which to judge progress. We recommend that Departments and the centre should establish regular monitoring arrangements to assess internal and external satisfaction with progress. The Strategy Unit's surveys could be repeated to assess confidence within government. There could also be public satisfaction surveys, repeated at regular intervals.

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[118] **NAO**, *The 2001 Outbreak of Foot and Mouth Disease,* op. cit. (p.13).

TABLE 7.1 SUMMARY OF RECOMMENDATIONS

CONTENTS:

Departments
> – Ministers and Permanent Secretaries
> – Risk improvement managers

Implementation Steering Group

Risk Support Team

Cabinet Office/Office of the Deputy Prime Minister
> Civil Contingencies Secretariat (CCS)
> Corporate Development Group (CDG)
> Reform Strategy Group (RSG)
> Strategy Unit
> Social Exclusion Unit (SEU)
> Delivery Unit (DU)

Treasury

Chief Scientist

Rec.no	Ref.	Recommendation	Lead responsibility	Supported by	Timetable
Departments: Ministers and Permanent Secretaries					
41	6.6	Ministers and senior officials should take an active lead in: driving implementation of the improvements in risk management set out in this report: taking key judgements and providing clear direction, for example in prioritising risks for action, and in defining the appetite for taking on further risk; supporting innovation; ensuring clear accountability for managing risks; and ensuring that managers are equipped with skills, guidance and other tools.	Ministers and Permanent Secretaries	Risk improvement managers	March 2003
42	6.40	Ministers and senior officials should aim to foster a culture in which well-judged decisions about risks and opportunities can be made, and where innovation can be handled with confidence. To demonstrate clear leadership from the top in handling risk, Permanent Secretaries should visibly support a programme of action to implement better risk management.	Ministers and Permanent Secretaries	Risk improvement managers	March 2003
43	6.41	Senior management should ensure that decision makers are supported by an audit trail that provides a clear and balanced account of their risk judgements and risk management actions in the light of the information available at the time. These may be validated by independent review, for example by using the OGC Gateway.	Permanent Secretaries	Risk improvement managers OGC	July 2003
1	4.1.17	Departments might consider appointing a Board member to be responsible for risk issues being covered adequately, while non-executive members would have a key challenge role.	Permanent Secretaries		January 2003
1	4.1.17	Our overall recommendation is that there should be an explicit appraisal of risks, as well as benefits and costs, in all the main business processes (including the Spending Review, policy making, business planning, project and programme management, and performance management and investment analysis), where this does not happen already.	Permanent Secretaries		October 2003
29	4.3.28	We recommend that Departments should consider whether they might establish similar units to the Risk Support Team internally to drive change.	Permanent Secretaries		July 2003
30	4.3.32	Departments should consider whether the conditions exist for the use of arm's-length bodies in policy making to be increased.	Permanent Secretaries		March 2003
30a, b,c	4.3.34 –35	a) It is recommended that use of a risk management standard as the basis for accrediting partners' risk management arrangements should be considered. b) It is recommended that where responsibility for risk is transferred to a partner organisation, particular care is taken to ensure that accountabilities are clearly established by Departments, and capacity maintained to manage and monitor performance (including provision of relevant information) and to take early action in the event of difficulty. c) It is also recommended that there is also a case for developing further approaches to contracting with partners, especially where the aim is primarily to deliver a service rather than, for example, a large-scale capital project.	Permanent Secretaries		July 2003

Rec.no	Ref.	Recommendation	Lead responsibility	Supported by	Timetable
Departments: Ministers and Permanent Secretaries					
34a	4.4.12	Departments and others actively identify their likely level of future need for risk management specialists, with the aim of developing suitable in-house people. To support this process there should be an identified risk improvement manager in each Department, setting standards and advising the Board on what is required. There are a number of different models that might be suitable, but one might be the model adopted in some Departments for the project management and procurement specialisms. The OGC should provide an advisory resource on systems and skills, including considering the possibility of introducing a uniform basic model.	Permanent Secretaries then Risk improvement managers		Permanent Secretaries – December 2002 Risk improvement managers – March 2003
35	4.4.15	Departments should be encouraged to explore the way they use competence frameworks to support their risk management objectives. To support this, we suggest an evaluation by CDG, under the aegis of the new central team, of how the competence and appraisal/reward system is being used to support risk aware behaviour; and that Departments build the competences and behaviours to develop risk management capability into all key people management systems: design of job objectives and the linked performance review process; 360° feedback; promotion – particularly to SCS level; and pay and rewards – financial and non-financial.	CDG Permanent Secretaries/ HR Directors	Risk improvement managers	CDG – March 2003 Departments – October 2003
Departments: Departmental risk improvement managers – to lead a programme of reviewing and improving risk management practice and communication with the public					
1a	4.1.18	Risks should be regularly considered by departmental Boards and the CSMB as appropriate.	Risk improvement managers		January 2003
4b	4.1.36	Departments should review the quality of risk information in their plans.	Risk improvement managers		January 2003
5	4.1.37	Departments should follow the OGC guidance on managing risk in projects and programmes and apply this guidance to their Gateway Reviews.	Risk improvement managers		Ongoing
6a	4.1.39	Decision making needs to be underpinned by investment appraisal focused on benefits, costs and risks. This approach needs to be taken as part of all key submissions and addressed at all levels. Proformas or templates are used by Departments to help with this, for example building on RIAs.	Risk improvement managers		October 2003
10	4.2.23	For programme and operational risks, a combination of top down and bottom up approaches are recommended, for example combining a risk review by a designated team with risk self assessment.	Risk improvement managers		October 2003
12	4.2.33	Criteria should be developed as part of the arrangements for embedding risk in policy making proposed in chapter 4.1. A generic list could be developed which Departments could tailor, drawing on a systematic analysis of key or common risks that have occurred in their programmes.	Risk improvement managers	Risk support team	July 2003

Rec.no	Ref.	Recommendation	Lead responsibility	Supported by	Timetable
Departments:		**Departmental risk improvement managers – to lead a programme of reviewing and improving risk management practice and communication with the public**			
13	4.2.37	More use could be made of an assessment of risk tolerance or appetite by Departments at the policy making stage to ensure that Ministers are aware of the pattern of risks they will be taking and the prospects of adequately managing them.	Risk improvement managers		July 2003
14	4.2.38	A portfolio approach to risk management could be piloted in either Departmental business planning or the 2004 Spending Review.	Risk improvement managers; Treasury		July 2003 July 2004
18	4.2.54	Simulation events, built around scenarios, can help to identify and prepare for such low probability/high impact contingencies and we recommend that these methods be explored.	Risk improvement managers		July 2003
34	4.4.11	Where Departments employ consultancies to introduce risk management systems, there should be a continuous effort to pass on skills and develop suitable in-house people, in particular, to take over the role currently performed by outside consultants in this area.	Risk improvement managers		July 2003
38	5.33–5.49	Departments should develop action plans to implement their principles for handling and communicating about risk to the public. This should include the following elements: (38a–38h)	Risk improvement managers		July 2003
38a	5.35–5.36	The public should have access to information about the risks that affect them. Departments that handle risks that affect members of the public should publish their risk assessments, and also the underlying facts, assumptions, sources of information and procedures behind them, as early as possible to enable public scrutiny.	Risk improvement managers		July 2003
38b	5.37–5.38	There should be two-way communication to enable early and widespread involvement in decisions about key risks. Risk improvement managers should ensure that their Departments have systems to consult and engage stakeholders and the wider public in decisions about key risks affecting the public. Communications should be considered at the start of the policy development process for major policies involving risk to the public. Departments' communication strategies should plan for a process of stakeholder and wider public engagement on key risks.	Risk improvement managers		July 2003
38c	5.39–5.41	There should be targeted consultation, informed by systematic identification and evaluation of the risks most likely to cause public concern. Departments should develop the capacity to identify, for the Department as a whole or each major policy area, which risk issues are likely to generate the most public concern or require the most public co-operation.	Risk improvement managers	Departmental Information Officers, Risk Support Team	October 2003
38d	5.42–5.43	Departments should consider options for providing increased availability of choice for individuals in managing the risks that affect them.	Risk improvement managers	Strategy Unit	July 2003

Rec.no	Ref.	Recommendation	Lead responsibility	Supported by	Timetable
Departments:		**Departmental risk improvement managers – to lead a programme of reviewing and improving risk management practice and communication with the public**			
38e	5.44–5.46	Clear procedures for communicating in crisis conditions should be in place. Departments should strengthen their links with the News Co-ordination Centre within the CCS. While the lead role should remain with the home Department, improved links with the News Co-ordination Centre should help ensure greater consistency in crisis communication across government.	Risk improvement managers	Departmental Heads of Information Risk Support Team and CCS	July 2003
38f	5.47	There needs to be improved use of information provided by trusted impartial sources where there is a high degree of uncertainty or dissent about risk.	Risk improvement managers	Departmental Heads of Information	July 2003
38g	5.48	Departments should aim to improve dialogue between scientific and lay interests, for example through the participation of at least one lay member in risk advisory or decision-making bodies, where issues are known to be uncertain or raise ethical or social questions. Risk improvement managers should see that arrangements are in place to ensure that expert bodies that advise on risks to the public contain a broad-based membership.	Risk improvement managers	Chief Scientist, OST	July 2003
38h	5.49	Risk communication should be integrated with other elements of Departments' risk management strategies, such as performance management and training.	Risk improvement managers	Heads of Human Resources	July 2003
Implementation Steering Group					
28	4.3.26–27	An Implementation Steering Group should be established (replacing the various existing groups – the Risk Management Steering Group, ILGRA and Risk Advisory Group) to drive change over the two-year period leading into the next Spending Review (2004). It will be supported by a small central team in Treasury, the Risk Support Team (RST).	Chair of Implementation Steering Group	Risk Support Team	October 2002
		The Risk Support Team should be drawn from existing sources of activity (including Treasury, OGC, HSE, Strategy Unit and others) who would monitor progress; provide a central expert resource; review and co-ordinate advice and guidance on risk management; help establish and support an interdepartmental risk network; and consider further steps to rationalise current central responsibilities and initiatives.	Treasury		October 2002
1	4.1.17	There should be an explicit appraisal of risks, as well as benefits and costs, in all the main business processes (including the Spending Review, policy making, business planning, project and programme management, performance management and investment analysis), where this does not happen already.	Implementation Steering Group	Risk Support Team	October 2004

Rec.no	Ref.	Recommendation	Lead responsibility	Supported by	Timetable
Risk Support Team					
8	**4.1.44**	In order to be sure that progress is being made and benefits are being delivered there should be a full review of the position after a specific period. This will need to be underpinned by monitoring and evaluation arrangements, as an integral part of the recommended improvements.	Risk Support Team		March 2003
9	**4.2.18**	There should be an ongoing programme of work to ensure that central guidance is comprehensive and comprehensible, and provides a flexible framework for Departments to operate within.	Risk Support Team	OGC	
15	**4.2.41**	Well-developed decision making frameworks regarding the control of risk already exist in the UK. Consideration should be given to the extension of such systematic approaches to strategic policy making, adapting them as necessary to recognise the less quantifiable nature of the data involved.	Risk Support Team	OGC Risk improvement managers	October 2003
16	**4.2.46 and 4.5.7**	There are an increasing number of examples of good practice in risk management, but this needs to be encouraged and spread. Current networks and other arrangements should be strengthened and specific risk management benchmarking arrangements should be developed.	Risk Support Team	PSBS	Networks – October 2003 Benchmarking – October 2004
31a,b,c	**4.3.36 –38**	Networks should be strengthened and publicised. A network could be set up of risk improvement managers who would lead the development of risk management practice in the Department and could take on ILGRA's current responsibilities. This could be supported by the development of an IT-based knowledge network.	Risk Support Team	CDG	March 2003
39	**5.50**	Existing guidelines on risk communication should be consolidated and targeted to a wider range of specific audiences and steps should be taken to ensure that it is adopted and followed by units involved in handling risks that affect the public.	Risk Support Team	GICS, CCS, HSE Strategy Unit	July 2003
36	**4.5.6**	The Treasury and OGC should review the direction for quality standards for government, drawing on best practice internationally and drawing on the findings of this report, to ensure a comprehensive and useable standard for UK government.	Risk Support Team	OGC	July 2003
37	**5.31– 5.32**	The government should publish a statement of principles about its handling of risks to the public. This should include principles of evidence-based decision making, transparency and communication with the public and stakeholders. The aim of the principles would be to provide a clear steer to all decision takers within government and a clear benchmark for Parliament, the media and NGOs against which to assess Departments' performance.	Risk Support Team		October 2002
46	**6.47**	The Risk Support Team, together with risk improvement managers within Departments, should promote and champion the values needed to support effective risk taking within government.	Risk Support Team	Risk improvement managers HR Directors	July 2003

Rec.no	Ref.	Recommendation	Lead responsibility	Supported by	Timetable
Cabinet Office: Civil Contingencies Secretariat (CCS)					
17	4.2.52	The CCS and Strategy Unit should work with Departments to help them develop their horizon scanning capabilities, seeking to spread best practice, including ways of assessing significance and prioritisation; the CCS and Strategy Unit should develop a network of Departmental horizon scanners to share information and provide mutual challenge.	CCS Strategy Unit		December 2002
20	4.2.56	The Civil Contingency Secretariat (CCS) should continue to develop its role in ensuring integration of BCPs, with particular focus on improving resilience at the strategic level.	CCS		December 2002
21	4.2.57	The CCS should work with Departments to spread good practice in BCP for programme (as opposed to administrative) outcomes.	CCS		December 2002
22	4.2.59	The CCS should update Dealing with Disaster, which sets out rules for handling crises such as flooding. The CCS should update this to fully reflect the revised structure of Whitehall, to take account of emerging issues that potentially pose disruptive challenges, and to set in place clearer definitions of the role of the lead Department.	CCS		December 2002
23	4.2.61	The CCS and CDG should look carefully at arrangements for augmentation of Departments' resources during times of crisis.	CCS and CDG	Treasury	December 2002
24	4.2.64	The CCS should continue to develop its work on resilience, linked closely with contingency planning work in Departments.	CCS	Departments	Ongoing
25	4.2.65	As the work of the CCS develops, it should be designed to complement the work of the Treasury and DU in identifying and monitoring risks to the delivery of the government's business programme.	CCS	Treasury, DU	Ongoing
40a	5.53	Government should work with the media and regulators to improve the accuracy of reporting crises.	CCS	Regulators	July 2003
Cabinet Office: Corporate Development Group (CDG)					
4a	4.1.35	Business planners should make full use of the Cabinet Office guide, Your Delivery Strategy: a Practical Look at Business Planning and Risk. CDG to promote use of the guide through the Business Planners' network.	CDG		December 2002
32	4.3.41	A specific role for the network would be to provide peer group reviews and challenges. A similar approach should be established in government to that used in BP.	CDG	Risk Support Team Risk improvement managers	July 2003
33	4.4.5	There should be a co-ordinated and systematic approach to the provision of risk management skills and training, under CDG leadership. This should include: • the development of a common core of risk management material (linked to the proposed standard) on which all programmes could be based; • a review of key mainstream development programmes that could usefully cover risk management and innovation, including centrally-led programmes. The review should be included in the two-year programme of work recommended, to achieve a step change in government's capability to handle risk. Departments' heads of human resources should conduct similar reviews of their own training and development programmes, which in turn might form part of the new Departmental Change Programmes.	CDG	Risk Support Team, Strategy Unit	Ongoing

Rec.no	Ref.	Recommendation	Lead responsibility	Supported by	Timetable
Cabinet Office: Corporate Development Group (CDG)					
44	6.45	Ways should also be explored to provide a more balanced focus on overall Departmental performance, to avoid undue focus on failure, for example by the media and the PAC. CSMB should look at this, bearing in mind the opportunity to pull together the current demands already made on Departments for end-of-year reporting.	CDG reporting to CSMB		December 2002
Cabinet Office: Reform Strategy Group **Cabinet Office: Strategy Unit** **Cabinet Office: Social Exclusion Unit (SEU)** **Cabinet Office: Delivery Unit (DU)**					
45	6.46	The Cabinet Office, supporting the Cabinet Secretary, should ensure that the risk management programme is incorporated into the broader public service reform agenda, recognising the need for wider culture change. In particular, this should consider the ability of Departments to foster innovation.	Reform Strategy Group	Risk Support Team	July 2003
2a, b, c,d,e	4.1.22 –29	Policy making should include a proportionate and wider-ranging consideration of risk to provide an adequate review before proposals move into full development. OPSR's work on IPPD will make a significant step in this direction by developing an assurance process to support Departments in undertaking adequate delivery planning before policy announcements are made. A more systematic requirement to consider risks should be implemented, which should be subject to further discussion with Permanent Secretaries (see annex 6). This should include a sign-off that there has been adequate identification and assessment of risk across the range of policy options, that any mitigation and contingency plans are sound, and any assumptions should be reviewed and formally tested against future scenarios. This could be incorporated in existing assessments where these exist, such as the RIA and Investment Appraisals. These developments should be supported by supplementary guidance on risk, issued to policy makers to follow up the Cabinet Office's Guide to Better Policy Making and accessible through the CDG web-based Policy Hub. This guidance should also reflect the RIU's guidance on RIAs (which is currently being revised). To ensure that the quality of information used for risk assessment is good, policy makers should make increasing use of knowledge pools, linked to the Policy Hub (currently covering Strategic Futures, Excellence in Policy Making and Area Based Initiatives). The risk content of these pools should be enhanced, drawing on examples of good practice around government.	Departments Strategy Unit	OGC Risk Support Team CDG	July 2003

Rec.no	Ref.	Recommendation	Lead responsibility	Supported by	Timetable
Cabinet Office: Reform Strategy Group **Cabinet Office: Strategy Unit** **Cabinet Office: Social Exclusion Unit (SEU)** **Cabinet Office: Delivery Unit (DU)**					
4c	4.1.36	The format of DU plans should be further developed to show detail of risks, their likelihood and impact, and mitigation and contingency plans. This format should then be made widely available to Departments as a model.	DU		
26	4.3.14	The relatively new arrangements for dealing with crises (CCS) and ongoing significant risks to key government objectives (DU) need to be complemented by a capacity to review longer-term threats and opportunities which should be undertaken by Strategy Unit, building on its current Strategic Futures work.	Strategy Unit		
19	4.2.55	The SEU, working with the Neighbourhood Renewal Unit, the Regional Co-ordination Unit and relevant Departments, could consider playing a larger role in tracking potential cross-cutting risks, including the impact of government initiatives on these risks. These might include: new groups coming on to benefits or likely to become socially excluded; towns and cities failing to regenerate or facing economic problems because of over-dependence on declining industries. In some of these cases official statistical data will always be too late for adequate action. Anecdotal and subjective information needs to be drawn in from front-line staff, the public, inspectorates and others.	SEU		December 2002
Treasury					
3a	4.1.32	The Treasury should further develop the approach to risk in the Spending Review. This should involve developing the guidance for Departments before the 2004 Spending Review; and issuing specific guidance on assessing risk to the Treasury Spending Teams (similar to recent guidance on Deliverability) for use in finalising delivery plans from the 2002 Spending Review.	Treasury	Risk Support Team	October 2003 Autumn 2002
3b	4.1.33	The Treasury, DU and CCS should work together with Departments this autumn to ensure that their delivery plans adequately address risk, balancing the need to invest in resilience with the pursuit of other objectives; and that cross cutting risks are identified and accountability for action established. Monitoring arrangements should track risk assessments and progress with mitigation plans, reporting to PSX.	Departments Treasury, DU	DU, Treasury, CCS	October 2002 December 2002
3c	4.1.34	There should be an increased, mandatory requirement for risk assessment (perhaps linked to OGC Gate Zero) to be fulfilled before PSAs are published and funding is released. Treasury should also consider whether a more explicit portfolio approach to risk might be taken in the 2004 Spending Review – with the outcome being a mix of high risk/high return objectives and lower risk areas with less challenging service delivery targets.	Treasury		July 2004

Rec.no	Ref.	Recommendation	Lead responsibility	Supported by	Timetable
Treasury					
6b	**4.1.39**	Cost benefit analysis should be developed to include explicit risk assessment as a significant element of option appraisal.	Treasury		January 2003
6c	**4.1.39**	The Treasury's guide to investment appraisal (known as the "Green Book") should be developed to deal with these issues.	Treasury		March 2003
7	**4.1.41**	The Treasury should consider running a pilot of the use of captive insurance arrangements in government.	Treasury		January 2003
11	**4.2.24**	The establishment of a broad common categorisation of risk types could significantly help communication across government – the Treasury should lead efforts to establish this.	Treasury	OGC	January 2003
27	**4.3.24**	The quality of government risk management should be improved through a two-year programme of change. The timetable should be integrated with that of the Spending Review and the production of Statements of Internal Control. The programme should include the following strands (integrating the Strategy Unit recommendations with existing initiatives): communications with the public; embedding risk (in the Spending review, policy making, business planning, project and programme management); leadership and culture change; skills: guidance, standards and benchmarking; Corporate Governance.	Treasury		Start-up: September 2002 Fully established December 2002
Chief Scientist (CSO)					
40	**5.51–5.52**	Action by Departments should be underpinned by clear corporate guidelines on risk communication, initiatives to improve levels of public understanding about risk concepts, and work with the media and regulators to improve the accuracy of reporting of crises.	Chief Scientific Adviser and HSE	Risk Support Team, DfES	July 2003

PROJECT TEAM AND SPONSOR MINISTER

The report was prepared by a multidisciplinary team, guided by a Ministerial Sponsor, and advised by a number of Expert Groups with government and non-government representation (see annex 1).

The project team comprised:
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Sponsor Minister:
The work of all Strategy Unit teams is overseen by a Sponsor Minister. Barbara Roche MP, Minister of State at the Cabinet Office and Minister for Women, was Sponsor Minister until June 2002, followed by Lord Macdonald, Minister for the Cabinet Office and Chancellor of the Duchy of Lancaster.

GLOSSARY

ALARP	As low as reasonably practicable	GLS	Government Legal Service
BBC	British Broadcasting Corporation	GM	Genetically Modified
BCP	Business continuity planning	HMT	Her Majesty's Treasury
BRTF	Better Regulation Task Force	HSE	Health and Safety Executive
BSE	Bovine Spongiform Encephalopathy	ILA	Individual Learning Accounts
BSI	British Standards Institution	ILGRA	Inter-departmental Liaison Group on Risk Assessment
CAM	Charity Awareness Monitor	IPPD	Improving Programme/Project Delivery
CCS	Civil Contingencies Secretariat		
(v)CJD	Creutzfeldt-Jakob Disease	IPPR	Institute for Public Policy Research
CDG	Corporate Development Group (Cabinet Office)	ISO	International Organisation for Standardisation
CMPS	Centre for Management and Policy Studies (Cabinet Office)	MEF	Media Emergency Forum
		MMR	Measles, Mumps, Rubella (vaccine)
COBR	Cabinet Office Briefing Room	MOD	Ministry of Defence
CSMB	Civil Service Management Board	NAO	National Audit Office
DCP	Departmental Change Programme	NDPB	Non-Departmental Public Body
DEFRA	Department for Environment, Food and Rural Affairs	NFU	National Farmers' Union
		NGO	Non Governmental Organisation
DfES	Department for Education and Skills	NICE	National Institute for Clinical Excellence
DfT	Department for Transport	ODPM	Office of the Deputy Prime Minister
DTI	Department of Trade and Industry		
DTLR	Department for Transport, Local Government and the Regions	OECD	Organization for Economic Cooperation and Development
DU	(Prime Minister's) Delivery Unit (Cabinet Office)	OFCOM	Office of Communications
		OFT	Office of Fair Trading
DWP	Department for Work and Pensions	OGC	Office of Government Commerce
		OPOCE	Office des Publications Officielles des Communautés Européennes
EIU	Economist Intelligence Unit		
ERM	Enterprise Risk Management	OPSR	Office of Public Services Reform (Cabinet Office)
FMD	Foot and Mouth Disease		
FSA	Food Standards Agency	OST	Office of Science and Technology
GICS	Government Information and Communication Service	PAC	Public Accounts Committee
		PFI	Private Finance Initiative

PPE	Post Project Evaluation
PPP	Public Private Partnership
PRINCE	Projects in Controlled Environments
PSA	Public Service Agreement
PSX	Ministerial Committee on Public Services and Public Expenditure
RMSG	Risk Management Steering Group
SCS	Senior Civil Service
SDA	Service Delivery Agreement
SEU	Social Exclusion Unit (Cabinet Office)
SIC	Statement of Internal Control
SPRITE	Successful Projects in an IT Environment
SRA	Strategic Rail Authority
SU	Strategy Unit (Cabinet Office)

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